

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2022

NEW ISSUE-Book Entry Only

See “RATINGS” herein.

\$ _____
**Santa Clara Valley Water District
 Safe Clean Water Program
 Refunding Revenue Bonds
 Series 2022A**

\$ _____
**Santa Clara Valley Water District
 Safe Clean Water Program
 Revenue Certificates of Participation
 (Interim Obligations)
 Series 2022B**

Dated: Date of Delivery

**Due: 2022A Bonds - August 1, as shown on the inside cover
 2022B Interim Obligations – December 1, 2026**

The proceeds of the 2022A Bonds will be used to (i) pay the principal of a portion of the currently outstanding commercial paper certificates and revolving certificates executed and delivered to finance projects for the Safe Clean Water Program; and (ii) pay costs of issuance of the 2022A Bonds, all as more fully described herein. Interest due on the 2022A Bonds is payable on each February 1 and August 1, commencing [February 1, 2023].

The 2022A Bonds are being issued pursuant to Resolution No. 21-34 adopted by the Board of Directors of Valley Water on May 11, 2021 (referred to as the SCW Master Resolution) and an indenture of trust, dated as of November 1, 2022 by and between Valley Water and U.S. Bank Trust Company, National Association, as trustee thereunder. **The 2022A Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity as described in this Official Statement.**

The proceeds of the 2022B Interim Obligations will be used to (i) finance the cost of certain projects for the Safe Clean Water Program, (ii) reimburse Valley Water for costs previously expended on projects for the Safe Clean Water Program, (iii) pay the principal of a portion of the currently outstanding commercial paper certificates and revolving certificates executed and delivered to finance projects for the Safe Clean Water Program, (iv) fund capitalized interest represented by the 2022B Interim Obligations through the maturity date thereof, and (v) pay the costs of executing and delivering the 2022B Interim Obligations, all as more fully described herein. Interest represented by the 2022B Interim Obligations is payable on each June 1 and December 1, commencing June 1, 2023.

The 2022B Interim Obligations are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2022, by and among Valley Water, the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”), and U.S. Bank Trust Company, National Association, as trustee thereunder. The 2022B Interim Obligations are secured by Installment Payments payable by Valley Water pursuant to the Installment Purchase Agreement dated as of November 1, 2022, by and between Valley Water and the Corporation and amounts on deposit in certain funds and accounts established under the Trust Agreement. **The 2022B Interim Obligations are subject to optional redemption prior to maturity as described in this Official Statement.**

The 2022A Bonds are being issued in fully registered form and the 2022B Interim Obligations are being prepared as fully registered certificates and, when each of the 2022A Bonds and the 2022B Interim Obligations are delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2022A Bonds and the 2022B Interim Obligations. Purchasers of beneficial interests will not receive certificates representing their interest in the 2022A Bonds or the 2022B Interim Obligations. So long as Cede & Co. is the registered owner of the 2022A Bonds or 2022B Interim Obligations, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the 2022A Bonds or the 2022B Interim Obligations. Individual purchases of the 2022A Bonds and the 2022B Interim Obligations will be made in book-entry form only in authorized denominations of \$5,000 or any integral multiple thereof. Principal of and interest on the 2022A Bonds and evidenced by the 2022B Interim Obligations are payable directly to DTC by U.S. Bank Trust Company, National Association, as Trustee. Upon receipt of payments of principal and interest, DTC is obligated to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the 2022A Bonds and the 2022B Interim Obligations.

The principal and interest on the 2022A Bonds and with respect to the Installment Payments are payable from and secured by a pledge of and lien under the SCW Master Resolution on SCW Revenues. The obligation of Valley Water to pay the principal of and interest on the 2022A Bonds and to make Installment Payments from SCW Revenues is absolute and unconditional. Other than the 2022A Bonds, the Installment Purchase Agreement and a WIFIA Installment Purchase Agreement relating to a loan from the United States Environmental Protection Agency under authority of the Water Infrastructure Finance and Innovation Act, Valley Water will not have any outstanding obligations payable from SCW Revenues at the time of delivery of the 2022A Bonds and the 2022B Interim Obligations. The WIFIA Installment Purchase Agreement is currently payable from SCW Revenues on a subordinate basis to the 2022A Bonds and the Installment Payments but may be payable on a parity with the 2022A Bonds and the Installment Payments under certain conditions as described herein.

Valley Water may issue or incur additional obligations payable from SCW Revenues on a parity with the 2022A Bonds and the Installment Payments in the future, subject to satisfaction of certain conditions in the SCW Master Resolution. The revenues of Valley Water’s flood control system and water utility system, as well as property taxes levied by Valley Water to pay certain State Water Project costs, are not included in SCW Revenues pledged to the payment of the 2022A Bonds or the Installment Payments. No reserve fund has been created or will be funded with respect to the 2022A Bonds or the 2022B Interim Obligations.

The obligation of Valley Water to pay the principal of and interest on the 2022A Bonds and to make the Installment Payments does not constitute a debt of Valley Water or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

* Preliminary, subject to change.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, Bond Counsel and Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2022A Bonds and the portion of each Installment Payment constituting interest (and original issue discount) with respect to the 2022B Interim Obligations is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel and Special Counsel, interest (and original issue discount) on the 2022A Bonds and the portion of each Installment Payment constituting interest (and original issue discount) is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences with respect to the 2022A Bonds and the 2022B Interim Obligations, including with respect to the alternative minimum tax imposed on certain large corporations for tax years beginning after December 31, 2022.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. Capitalized terms used and not defined on the cover of this Official Statement have the meanings ascribed thereto in this Official Statement.

The 2022A Bonds and the 2022B Interim Obligations are offered when, as and if executed and delivered to the Underwriters, subject to the approval as to the legality of certain matters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel and Special Counsel, and certain other conditions. Certain legal matters will be passed upon for Valley Water and the Corporation by District Counsel, J. Carlos Orellana, Esq., for the Underwriters by their counsel, Nixon Peabody LLP, and for the Trustee by its counsel. It is expected that the 2022A Bonds and the 2022B Interim Obligations will be available for delivery in book-entry only form through the facilities of DTC on or about December __, 2022.

J.P. Morgan

Alamo Capital

Barclays

Dated: _____, 2022

MATURITY SCHEDULES

\$ _____ *

**Santa Clara Valley Water District
Safe Clean Water Program
Refunding Revenue Bonds
Series 2022A**

<i>Maturity Date (August 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
------------------------------------------------	------------------------------------	---------------------------------	---------------------	---------------------	---------------------------------

\$ _____ % Term Bonds due August 1, 20__ – Yield ____% – Price _____
CUSIP[†] _____

* Preliminary, subject to change.

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\$ _____ *

**Santa Clara Valley Water District
Safe Clean Water Program
Revenue Certificates of Participation
(Interim Obligations)
Series 2022B**

<i>Maturity Date (December 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
----------------------------------------------	------------------------------------	---------------------------------	---------------------	---------------------	---------------------------------

* Preliminary, subject to change.

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SANTA CLARA VALLEY WATER DISTRICT

5750 Almaden Expressway
San Jose, California 95118

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J. Carlos Orellana, Esq., District Counsel
Aaron Baker, Chief Operating Officer - Water Utility Enterprise
Darin Taylor, Chief Financial Officer
Rechelle Blank, Chief Operating Officer – Watersheds
Tina Yoke, Chief Operating Officer, Administrative Services
Rachael Gibson, Chief of External Affairs
Michele L. King, CMC, Clerk of the Board

BOND COUNSEL AND SPECIAL COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
Sacramento, California

TRUSTEE

U.S. Bank Trust Company, National Association
San Francisco, California

MUNICIPAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the Underwriters, Valley Water, the Corporation or the Trustee to give any information to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2022A Bonds or the 2022B Interim Obligations by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as a contract with the purchasers or any of the owners of the 2022A Bonds or the 2022B Interim Obligations. Any statement made in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, is intended solely as such and not as representations of fact. The information set forth herein has been furnished by Valley Water, The Depository Trust Company, and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriters.

In reliance upon exemptions contained in such acts, the 2022A Bonds and the 2022B Interim Obligations have not been registered under the Securities Act of 1933, as amended, nor has the Indenture and the Trust Agreement been qualified under the Trust Indenture Act of 1939, as amended. The registration or qualification of the 2022A Bonds or the 2022B Interim Obligations in accordance with applicable provisions of securities laws of any state in which the 2022A Bonds or the 2022B Interim Obligations have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation. Neither those states nor any of their agencies have passed upon the merits of the 2022A Bonds or the 2022B Interim Obligations or the accuracy or completeness of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Valley Water since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2022A BONDS AND THE 2022B INTERIM OBLIGATIONS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2022A BONDS AND 2022B INTERIM OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Valley Water maintains a website, however, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2022A Bonds or the 2022B Interim Obligations.

References to web site addresses other than Valley Water's website presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission.

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\$ _____ *

**Santa Clara Valley Water District
Safe Clean Water Program
Refunding Revenue Bonds
Series 2022A**

\$ _____ *

**Santa Clara Valley Water District
Safe Clean Water Program
Revenue Certificates of Participation
(Interim Obligations)
Series 2022B**

INTRODUCTION

General

This Official Statement, including the cover page, inside cover page and Appendices, is provided to furnish certain information in connection with the offering of (i) \$ _____ * aggregate principal amount of the Santa Clara Valley Water District Safe Clean Water Program Refunding Revenue Bonds, Series 2022A (the “2022A Bonds”) and (ii) \$ _____ * aggregate principal amount of Santa Clara Valley Water District Revenue Safe Clean Water Program Certificates of Participation (Interim Obligations), Series 2022B (the “2022B Interim Obligations”). The Santa Clara Valley Water District (“Valley Water”) is a multi-purpose special district organized and existing in accordance with the Santa Clara Valley Water District Act, Chapter 1405 of Statutes 1951 of the State of California, as amended.

Capitalized terms used herein with respect to the 2022A Bonds and the 2022B Interim Obligations and not otherwise defined shall have the meanings set forth in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

The Safe, Clean Water and Natural Flood Protection Program

In 2000, seeing a need to address stream stewardship and flood protection issues in Santa Clara County, California (the “County”), Valley Water created, and voters approved, a special parcel tax to fund the Clean, Safe Creeks and Natural Flood Protection Plan (the “Clean, Safe Creeks Plan”). The funding from the Clean, Safe Creeks Plan supported projects to restore habitat, maintain healthy creek and bay ecosystems, improve water quality, reduce flood risks, and provide open space and recreational opportunities. Prior to the Clean, Safe Creeks Plan sunset date of June 2016, Valley Water conducted outreach to determine community priorities regarding water, flood protection and the environment.

In 2012, Santa Clara County voters passed the Safe, Clean Water and Natural Flood Protection Program (the “2012 Safe, Clean Water Program”) ballot measure by the required two-thirds majority, which authorized the levy of a special parcel tax through June 2028. Like the Clean, Safe Creeks Plan, the 2012 Safe, Clean Water Program was also created with a commitment to accountability and transparency and included an independent monitoring committee to oversee the program’s progress and ensure that outcomes would be met in a cost-effective manner.

On November 3, 2020, voters in the County approved Measure S, a renewal of the 2012 Safe, Clean Water Program, by the required two-thirds majority (the “SCW Program”). The 2020 voter authorization of the SCW Program continues the special parcel tax levied by Valley Water under the 2012 Safe, Clean Water Program until such time as may be reduced or suspended by the Board or repealed by voters in accordance with Measure S. Under current authorization, the SCW Program is expected to be funded by a combination of debt financing and pay-as-you-go funding from annual revenues from the SCW Parcel Taxes supplemented by reserves from unspent funds from the 2012 Safe, Clean Water Program, and state and federal funding. See the caption “THE SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM.”

* Preliminary, subject to change.

The 2022A Bonds

General. The 2022A Bonds will be issued pursuant to Resolution No. 21-34 adopted by the Board of Directors of Valley Water on May 11, 2021 (the “SCW Master Resolution”) and an Indenture of Trust, dated as of November 1, 2022 (the “Indenture”) by and between Valley Water and U.S. Bank Trust Company, National Association, as trustee thereunder (the “Trustee”).

Purpose. The 2022A Bonds are being issued to (i) pay a portion of the principal of the currently outstanding commercial paper certificates and revolving certificates executed and delivered to finance projects for the SCW Program; and (ii) pay costs of issuance of the 2022A Bonds, all as more fully described herein. See the caption “PLAN OF FINANCE — The Refunding Plan.”

Security for the 2022A Bonds. The 2022A Bonds are secured by a pledge of the SCW Revenues (as such term is defined in the SCW Master Resolution and as more particularly described under the caption “SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE 2022B INTERIM OBLIGATIONS — Pledge of SCW Revenues”) of Valley Water’s SCW Program and amounts on deposit in certain funds and accounts established under SCW Master Resolution and the Indenture. The obligation of Valley Water to pay principal of and interest on the 2022A Bonds is a special obligation of Valley Water payable solely from SCW Revenues of the SCW Program prior to the payment of Maintenance and Operation Costs of the SCW Program. SCW Revenues of the SCW Program include the SCW Revenues and transfers to and from the SCW Rate Stabilization Reserve Fund and the SCW Contingency Reserve Fund and transfers from any Special Purpose Fund. Valley Water’s obligation to pay debt service on the 2022A Bonds from SCW Revenues is on a parity with Valley Water’s obligation to make Installment Payments (as defined below) which secure the 2022B Interim Obligations, and any obligations hereafter issued or incurred on a parity therewith subject to the terms and conditions of the SCW Master Resolution. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — Pledge of SCW Revenues” and “DEBT STRUCTURE OF VALLEY WATER.”

No Reserve Fund for the 2022A Bonds. No reserve fund has been created or will be funded with respect to the 2022A Bonds.

Redemption. The 2022A Bonds will be subject to optional, mandatory, and extraordinary redemption prior to maturity, as more fully described under the caption “THE 2022A BONDS.”

The 2022B Interim Obligations

General. The 2022B Interim Obligations will be executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2022 (the “Trust Agreement”), by and among Valley Water, the Santa Clara Valley Water District Public Facilities Financing Corporation, a California non-profit public benefit corporation (the “Corporation”) and the Trustee. The 2022B Interim Obligations represent a right to receive the installment payments (the “Installment Payments”) payable by Valley Water under an Installment Purchase Agreement dated as of November 1, 2022 (the “Installment Purchase Agreement”) by and between Valley Water and the Corporation.

Purpose. The proceeds of the 2022B Interim Obligations will be used to (i) finance the cost of certain projects for the Safe Clean Water Program, (ii) reimburse Valley Water for costs previously expended on projects for the Safe Clean Water Program, (iii) pay the principal of a portion of the currently outstanding commercial paper certificates and revolving certificates executed and delivered to finance projects for the Safe Clean Water Program, (iv) fund capitalized interest represented by the 2022B Interim Obligations through the maturity date thereof, and (v) pay the costs of executing and delivering the 2022B Interim Obligations, all as more fully described herein. See the caption “PLAN OF FINANCE — SCW Program Projects.”

Security for the Installment Payments. The Installment Payments are secured by a pledge of the SCW Revenues of Valley Water's SCW Program and amounts on deposit in certain funds and accounts established under the SCW Master Resolution and the Trust Agreement. The obligation of Valley Water to pay the Installment Payments is a special obligation of Valley Water payable solely from SCW Revenues of the SCW Program prior to the payment of Maintenance and Operation Costs of the SCW Program. Valley Water's obligation to make the Installment Payments from SCW Revenues is on a parity with Valley Water's obligation to pay debt service on the 2022A Bonds, and any obligations hereafter issued or incurred on a parity therewith subject to the terms and conditions of the SCW Master Resolution. Valley Water's obligation to make the Installment Payments from SCW Revenues is absolute and unconditional. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — Pledge of SCW Revenues" and "DEBT STRUCTURE OF VALLEY WATER."

No Reserve Fund for the 2022B Interim Obligations. No reserve fund has been created or will be funded with respect to the 2022B Interim Obligations.

Prepayment. The 2022B Interim Obligations will be subject to optional prepayment prior to maturity, as more fully described under the caption "THE 2022B INTERIM OBLIGATIONS."

Covenant to Draw on WIFIA Loan. Valley Water has covenanted in the Installment Purchase Agreement that, if Valley Water has not provided funds to pay the principal amount of the Installment Payments attributable to the 2022B Interim Obligations when due at maturity, Valley Water will draw on the loans entered into in accordance with the SCW WIFIA Master Agreement (as defined and described below) to pay such principal amount of the Installment Payments when due (to the extent such principal amount of the Installment Payments was used to pay for the project to be financed from the draw on such loans). See the caption "POTENTIAL INVESTMENT CONSIDERATIONS — Failure to Refund the 2022B Interim Obligations."

Covenant to Collect SCW Parcel Taxes

Valley Water has covenanted under the SCW Master Resolution, that so long as any Bonds or Contracts are outstanding, and to the fullest extent permitted by law, Valley Water will at all times levy SCW Parcel Taxes in an amount sufficient, together with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding.

To the extent that any Bonds or Contracts remain outstanding, Valley Water will, to the fullest extent permitted by law make the determination with respect to the continuance of the SCW Parcel Taxes required by Paragraph L of Resolution No. 20-64 adopted on July 21, 2020 (which is the Board of Directors' resolution setting forth the provisions of Measure S, as submitted to the voters), to the extent necessary to provide SCW Parcel Taxes sufficient to pay Debt Service on such outstanding Bonds or Contracts on and after the 15-year period referenced therein (or any extension of such 15-year period determined by the Board of Directors of Valley Water). See the caption "THE SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM — Review for Reduction/Repeal of Special Tax Under Measure S."

Allocation of Property Taxes

So long as any Bonds or Contracts are outstanding, Valley Water will allocate to the SCW Program, amounts allocated to Valley Water pursuant to Article XIII A of the Constitution of the State of California and Section 95 *et seq.* of the California Revenues and Taxation Code (or any successor or supplementary provisions), in an amount sufficient, together with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding.

No Senior Obligations

Valley Water is not authorized under the SCW Master Resolution to issue or incur any obligations secured by SCW Revenues senior to Bonds and Contracts, including the 2022A Bonds and the 2022B Interim Obligations.

Other SCW Obligations

The obligation of Valley Water to pay principal of and interest on the 2022A Bonds and to make the Installment Payments from SCW Revenues is secured by a pledge of the SCW Revenues and certain funds and accounts established under the SCW Master Resolution and are payable from SCW Revenues on a parity with any additional Bonds and Contracts issued or incurred in the future in accordance with the terms of the SCW Master Resolution.

Valley Water and the Corporation have entered into a WIFIA Master Agreement with the United States Environmental Protection Agency (the “EPA”) under the authorization of the Water Infrastructure Finance and Innovation Act (the “SCW WIFIA Master Agreement”) for one or more loans to be obtained thereunder (each a “SCW WIFIA Loan”) up to a maximum principal amount of \$146 million. The first SCW WIFIA Loan was entered into on [November 1], 2022 in the amount of \$_____ (the “SCW WIFIA Loan No. 1”). As of the date of this Official Statement, no draw on SCW WIFIA Loan No. 1 has been made and no amounts are outstanding thereunder.

Any installment payments which Valley Water is required to pay to the Corporation under the installment purchase agreement relating to SCW WIFIA Loan No. 1, which will be applied by the Corporation to pay SCW WIFIA Loan No. 1, are payable from SCW Revenues subordinate to Bonds and Contracts (including the 2022A Bonds, the Installment Payments and any future Bonds and Contracts) and after the payment of Maintenance and Operation Costs. Future loans under the SCW WIFIA Master Agreement will be paid from installment payments to be made by Valley Water under installment purchase agreements which are payable from SCW Revenues on a subordinate basis to the 2022A Bonds and the Installment Payments, and any future Bonds and Contracts. However, upon a bankruptcy related event with respect to Valley Water or the Corporation, such installment payments will be payable from SCW Revenues on a parity with the 2022A Bonds, the Installment Payments, Bonds and Contracts.

See the captions “DEBT STRUCTURE OF VALLEY WATER” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — Additional Bonds and Contracts.”

Additional Parity Debt Test

The SCW Master Resolution provides for the issuing and incurring of Bonds and Contracts secured by SCW Revenues on a parity with the Installment Payments and the 2022A Bonds upon satisfaction of certain conditions. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — Additional Bonds and Contracts” and in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SCW MASTER RESOLUTION — BONDS AND CONTRACTS — Additional Bonds and Contracts.”

SCW Rate Stabilization Reserve Fund

Valley Water has established a SCW Rate Stabilization Reserve Fund under the SCW Master Resolution to be held by Valley Water. Valley Water may withdraw all or any portion of the amounts on deposit in the SCW Rate Stabilization Reserve Fund and transfer such amounts to the SCW Revenue Fund for application in accordance with the SCW Master Resolution. Amounts transferred from the SCW Rate

Stabilization Reserve Fund to the SCW Revenue Fund may be taken into account as SCW Revenues for purposes of the calculations for the covenant to levy and collect the SCW Parcel Tax and the issuance of additional Bonds or Contracts under the SCW Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — SCW Rate Stabilization Reserve Fund.” As of June 30, 2022, approximately \$25.0 million was on deposit in the SCW Rate Stabilization Reserve Fund. Valley Water currently projects transferring \$2 million from the SCW Rate Stabilization Reserve Fund to the SCW Revenue Fund in Fiscal Year 2025-26. See the caption “FINANCIAL INFORMATION OF VALLEY WATER—Projected Operating Results and Debt Service Coverage.”

Special Purpose Funds

Valley Water has established and may establish additional Special Purpose Funds under its Resolution No. 16-10 adopted by the Board of Valley Water on February 23, 2016 (as amended to the date, the “Water Utility Parity Master Resolution”), providing for the pledge of Water Utility Revenues to obligations (the “Water Utility System Obligations”) secured by revenues of Valley Water’s water utility system (the “Water Utility System”). Upon certain determinations made by the Board, and subject to the provisions of Water Utility Parity Master Resolution Valley Water may withdraw all or any portion of the amounts in a Special Purpose Fund and transfer such amounts to the SCW Revenue Fund for application in accordance with the SCW Master Resolution. Amounts transferred from a Special Purpose Fund to the SCW Revenue Fund may be taken into account as SCW Revenues for purposes of the calculations for the covenant to levy and collect the SCW Parcel Tax and the issuance of additional Bonds or Contracts under the SCW Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — Special Purpose Funds.” Valley Water has previously designated the Drought Reserve, the San Felipe Emergency Reserve, the Advanced Water Purification Center Reserve, Public-Private Partnership Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of June 30, 2022, there was approximately \$22.1 million in aggregate on deposit in such Special Purpose Funds. Valley Water has budgeted to transfer \$13 million to the Water Utility System revenue fund in Fiscal Year 2022-23. Valley Water currently projects transferring an additional \$3 million from the Special Purpose Funds to the Water Utility System revenue fund in each of Fiscal Years 2023-24 and 2024-25.

SCW Contingency Reserve Fund

Valley Water has established a SCW Contingency Reserve Fund under the SCW Master Resolution to be held by Valley Water. Valley Water may withdraw all or any portion of the amounts on deposit in the SCW Contingency Reserve Fund and transfer such amounts to the SCW Revenue Fund for application in accordance with the SCW Master Resolution. Amounts transferred from the SCW Contingency Reserve Fund to the SCW Revenue Fund may be taken into account as SCW Revenues for purposes of the calculations for the covenant to levy and collect the SCW Parcel Tax and the issuance of additional Bonds or Contracts under the SCW Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — SCW Contingency Reserve Fund.” As of June 30, 2022, there was approximately \$5.0 million in aggregate on deposit in the SCW Contingency Reserve Fund.

No Cross Collateralization of Water Utility System Revenues, Flood Control System Revenues and State Water Project Property Taxes

Valley Water has executed and delivered two installment purchase agreements and has issued eight series of bonds which are Water Utility System Obligations, outstanding as of October 1, 2022 in the aggregate principal amount of approximately \$624,610,000. The Water Utility System Obligations secured by revenues of Valley Water’s Water Utility System. No SCW Revenues are pledged to payment of these installment purchase agreements and bonds of the Water Utility System and the revenues of the Water Utility System are not pledged to the payment of the 2022A Bonds or the Installment Payments.

Valley Water has executed and delivered two installment purchase agreements outstanding as of October 1, 2022 in the aggregate principal amount of approximately \$48,150,000 (the “Flood Control System Obligations”) secured by revenues of Valley Water’s flood and storm water control system (the “Flood Control System”). No SCW Revenues are pledged to payment of these installment purchase agreements and the revenues of the Flood Control System are not pledged to the payment of the 2022A Bonds or the Installment Payments.

Valley Water levies additional property taxes to pay certain costs under Valley Water’s State Water Project contract. Such State Water Project property taxes are not pledged to the payment of the 2022A Bonds or the Installment Payments.

Limited Obligations

The obligation of Valley Water to pay principal of and interest on the 2022A Bonds and to make the Installment Payments described herein are payable from and secured by a pledge of and lien on, Valley Water’s SCW Revenues. The obligation of Valley Water to pay the principal of and interest on the 2022A Bonds and to make Installment Payments does not constitute a debt of Valley Water or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Miscellaneous

Brief descriptions of the SCW Master Resolution, the 2022A Bonds and the 2022B Interim Obligations, the security and sources of payment for the 2022A Bonds and the 2022B Interim Obligations and Valley Water are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein with respect to the SCW Master Resolution and the Senior Master Resolution may be found in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the Clerk of the Board of Valley Water at the address on the inside cover of this Official Statement.

[LANGUGE TO COME RE WATER UTILITY TRANSACTIONS]

Continuing Disclosure

Valley Water has covenanted in Continuing Disclosure Agreements for the benefit of the holders and beneficial owners of the 2022A Bonds and of the 2022B Interim Obligations to provide certain financial information and operating data relating to Valley Water by not later than each April 1, commencing April 1, 2023, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and the notices of material events will be filed by Valley Water with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system or any successor repository prescribed by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth hereto in Appendix F — “FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022A BONDS” with respect to the 2022A Bonds and in Appendix G — “FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022B INTERIM OBLIGATIONS” with respect to the 2022B Interim Obligations. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

In 2018, Valley Water filed two supplements to its continuing disclosure annual report for Fiscal Year 2016-17 to correct certain debt service coverage calculations with respect to the Valley Water’s Flood Control System Obligations and obligations secured by revenues of the Water Utility System.

For a discussion of Valley Water's compliance with prior continuing disclosure undertakings, see the caption "CONTINUING DISCLOSURE UNDERTAKINGS."

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "VALLEY WATER — Capital Improvement Program," "THE SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM" and "FINANCIAL INFORMATION OF VALLEY WATER" herein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. VALLEY WATER DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

PLAN OF FINANCE

The Refunding Plan

A portion of the proceeds of the 2022A Bonds will be applied to pay a portion of the principal of the outstanding Commercial Paper Certificates and Revolving Certificates issued to finance projects for the SCW Program. See the caption "VALLEY WATER — Capital Improvement Program."

Valley Water currently has outstanding \$150.0 million aggregate principal amount of Commercial Paper Certificates, \$55.2 million of which were issued to finance projects for the SCW Program. In addition, Valley Water currently has outstanding \$70.2 million aggregate principal amount of Revolving Certificates, \$30.8 million of which were issued to finance projects for the SCW Program.

In order to pay a portion of the outstanding Commercial Paper Certificates and Revolving Certificates, Valley Water will transfer a portion of the proceeds of the 2022A Bonds to U.S. Bank Trust Company, National Association, as paying agent, which, together with available funds of Valley Water, will be sufficient to pay approximately \$83.2 million principal amount and accrued interest of such Commercial Paper Certificates and Revolving Certificates through the related payment date.

The estimated sources and uses of funds with respect to the 2022A Bonds are set forth below.

Table 1
SANTA CLARA VALLEY WATER DISTRICT
Estimated Sources and Uses of Funds – The 2022A Bonds

Sources

Principal Amount of 2022A Bonds	\$
Plus Original Issue Premium	
TOTAL	\$ _____

Uses

Transfer to Paying Agent for the Commercial Paper Certificates ⁽¹⁾	\$
Transfer to Paying Agent for the Revolving Certificates ⁽²⁾	
Costs of Issuance ⁽³⁾	
TOTAL	\$ _____

⁽¹⁾ Equals the outstanding principal amount of the Commercial Paper Certificates being refunded from proceeds of the 2022A Bonds.

⁽²⁾ Equals the outstanding principal amount of the Revolving Certificates being refunded from proceeds of the 2022A Bonds.

⁽³⁾ Includes fees for the Trustee, Municipal Advisor's fees, legal fees, printing costs, rating agency fees, Underwriters' discount and other costs of delivery. For details regarding the Underwriters' discount, see "UNDERWRITING."

SCW Program Projects

Valley Water expects to apply a portion of the proceeds of the 2022B Interim Obligations to finance and reimburse Valley Water for costs of acquiring and/or construction of the four projects included in the SCW Program as described under the caption "VALLEY WATER — Capital Improvement Program" (the "Projects").

Environmental approvals are in place for the Almaden Lake Improvement Project and the Sunnyvale East and West Channels Flood Protection. The Coyote Creek Flood Protection Project and the Upper Penitencia Flood Protection Project are currently in planning and design phase. 2022B Interim Obligations proceeds will be expended on certain planning and design costs which do not require environmental approvals and on components of the Projects which require environmental approvals after such approvals are in place. Valley Water expects that substantially all 2022 Interim Obligation proceeds deposited in the acquisition funds under the Installment Purchase Agreement will be expended within three years.

In addition, portion of the proceeds of the 2022B Interim Obligations will be applied to pay a portion of the principal of the outstanding Commercial Paper Certificates and Revolving Certificates issued to finance projects for the SCW Program.

Valley Water currently has outstanding \$150.0 million aggregate principal amount of Commercial Paper Certificates, \$55.2 million of which were issued to finance projects for the SCW Program. Valley Water currently has outstanding \$70.2 million aggregate principal amount of Revolving Certificates, \$30.8 million of which were issued to finance projects for the SCW Program.

In order to pay a portion of the outstanding Commercial Paper Certificates and Revolving Certificates, Valley Water will transfer a portion of the proceeds of the 2022B Interim Obligations to U.S. Bank Trust Company, National Association, as paying agent, which, together with available funds of Valley Water, will be sufficient to pay approximately \$2.8 million principal amount and accrued interest of such Commercial Paper Certificates and Revolving Certificates through the related payment date.

The estimated sources and uses of funds with respect to the 2022B Interim Obligations are set forth below.

Table 2
SANTA CLARA VALLEY WATER DISTRICT
Estimated Sources and Uses of Funds – The 2022B Interim Obligations

Sources

Principal Amount of Bonds	\$
Plus Original Issue Premium	
TOTAL	\$ _____

Uses

Deposit to Acquisition and Construction Fund	\$
Deposit to Capitalized Interest Fund	
Transfer to Paying Agent for the Commercial Paper Certificates ⁽¹⁾	
Transfer to Paying Agent for the Revolving Certificates ⁽²⁾	
Costs of Issuance ⁽⁴⁾	
TOTAL	\$ _____

-
- (1) Equals the outstanding principal amount of the Commercial Paper Certificates being refunded from proceeds of the 2022B Interim Obligations.
- (2) Equals the outstanding principal amount of the Revolving Certificates being refunded from proceeds of the 2022B Interim Obligations.
- (3) Includes fees for the Trustee, Municipal Advisor's fees, legal fees, printing costs, rating agency fees, underwriter's discount and other costs of delivery.

THE 2022A BONDS

Terms of the 2022A Bonds

The 2022A Bonds will be issued in the aggregate principal amount of \$_____.^{*} The 2022A Bonds will be dated the date of initial issuance thereof, will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable on each February 1 and August 1, commencing [February 1, 2023] (each, an "Interest Payment Date"), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2022A Bonds will be computed on the basis of a 360 day year of twelve 30 day months.

The 2022A Bonds will be issued only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2022A Bonds. Ownership interests in the 2022A Bonds may be purchased in book-entry form, in denominations of \$5,000 or any integral multiple thereof. See the caption "—Book-Entry Only System" below and Appendix C attached hereto.

In the event that the book-entry only system described below is discontinued, the principal of and redemption premium (if any) on the 2022A Bonds are payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the office of the Trustee in St. Paul, Minnesota, California (the "Office of the Trustee"). Interest on the 2022A Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the "Registration Books") as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the "Record Date"), such interest to be paid by check or draft of the Trustee, sent by first class mail to the Owner at such Owner's address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of 2022A Bonds may, at such Owner's option,

^{*} Preliminary, subject to change.

be paid interest by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium, if any, on the 2022A Bonds will be payable in lawful money of the United States of America.

Interest on any 2022A Bond will be payable from the Interest Payment Date preceding the date of issuance thereof, unless such date is after a Record Date and on or before the succeeding Interest Payment Date, in which case interest thereon will be payable from such Interest Payment Date, or unless such date is on or before [January 15, 2023], in which case interest thereon will be payable from the date of initial delivery.

Redemption of 2022A Bonds

Optional Redemption. The 2022A Bonds shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed in a Written Request of Valley Water provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after _____ 1, 20__ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2022A Bonds with stated maturities on August 1, 20__ are subject to mandatory sinking fund redemption in part (by lot), on each August 1 on and after August 1, 20__, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the date fixed for redemption, without premium, in accordance with the following schedules:

<i>Redemption Date</i> <i>(August 1)</i>	<i>Principal</i> <i>Amount</i>
	\$

*

* Final Maturity.

Redemption from Insurance or Eminent Domain Proceeds. The 2022A Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed in a Written Request of Valley Water provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in the SCW Master Resolution, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium. See Appendix B under the caption “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE WATER UTILITY MASTER RESOLUTION — COVENANTS OF THE DISTRICT — Eminent Domain and Insurance Proceeds” for a description of the circumstances under which the 2022A Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

Selection of 2022A Bonds for Redemption. Whenever provision is made in the Indenture for the optional redemption or redemption from Net Proceeds of less than all of the 2022A Bonds, the Trustee will select the 2022A Bonds for redemption as a whole or in part on any date as directed by Valley Water and by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture.

Notice of Redemption

When redemption is authorized or required, such notice will be given at least twenty (20) days but not more than sixty (60) days before any redemption date, to the respective Owners of any 2022A Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services; provided, however, that so long as a book-entry system is used for the 2022A Bonds, the Trustee will send notice of redemption only to the Securities Depositories and Information Services. Notice of redemption to the Securities Depositories shall be given by the method required by such Securities Depositories. Each notice of redemption will state the date of notice, the redemption date, the place or places of redemption, the redemption price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2022A Bonds of any such maturity are to be redeemed, the serial numbers of the 2022A Bonds of such maturity to be redeemed by giving the individual number of each 2022A Bond or by stating that all 2022A Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2022A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed.

Each such notice shall also state that on the redemption date there will become due and payable on each of said 2022A Bonds or parts thereof designated for redemption the redemption price thereof or of said specified portion of the principal thereof in the case of a 2022A Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon will cease to accrue, and will require that such 2022A Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2022A Bond. Notice of redemption of 2022A Bonds shall be given by the Trustee at the expense of Valley Water.

With respect to any notice of optional redemption of 2022A Bonds, such notice will state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2022A Bonds to be redeemed and that, if such moneys shall not have been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 2022A Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Book-Entry Only System

One fully-registered 2022A Bond of each maturity will be issued in the principal amount of the 2022A Bonds of such maturity. Such 2022A Bond will be registered in the name of Cede & Co. and will be deposited with DTC.

Valley Water may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2022A Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

Valley Water cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2022A Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix C — “BOOK-ENTRY SYSTEM” for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system described above is abandoned, the 2022A Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2022A Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such 2022A Bond for cancellation at the Office of the Trustee, accompanied by delivery of a duly executed instrument of transfer in a form approved by the Trustee. Upon the surrender of a 2022A Bond for transfer, the Trustee is to issue a new 2022A Bond or 2022A Bonds of the same maturity, for a like series and aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new 2022A Bond issued upon any transfer. The Trustee may require the payment by any 2022A Bond Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2022A Bonds, the Trustee will cancel and destroy the 2022A Bonds it has received.

2022A Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2022A Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new 2022A Bond issued upon any exchange except in the case of any exchange of temporary 2022A Bonds for definitive 2022A Bonds. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2022A Bonds, the Trustee will cancel and destroy the 2022A Bonds it has received.

The Trustee is not required to register the exchange or transfer of any 2022A Bond during the period in which the Trustee is selecting 2022A Bonds for redemption for any 2022A Bond which the Trustee has selected for redemption.

THE 2022B INTERIM OBLIGATIONS

Terms of the 2022B Interim Obligations

The 2022B Interim Obligations will be executed and delivered in the aggregate principal amount of \$_____*. The 2022B Interim Obligations will be dated the date of initial delivery thereof, will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable on each June 1 and December 1, commencing June 1, 2023, and will mature on the dates set forth on the inside cover page hereof. Interest on the 2022B Interim Obligations will be computed on the basis of a 360 day year of twelve 30 day months. Interest represented by the 2022B Interim Obligations will be capitalized through maturity thereof.

One fully registered certificate for the maturity of the 2022B Interim Obligations registered in the name of Cede & Co., as nominee of DTC, as registered owner of all 2022B Interim Obligations will be delivered to DTC on the Delivery Date. The principal and interest with respect to the 2022B Interim Obligations will be paid directly to Cede & Co. by the Trustee as long as DTC or its nominee, Cede & Co. is the registered owner of the 2022B Interim Obligations. The 2022B Interim Obligations will be dated the date of delivery. For information relating to DTC and the DTC book-entry system as it relates to the 2022B Interim Obligations, see Appendix C — "BOOK-ENTRY SYSTEM."

Principal with respect to the 2022B Interim Obligations will be payable on December 1 in each of the years (each a "Certificate Payment Date"), and in the amounts, set forth on the inside cover page of this Official Statement unless paid through mandatory sinking fund payments as hereinafter described or upon prior prepayment.

* Preliminary, subject to change.

Prepayment of 2022B Interim Obligations

Optional Prepayment. The 2022B Interim Obligations are subject to optional prepayment maturity by Valley Water on any date on or after _____ 1, 20__, upon notice as provided in the Trust Agreement, as a whole or in part, in integral multiples of five thousand dollars (\$5,000), from any source of available funds, at a prepayment price equal to 100% of the principal amount to be prepaid, plus interest, if any, accrued with respect thereto to the date of prepayment, without premium.

Selection of 2022B Interim Obligations for Prepayment. If less than all Outstanding 2022B Interim Obligations are to be prepaid at any one time, and no other method of selection is specified in the Trust Agreement, the Trustee will select the 2022B Interim Obligations of such maturity date to be prepaid in any manner that it deems appropriate and fair. For purposes of such selection, 2022B Interim Obligations shall be deemed to be composed of \$5,000 multiples and any such multiple may be separately prepaid or redeemed.

Notice of Prepayment

Notice of prepayment shall be given by the Trustee, not less than twenty (20) nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the 2022B Interim Obligations designated for prepayment at their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories and (iii) the Information Services; provided, however, that so long as a book-entry system is used for the 2022B Interim Obligations, the Trustee will send notice of prepayment only to the Securities Depositories and Information Services. Notice of prepayment to the Securities Depositories shall be given by registered mail, other electronically secure means, or any other method agreed upon and notice of prepayment to the Information Services shall be given by mail, other electronically secure means, or any other method agreed upon. Each notice of prepayment shall state the series, prepayment date, the prepayment price, if any, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be prepaid, the distinctive certificate numbers of the 2022B Interim Obligations of such maturity to be prepaid and, in the case of 2022B Interim Obligations to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on the prepayment date there will become due and payable on the 2022B Interim Obligations to be prepaid, all of the principal amount thereof on the prepayment date, and that from and after such prepayment date interest evidenced and represented by the 2022B Interim Obligations shall cease to accrue, and shall require that such 2022B Interim Obligations be then surrendered at the address of the Trustee specified in the prepayment notice. Failure by the Trustee to give notice of prepayment pursuant to the Trust Agreement to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for prepayment. Failure by the Trustee to give notice of prepayment pursuant to the Trust Agreement to any one or more of the respective Owners of any 2022B Interim Obligations designated for prepayment shall not affect the sufficiency of the proceedings for prepayment with respect to the Owners to whom such notice was given.

In the event of prepayment of 2022B Interim Obligations, the Trustee shall give notice of optional prepayment, other than any notice that refers to 2022B Interim Obligations that are to be prepaid from proceeds of a refunding bond issue, only if sufficient funds have been deposited with the Trustee to pay the applicable prepayment price of the 2022B Interim Obligations to be prepaid. Valley Water shall give the Trustee written notice of its intention to optionally prepay 2022B Interim Obligations at least 30 days prior to the intended Prepayment Date.

Valley Water may, at its option, prior to the date fixed for prepayment in any notice of prepayment rescind and cancel such notice of prepayment by Written Request of Valley Water and the Trustee shall mail notice of such cancellation to the recipients of the notice of prepayment being cancelled.

Effect of Prepayment. If notice of prepayment has been duly given as aforesaid and money for the payment of the prepayment price of the 2022B Interim Obligations called for prepayment is held by the

Trustee, then on the prepayment date designated in such notice, 2022B Interim Obligations shall become due and payable, and from and after the date so designated interest evidenced and represented by the 2022B Interim Obligations so called for prepayment shall cease to accrue, and the Owners of such 2022B Interim Obligations shall have no rights in respect thereof except to receive payment of the prepayment price thereof. Any prepayment of 2022B Interim Obligations pursuant to the Trust Agreement shall cause the schedule of Installment Payments set forth in the Installment Purchase Agreement to be recalculated by Valley Water in accordance with the Installment Purchase Agreement. Such schedule shall be furnished by Valley Water to the Trustee. All 2022B Interim Obligations prepaid, pursuant to the provisions of the Trust Agreement shall be cancelled by the Trustee and shall be delivered to, or upon the order of, Valley Water and shall not be redelivered.

Book-Entry Only System

One fully-registered 2022B Interim Obligation certificate will be executed and delivered in the principal amount of the 2022B Interim Obligations. Such 2022B Interim Obligation certificate will be registered in the name of Cede & Co. and will be deposited with DTC.

Valley Water may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2022B Interim Obligations will be printed and delivered and will be governed by the provisions of the Trust Agreement with respect to payment of principal and interest and rights of exchange and transfer.

Valley Water cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2022B Interim Obligations received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix C – “BOOK-ENTRY SYSTEM” for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system described above is abandoned, the 2022B Interim Obligations will be printed and delivered as provided in the Trust Agreement. Thereafter, any 2022B Interim Obligation may, in accordance with its terms, be transferred in the books required to be kept pursuant to the provisions of the Trust Agreement by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender, at the Corporate Trust Office of the Trustee, of such 2022B Interim Obligation for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any 2022B Interim Obligation or 2022B Interim Obligations shall be surrendered for transfer, the Trustee shall execute and deliver a new 2022B Interim Obligation or 2022B Interim Obligations of like series and of authorized denominations of the same maturity date evidencing and representing the same aggregate principal amount. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2022B Interim Obligations, the Trustee will cancel and destroy the 2022B Interim Obligations it has received.

2022B Interim Obligations may be exchanged at the Corporate Trust Office of the Trustee for a 2022B Interim Obligation evidencing and representing a like aggregate principal amount of 2022B Interim Obligations of authorized denominations of the same series and maturity. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege.

The Trustee is not required to register the exchange or transfer of any 2022B Interim Obligation during the period in which the Trustee is selecting 2022B Interim Obligations for prepayment or for any 2022B Interim Obligation which the Trustee has selected for prepayment.

SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS

Pledge of SCW Revenues

Pursuant to the SCW Master Resolution, Valley Water has continued and agreed to maintain, so long as any Bonds or Contracts (as defined in the SCW Master Resolution) remain outstanding, the SCW Revenue Fund. Valley Water has covenanted that all SCW Revenues will be deposited when and as received, or allocated to the SCW Revenue Fund, in the SCW Revenue Fund.

So long as any Bonds or Contracts are outstanding, amounts in the SCW Revenue Fund will be disbursed, allocated and applied solely to the uses and purposes described in the SCW Master Resolution. Pursuant to the SCW Master Resolution, amounts held in the SCW Revenue Fund will be accounted for separately and apart from all other accounts, funds, money or other resources of Valley Water.

Pursuant to the SCW Master Resolution, all SCW Revenues have been irrevocably pledged to the payment of the Bonds and Contracts, and such SCW Revenues will not be used for any other purpose while any Bonds and Contracts remain outstanding; provided that out of the SCW Revenues and amounts on deposit in the SCW Revenue Fund there may be apportioned for such purposes as are expressly permitted in the SCW Master Resolution. Such pledge constitutes a lien on SCW Revenues, the SCW Revenue Fund and all amounts on deposit therein as permitted in the SCW Master Resolution for the payment of Contracts and Bonds in accordance with the terms thereof. See “—Allocation of SCW Revenues” below.

The 2022A Bonds are Bonds under the SCW Master Resolution and are secured by the pledge and the liens created therein. Pursuant to the Indenture, in order to carry out the pledge contained in the SCW Master Resolution, Valley Water will transfer SCW Revenues from the SCW Revenue Fund to the Trustee to pay the principal of and interest on the 2022A Bonds when due, all in accordance with the terms of the SCW Master Resolution and the Indenture. No reserve fund has been created with respect to the 2022A Bonds.

The Installment Purchase Agreement is a Contract under the SCW Master Resolution and is secured by the pledge and the liens created therein. Pursuant to the Installment Purchase Agreement, in order to carry out the pledge contained in the SCW Master Resolution, Valley Water will pay from SCW Revenues to the Trustee, as assignee of the Corporation, the Installment Payments as and when due under the Installment Purchase Agreement. No reserve fund has been created with respect to the 2022B Interim Obligations.

SCW Revenues are defined in the SCW Master Resolution to be, with respect to any Fiscal Year or other period, (i) SCW Parcel Taxes, (ii) amounts allocated to Valley Water pursuant to Article XIII A of the Constitution of the State of California and Section 95 *et seq.* of the California Revenues and Taxation Code (or any successor or supplementary provisions) and allocated by the Board of Directors of Valley Water to the SCW Program, (iii) investment earning on SCW Revenues and the SCW Revenue Fund, SCW Rate Stabilization Reserve Fund and SCW Contingency Reserve Fund, plus (iv) deposits to the SCW Revenue Fund from amounts on deposit in the SCW Rate Stabilization Reserve Fund and the SCW Contingency Reserve Fund, less (v) any SCW Revenues transferred from the SCW Revenue Fund to the SCW Rate Stabilization Reserve Fund and the SCW Contingency Reserve Fund, plus (vi) deposits to the SCW Revenue Fund from amounts on deposit in a Special Purpose Fund.

SCW Parcel Taxes are defined by the SCW Master Resolution to mean proceeds of the parcel tax levied for the benefit of the SCW Program pursuant to Resolution No. 20-64 of Valley Water adopted on July 21, 2020, and approved by the voters of Valley Water at an election held on November 3, 2020, as such program may be modified from time to time in accordance therewith, and as such resolution may be amended or supplemented from time to time.

SCW Program is defined by the SCW Master Resolution to mean the facilities, property, structures and works undertaken by Valley Water in accordance with Resolution No. 20-64 of Valley Water adopted on July 21, 2020, and approved by the voters of Valley Water at an election held on November 3, 2020, including but not limited to Attachment 2 thereto, as such program may be modified from time to time in accordance therewith.

The obligation of Valley Water to pay the principal of and interest on the 2022A Bonds and to make Installment Payments from SCW Revenues is absolute and unconditional.

THE OBLIGATION OF VALLEY WATER TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2022A BONDS AND TO MAKE THE INSTALLMENT PAYMENTS WITH RESPECT TO THE 2022B INTERIM OBLIGATIONS IS A LIMITED OBLIGATION OF VALLEY WATER PAYABLE SOLELY FROM SCW REVENUES OF VALLEY WATER'S SCW PROGRAM AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF VALLEY WATER, THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED FOR THE PAYMENT OF THE 2022A BONDS AND THE INSTALLMENT PAYMENTS. THE OBLIGATION OF VALLEY WATER TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2022A BONDS AND TO MAKE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DO NOT CONSTITUTE INDEBTEDNESS OF VALLEY WATER IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION.

Allocation of SCW Revenues

The SCW Master Resolution provides for the allocation of SCW Revenues as described below. As set forth under the SCW Master Resolution, all SCW Revenues are deposited initially in the SCW Revenue Fund.

SCW Revenues will be allocated as provided in the SCW Master Resolution to the following purposes, at the following times and in the following order of priority:

- (a) to pay Debt Service at the times and in the amounts required by applicable Bonds or Contracts or the trust agreements securing each Bond or Contract;
- (b) to each trustee for deposit in the applicable reserve fund, if any, with respect to such Bonds or Contracts, an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Bond or Contract reserve fund as and to the extent required by the applicable Bond or Contract or the resolutions, trust agreements, indentures or other instruments securing each Bond or Contract;
- (c) so long as Valley Water reasonably determines that there will be sufficient SCW Revenues to make the transfers described in (a) and (b) above for the remainder of such Fiscal Year, such amounts at such times as Valley Water shall require to provide for the payment of Maintenance and Operation Costs;
- (d) so long as Valley Water reasonably determines that there will be sufficient SCW Revenues to make the transfers described in (a) through (c) above for the remainder of such Fiscal Year, for any lawful purpose of the SCW Program; and
- (e) so long as Valley Water reasonably determines that there will be sufficient SCW Revenues to make the transfers described in (a) through (c) above for the remainder of such Fiscal Year, for any lawful purpose of Valley Water.

Covenant to Collect SCW Parcel Taxes

Valley Water has covenanted under the SCW Master Resolution that, so long as any Bonds or Contracts are outstanding, and to the fullest extent permitted by law, Valley Water will at all times levy SCW Parcel Taxes in an amount sufficient, together with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding.

To the extent that any Bonds or Contracts remain outstanding, Valley Water shall, to the fullest extent permitted by law make the determination set forth in Paragraph L of Resolution No. 20-64 adopted on July 21, 2020, to the extent necessary to provide SCW Parcel Taxes sufficient to pay Debt Service on such outstanding Bonds or Contracts on and after the 15-year period referenced therein (or any extension of such 15-year period determined by the Board of Directors of Valley Water). See the caption “THE SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM — Review for Reduction/Repeal of Special Tax Under Measure S.”

Allocation of Property Taxes

So long as any Bonds or Contracts are outstanding, Valley Water will allocate to the SCW Program, amounts allocated to Valley Water pursuant to Article XIII A of the Constitution of the State of California and Section 95 *et seq.* of the California Revenues and Taxation Code (or any successor or supplementary provisions), in an amount sufficient, together with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding. See the caption “POTENTIAL INVESTMENT CONSIDERATIONS — Limitations on SCW Revenues.”

No Reserve Fund for the 2022A Bonds and 2022B Interim Obligations

No reserve fund has been created with respect to the 2022A Bonds or with respect to the 2022B Interim Obligations.

SCW Rate Stabilization Reserve Fund

The SCW Master Resolution establishes a special fund designated as the “SCW Rate Stabilization Reserve Fund” to be held by Valley Water. Valley Water has covenanted to maintain and to hold the SCW Rate Stabilization Reserve Fund separate and apart from other funds so long as any Bonds or Contracts remain outstanding. Money transferred by Valley Water to the SCW Rate Stabilization Reserve Fund in accordance with the SCW Master Resolution will be held in the SCW Rate Stabilization Reserve Fund and applied in accordance with the SCW Master Resolution.

All amounts on deposit in the SCW Rate Stabilization Reserve Fund are irrevocably pledged to the payment of the Bonds and Contracts, including the 2022A Bonds and the Installment Purchase Agreement; provided that amounts on deposit in the SCW Rate Stabilization Reserve Fund may be apportioned for such purposes as are expressly permitted in the SCW Master Resolution. Such pledge constitutes a first lien on amounts on deposit in the SCW Rate Stabilization Reserve Fund for the payment of Contracts and Bonds in accordance with the terms of the SCW Master Resolution.

Valley Water may withdraw all or any portion of the amounts on deposit in the SCW Rate Stabilization Reserve Fund and transfer such amounts to the SCW Revenue Fund for application in accordance with the SCW Master Resolution. Amounts transferred from the SCW Rate Stabilization Reserve Fund to the SCW Revenue Fund during or within 270 days after the end of a Fiscal Year, may be taken into account as SCW Revenues for purposes of the calculations for the covenant to levy and collect the SCW Parcel Tax described under the caption “—Covenant to Collect SCW Parcel Taxes” above and the issuance of additional Bonds or Contracts.

Under certain circumstances, moneys received in one Fiscal Year may be required or permitted by generally accepted accounting principles applicable to governmental agencies such as Valley Water to be recorded as revenue in a subsequent Fiscal Year, regardless of whether such moneys have been deposited in the SCW Rate Stabilization Reserve Fund. See Appendix A — “AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2021 AND MEMORANDUM OF INTERNAL CONTROL.”

As of June 30, 2022, there was approximately \$25.0 million on deposit in the SCW Rate Stabilization Reserve Fund.”

Special Purpose Funds

Valley Water has established and may establish additional Special Purpose Funds under its Water Utility Parity Master Resolution. Amounts in Special Purpose Funds shall be accounted for separately and apart from all other accounts, funds, money or other resources of Valley Water.

All amounts on deposit in Special Purpose Funds and the Special Purpose Funds are irrevocably pledged to the payment of obligations of the parity bonds and contracts of the Water Utility System. However, subject to the provisions of the Water Utility System Parity Master Resolution, Valley Water may withdraw all or any portion of the amounts on deposit in a Special Purpose Fund and transfer such amounts to the SCW Revenue Fund upon a determination by resolution of the Board of Directors of Valley Water substantially to the effect that (a) (i) non-routine expenditures resulting from extraordinary events, including but not limited to droughts and natural disasters, are reasonably expected to be incurred by the SCW Program, and (ii) reduced SCW Revenues have resulted from such an extraordinary event, (b) application of amounts on deposit in one or more Special Purpose Funds to the payment of such expenditures is financially prudent and necessary, (c) counsel to Valley Water, which may be general counsel to Valley Water, has advised in writing that such amounts may be lawfully applied to SCW Program expenses and (d) the Board of Directors has adopted a budget amendment, if necessary, to reflect such expenditures and the transfer of such amounts from Special Purpose Funds to the SCW Revenue Fund. Amounts transferred from Special Purpose Funds to the SCW Revenue Fund during or within 270 days after the end of a Fiscal Year, may be taken into account as SCW Revenues for purposes of the calculations for the covenant to levy and collect the SCW Parcel Tax described under the caption “—Covenant to Collect SCW Parcel Taxes” above and the issuance of additional Bonds or Contracts.

Valley Water has previously designated the Drought Reserve, the San Felipe Emergency Reserve, the Advanced Water Purification Center Reserve, Public-Private Partnership Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of June 30, 2022, there was approximately \$22.1 million in aggregate on deposit in such Special Purpose Funds. Valley Water has budgeted to transfer \$13 million to the Water Utility System revenue fund in Fiscal Year 2022-23. Valley Water currently projects transferring an additional \$3 million from the Special Purpose Funds to the Water Utility System revenue fund in each of Fiscal Years 2023-24 and 2024-25.

SCW Contingency Reserve Fund

The SCW Master Resolution establishes a special fund designated as the “SCW Contingency Reserve Fund” to be held by Valley Water. Valley Water has covenanted to maintain and to hold the SCW Contingency Reserve Fund separate and apart from other funds so long as any Bonds or Contracts remain outstanding. Money transferred by Valley Water to the SCW Contingency Reserve Fund in accordance with the SCW Master Resolution will be held in the SCW Contingency Reserve Fund and applied in accordance with the SCW Master Resolution.

All amounts on deposit in the SCW Contingency Reserve Fund and the SCW Contingency Reserve Fund are irrevocably pledged to the payment of the Bonds and Contracts, including the 2022A Bonds and the

Installment Purchase Agreement; provided that amounts on deposit in the SCW Rate Stabilization Reserve Fund may be apportioned for such purposes as are expressly permitted in the SCW Master Resolution. Such pledge constitutes a first lien on amounts on deposit in the SCW Contingency Reserve Fund for the payment of Contracts and Bonds in accordance with the terms of the SCW Master Resolution.

Valley Water may withdraw all or any portion of the amounts on deposit in the SCW Contingency Reserve Fund and transfer such amounts to the SCW Revenue Fund for application in accordance with the SCW Master Resolution. Amounts transferred from the SCW Contingency Reserve Fund to the SCW Revenue Fund during or within 270 days after the end of a Fiscal Year, may be taken into account as SCW Revenues for purposes of the calculations for the covenant to levy and collect the SCW Parcel Tax described under the caption “—Covenant to Collect SCW Parcel Taxes” above and the issuance of additional Bonds or Contracts.

As of June 30, 2022, there was approximately \$5.0 million in aggregate on deposit in the SCW Contingency Reserve Fund.

Under certain circumstances, moneys received in one Fiscal Year may be required or permitted by generally accepted accounting principles applicable to governmental agencies such as Valley Water to be recorded as revenue in a subsequent Fiscal Year, regardless of whether such moneys have been deposited in the SCW Contingency Reserve Fund. See Appendix A — “AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2021 AND MEMORANDUM OF INTERNAL CONTROL.”

Additional Bonds and Contracts

No Senior Obligations. Valley Water is not authorized under the SCW Master Resolution to issue or incur any obligations secured by SCW Revenues senior to Bonds and Contracts, including the 2022A Bonds and the 2022B Interim Obligations.

Additional Parity Obligations. Valley Water may at any time incur or issue additional Bonds or Contracts (that is, obligations the payments of which are payable from the SCW Revenues on a parity with the 2022A Bonds and the Installment Purchase Agreement), provided:

(a) The SCW Revenues for the most recent audited Fiscal Year preceding the date of execution of such Contract or the date of adoption by the Board of Directors of Valley Water of the resolution authorizing the issuance of such Bonds, as the case may be, approved and in effect as of the date of calculation, as evidenced by a calculation prepared by Valley Water, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year plus the Debt Service which would have been payable on any Contracts executed or Bonds issued since the end of such Fiscal Year assuming such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year, plus the Debt Service which would have been payable had such Contract been executed or Bonds been issued at the beginning of such Fiscal Year; and

(b) The estimated SCW Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project, as evidenced by a certificate of an Authorized Officer of Valley Water on file with Valley Water, shall produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

Notwithstanding the foregoing, Bonds may be issued or Contracts may be executed to refund outstanding Bonds or Contracts if Average Annual Debt Service on Bonds and Contracts after the refunding is not greater than Average Annual Debt Service on the Bonds and Contracts outstanding prior to the refunding.

Subordinate Obligations. Valley Water may incur obligations secured by a pledge of SCW Revenues, the SCW Revenue Fund and all amounts on deposit in the SCW Revenue Fund on a basis subordinate to the pledge of the SCW Master Resolution securing the 2022A Bonds and the Installment Payments.

Any installment payments which Valley Water is required to pay to the Corporation under the installment purchase agreement relating to SCW WIFIA Loan No. 1, which will be applied by the Corporation to pay SCW WIFIA Loan No. 1, are payable from SCW Revenues subordinate to Bonds and Contracts (including the 2022A Bonds, the Installment Payments and any future Bonds and Contracts) and after the payment of Maintenance and Operation Costs. Future loans under the SCW WIFIA Master Agreement will be paid from installment payments to be made by Valley Water under installment purchase agreements which are payable from SCW Revenues on a subordinate basis to the 2022A Bonds and the Installment Payments, and any future Bonds and Contracts. However, upon a bankruptcy related event with respect to Valley Water or the Corporation, such installment payments will be payable from SCW Revenues on a parity with the 2022A Bonds, the Installment Payments, Bonds and Contracts.

As of the date of this Official Statement, no draw on SCW WIFIA Loan No. 1 has been made and no amounts are outstanding thereunder.

Covenant to Draw on WIFIA Loan to pay 2022B Interim Obligations Principal

Valley Water has covenanted in the Installment Purchase Agreement that, if Valley Water has not provided funds to pay the principal amount of the Installment Payments attributable to the 2022B Interim Obligations when due at maturity, Valley Water will draw on the loans entered into in accordance with the SCW WIFIA Master Agreement to pay such principal amount of the Installment Payments when due (to the extent such principal amount of the Installment Payments was used to pay for the project to be financed from the draw on such loans). See the caption "POTENTIAL INVESTMENT CONSIDERATIONS — Failure to Refund the 2022B Interim Obligations."

DEBT SERVICE SCHEDULE

Set forth below is a schedule of debt service with respect to the 2022A Bonds, the Installment Payments with respect to the 2022B Interim Obligations and the estimated debt service of SCW WIFIA Loan No. 1 due in each annual period ending June 30 of the following years.

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<i>Year Ending June 30</i>	Debt Service Schedule⁽¹⁾						<i>SCW WIFIA Loan No. 1⁽⁴⁾</i>	<i>Total</i>
	<u><i>2022A Bonds</i></u>		<i>Total</i>	<u><i>2022B Interim Obligations</i></u>		<i>Total</i>		
	<i>Principal</i>	<i>Interest</i>		<i>Principal⁽²⁾</i>	<i>Interest⁽³⁾</i>			

Total

⁽¹⁾ Totals may not add due to independent rounding. All amounts are reported on a cash basis.

⁽²⁾ Principal with respect to the 2022B Interim Obligations at maturity is omitted. Principal with respect to the 2022B Interim Obligations at maturity is expected to be paid from a draw on the SCW WIFIA Loan No. 1, other WIFIA loans, if any, and from other available sources. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — Covenant to Draw on WIFIA Loan to pay 2022B Interim Obligations Principal.”

⁽³⁾ Interest represented by the 2022B Interim Obligations will be capitalized through maturity thereof.

⁽⁴⁾ Assumes a draw on the SCW WIFIA Loan No. 1 on December 1, 2026 to pay, together with other available funds, the 2022B Interim Obligations at maturity. Valley Water may elect to pay all or a portion of the principal of the 2022B Interim Obligations at maturity from sources other than proceeds of the SCW WIFIA Loan No. 1.

VALLEY WATER

Organization, Purpose and Powers

The Santa Clara Valley Water District is a special district organized and existing in accordance with the Santa Clara Valley Water District Act, Chapter 1405 of Statutes 1951 of the State of California, as amended (the “Law”). Valley Water is authorized to supply water and provide flood protection services in the County, which includes 15 cities / towns (Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga and Sunnyvale). Valley Water encompasses all the territory within the County, one of the nine counties which make up the San Francisco Bay Area, and constitutes a major portion of “Silicon Valley.”

Valley Water has broad powers relating to the management of flood and storm waters within the County. Valley Water is also authorized to import, store, treat and distribute water within its jurisdictional boundaries to provide water in sufficient quantity and quality for present and future beneficial use by the lands and population within Valley Water.

Valley Water manages and maintains creeks, reservoirs, channels, drains and detention basins within its service area. Such management includes protecting such watercourses and facilities from toxins, pollutants, and contaminants, stream stewardship, habitat restoration and open space opportunities and protection of the water supply from natural disasters. Certain of the facilities and management of watercourses are included within the SCW Program as described herein.

Valley Water maintains various facilities to provide water supply within its service area which are part of Valley Water’s Water Utility System. No revenues of the Water Utility System are available to pay debt service on the 2022A Bonds or the Installment Payments.

Valley Water also holds property and contractual rights and maintains facilities relating to flood and storm water control service which are part of Valley Water’s Flood Control System. Revenues relating to the Flood Control System are primarily revenues from benefit assessments approved by the voters within Valley Water’s service area and amounts of the County-wide 1% tax allocated by the Board to the Flood Control System. No revenues of the Flood Control System are available to pay debt service on the 2022A Bonds or the Installment Payments.

Board of Directors and Management

Board of Directors. Valley Water Board of Directors is composed of seven members each elected from equally-divided districts drawn through a formal process. The purpose of the Board, on behalf of the County, is to protect the public health and safety and enhance the quality of living within the County by comprehensively managing water resources in a practical, cost-effective, and environmentally-sensitive manner. The Directors serve overlapping four-year terms, a structure created pursuant to the adoption of the Law. Directors John Varela, Tony Estremera and Gary Kremen are up for re-election in November 2022 and Director Linda LeZotte is expected to retire at the end of her current term in November 2022. The new terms of the Board members elected at the November 2022 elections are expected to begin in early December 2022. The current Directors are:

John L. Varela (District 1): Mr. Varela was reelected to the Board in November 2018 and is the current Chair Pro Tem of the Board. Mr. Varela has served as a member of the City Council and Mayor of the City of Morgan Hill and currently sits on the board for the Morgan Hill Chamber of Commerce. In addition, Mr. Varela is active in the Silicon Valley Chamber Coalition Regional Economic Development Initiative. Mr. Varela has experience as an entrepreneur in the solar/clean energy and bio-fuel industries. District 1 encompasses the South County cities of Morgan Hill and Gilroy; the community of San Martin; the Evergreen and Silver Creek neighborhoods of San Jose; parts of south San Jose; and hills east of San Jose and Milpitas.

Barbara Keegan (District 2): Ms. Keegan was reelected to the Board in November 2020 to represent District 2 and is the current Vice Chair Pro Tem of the Board. Ms. Keegan has extensive experience as a licensed civil engineer including over 19 years with the City of San Jose's public works department and as City Engineer/Assistant Director of Public Works for the City of Sunnyvale. In addition to serving on the Board, Ms. Keegan serves on the boards of the North Willow Glen Neighborhood Association and the San Jose Arena Authority. Ms. Keegan holds a bachelor's and master's degree in civil engineering from San Jose State University. District 2 includes portions of the City of San Jose and the City of Santa Clara.

Richard P. Santos (District 3): Mr. Santos became a member of the Board in 2000 and was reelected to the Board in November 2020 to represent District 3. Mr. Santos retired as a Fire Captain from the San Jose Fire Department with 33 years of service. While at the San Jose Fire Department, Mr. Santos served for 12 years on the San Jose Police and Fire Retirement Board and was a labor representative of the San Jose Firefighters local union. He was then and is still very active as a volunteer for community services and has spearheaded several civic activity fundraiser projects. Mr. Santos received a bachelor's degree in public administration from Farelston and Nova Colleges and received associates degrees in political science and fire science. He also has a lifetime teaching credential from the California Community College system, where he taught fire science at Mission College. District 3 is in the northeastern portion of the county and includes the City of Milpitas, portions of San Jose (Berryessa area, the Alum Rock area north of McKee Road and the Alviso area) and portions of Sunnyvale and Santa Clara.

Linda J. LeZotte (District 4): Ms. LeZotte first became a member of the Board in 2010, was reelected in 2018. Ms. LeZotte previously served for eight years as a member of the City Council of the City of San Jose and for six years as a San Jose Planning Commissioner. In addition, Ms. LeZotte chaired the Joint Venture Silicon Valley Sustainable Buildings Initiative, and served on the Bay Area Climate Collaborative-Green Building Group, and the Cities Association Green Building Collaborative. She currently serves on the Advisory Board of Sustainable Silicon Valley. Ms. LeZotte is a retired attorney with over 30 years of experience, specializing in the areas of land use, environmental and municipal law, and corporate development. District 4 includes the City of Campbell, portions of the Willow Glen and Cambrian communities in San Jose, and North Almaden and Blossom Hill areas of San Jose.

Nai Hsueh (District 5): Ms. Hsueh was reelected to the Board in November 2020 to serve District 5. Ms. Hsueh has more than 25 years of experience working on various aspects of water resources issues, including previously serving as Chief Operating Officer, Capital Program Services of Valley Water. During her tenure at Valley Water, she first progressed through the engineering career path from Assistant Engineer to Senior Engineer to one of Valley Water's Chief Operating Officers. In such capacity, Ms. Hsueh was responsible for managing and implementing Valley Water's capital improvement program to support its water supply, flood protection and environmental stewardship missions. Ms. Hsueh is a registered civil engineer in California and received her bachelor's degree in agricultural engineering from National Taiwan University and her master's degree in hydraulic engineering from the University of Iowa. District 5 includes portions of Cupertino, San Jose, Saratoga and Sunnyvale.

Tony Estremera (District 6): Mr. Estremera began his tenure on the Board in 1996. His government experience includes volunteering in both appointed and elected positions including the Santa Clara County Grand Jury, Santa Clara County Housing Task Force, Valley Medical Center Advisory Board, Santa Clara County Personnel Board, San Jose Municipal Stadium Task Force, (San Jose) Mayor's Committee on Minority Affairs and the San Jose/Evergreen Community College District Board of Trustees. Mr. Estremera received his law degree from the Boalt Hall School of Law, Berkeley. He is an active member of the State Bar of California and the Santa Clara County Bar Association. District 6 includes the northeastern portion of the City of San Jose (Alum Rock to the north and Monterey Road/Capital Expressway to the south).

Gary Kremen (District 7): Mr. Kremen was reelected to the Board in 2018. Mr. Kremen is an engineer with more than 30 years of experience starting and mentoring companies that change people's lives. He invented online dating (founding Match.Com), founded Clean Power Finance (now Spruce Finance), and

co-founded Pace Avenue. Mr. Kremen is the incubator, founding investor, and Chairman of the County's leading water conservation company, WaterSmart Software. Mr. Kremen taught a graduate level energy policy course at Northwestern University's Institute for Sustainability and Energy (ISEN) for several years. and is a Foundation Board member at the University of California, Merced. He is also a long-time volunteer, judge and mentor at the leading water non-profit, Imagine H₂O. In addition to being elected as the 2015 Chair of the Board of Directors of Valley Water, Gary has also served as President of the Board of Directors of Purissima Hills Water District. He was appointed as a member of the Proposition 39, California Clean Energy Jobs Act Citizen's Oversight Board. He has an MBA from Stanford University as well as degrees in Electrical Engineering and Computer Science from Northwestern University. District 7 includes Palo Alto, Los Altos, Los Altos Hills, unincorporated parts of Santa Clara County including Stanford University, Mountain View, Monte Sereno, Los Gatos, and the southernmost portion of San Jose.

Management. Valley Water is headed by a Chief Executive Officer, Assistant Chief Executive Officer, Operations, District Counsel, Chief Operating Officer – Water Utility Enterprise, Chief Financial Officer, Chief Operating Officer – Watersheds, Chief Operating Officer, Administrative Services, Chief of External Affairs, and Clerk of the Board.

Rick Callender, Chief Executive Officer. Mr. Callender was appointed Chief Executive Officer of Valley Water on July 11, 2020. Mr. Callender has worked for Valley Water since 1996, most recently serving as Chief of External Affairs. Prior to joining Valley Water, Mr. Callender worked as a Special Assistant to former City of San Jose Mayor Susan Hammer, as a Field Campaign Organizer for the California Democratic Party, as a Congressional Fellow for the United States House of Representatives, Subcommittee on Energy, and as a Congressional Fellow to Congressman Ronald V. Dellums. He also served as president of the San Jose-Silicon Valley National Association for the Advancement of Colored People from 2000 to 2008. Mr. Callender earned a Bachelor of Science degree in Industrial Engineering and Technology from California State University, Chico, a Juris Doctorate from Northwestern California University School of Law, and is a member of the California State Bar.

Melanie Richardson, Assistant Chief Executive Officer, Operations. Ms. Richardson was appointed as Assistant Chief Executive Officer, Operations in July 2020. Prior to such role, Ms. Richardson was the Chief Operating Officer for Watersheds at Valley Water. She has been with Valley Water for 30 years and has served in the following roles: Associate Civil Engineer, Assistant Operating Officer of Water Supply, Deputy Administrative Officer of Corporate Business Services, and Deputy Operating Officer of Watersheds Design & Construction. Ms. Richardson is a registered Civil Engineer in California and has served as one of the two Designated Engineers for Valley Water.

Among other roles, the Assistant Chief Executive Officer, Operations is responsible for representing the Chief Executive Officer and Valley Water in interactions with the public and other organizations, serving as Chief Executive Officer in the absence of the Chief Executive Officer and overseeing and implementing divisional programs, projects and policies.

J. Carlos Orellana, District Counsel. J. Carlos Orellana is the District Counsel for Valley Water. The Board appointed Carlos to serve as Valley Water's chief legal officer in April 2021, with an effective date of June 1, 2021. Mr. Orellana was previously the Deputy General Counsel of the Valley Transportation Authority (VTA). At VTA, Mr. Orellana was the primary attorney responsible for construction contracts—including the \$9 billion extension of the BART train system into Silicon Valley—and successfully defended the agency's \$6 billion sales tax measure in the trial court and on appeal. Before joining VTA, Mr. Orellana was a senior associate at the local firm of Miller, Morton, Caillat & Nevis, practicing construction law and commercial litigation. Mr. Orellana began his career at the national firm Fenwick & West, where he practiced in the firm's litigation, employment, and electronic information management groups.

Mr. Orellana graduated from UCLA School of Law and received a Bachelor of Science degree in Political Science and a BA in Spanish Studies from Santa Clara University.

Aaron Baker, Chief Operating Officer – Water Utility Enterprise. Mr. Baker was appointed as the Chief Operating Officer – Water Utility Enterprise as of October 13, 2020. Mr. Baker has over 20 years of progressively broadening experience and responsibility in the Water Utility Enterprise at Valley Water. He began his career at Valley Water in 1999 as an Assistant Engineer and then took on incrementally greater roles as Associate Engineer, Engineering Unit Manager, Assistant Operating Officer, and most recently, as Deputy Operating Officer. Mr. Baker holds a Bachelor of Science degree in Civil Engineering from the University of Southern California and certification as a Professional Engineer.

Darin Taylor, Chief Financial Officer. Mr. Taylor became Valley Water's Chief Financial Officer effective December 19, 2016, after 15 years as a senior project manager with Valley Water. Mr. Taylor has more than 20 years of governmental financial planning and management experience with Valley Water. Mr. Taylor holds a bachelor's degree in economics from Claremont McKenna College, and a master's degree in business administration from San Jose State University. Mr. Taylor is a Certified Public Financial Officer, a certification designated by the Government Finance Officers Association.

Rechelle Blank, Chief Operating Officer – Watersheds. Ms. Blank was appointed as the Chief Operating Officer of Watersheds on January 12, 2022. Ms. Blank began at Valley Water in 1992 and has focused her career on planning and designing flood protection and environmental stewardship projects. She joined Valley Water as an Assistant Engineer progressively taking on greater roles including Assistant Operating Officer of Dam Safety and Capital Delivery Division and Deputy Operating Officer of Watersheds Design and Construction Division. Ms. Blank has a Bachelor of Science degree in Civil Engineering from Santa Clara University and is a registered Professional Civil Engineer.

Tina Yoke, Chief Operating Officer, Administrative Services. Ms. Yoke joined Valley Water in August 2017. Ms. Yoke has over 20 years of experience working in public service. As Chief Operating Officer, Administrative Services, Ms. Yoke oversees Information Technology, Procurement, Facilities, Fleet, Emergency and Security Services and Environmental Health and Safety units. Ms. Yoke is a Certified Purchasing Manager and has worked in procurement, contracting and material and supply chain management for the Santa Clara Valley Transportation Authority, the City of Mountain View, and the City of San Diego. Ms. Yoke currently serves as Chair of the Santa Clara Valley Chapter of the California Association of Public Purchasing Officers and has served as Director (North), Treasurer, Vice Chair or Chair over the last 17 years for either the Santa Clara Valley or San Diego Chapters.

Rachael Gibson, Chief of External Affairs. Prior to being appointed as the Chief of External Affairs, Ms. Gibson had been the Deputy Administrative Officer for the Office of Government Relations at Valley Water. Ms. Gibson leads Valley Water's efforts in strategic communications to the media, community, and the public, leads all government relations efforts on local, regional, state, and federal levels, leads strategic civic engagement efforts throughout the community, and is responsible for keeping the Chief Executive Officer and other Valley Water staff informed of and engaged on public policies that directly affect Valley Water. Ms. Gibson has over 20 years of public sector experience, including 11 years with the Office of Government Relations at Valley Water. Ms. Gibson has a Bachelor of Science degree in environmental studies.

Michele L. King, CMC, Clerk of the Board. Ms. King began service with Valley Water in 2004 and became the Clerk of the Board in January 2010. Ms. King has more than 20 years of experience in providing support to elected officials of special districts. As Clerk, Ms. King's responsibilities include ensuring that Valley Water complies with regulations and deadlines for Board and committee meetings, agenda publications, Groundwater Production Charge Protests, Lobbyist Ordinance compliance, public record requests, and the Board, Board Advisory and Ad Hoc Committee, and Clerk of the Board annual budgets. Ms. King is a Certified Municipal Clerk and a member of the Northern California Clerks Association and the International Institute of Municipal Clerks.

Insurance

General Liability Insurance. Since January 1, 1987, Valley Water has maintained a self-insurance program in connection with its general liability risks, including vehicular and non-vehicular loss exposures due to premises, operations, personal injury and product liability.

Under this program, Valley Water is responsible for the first \$3,000,000 per occurrence for all General Liability claims. Valley Water also purchases general liability insurance with limits of not less than \$50,000,000 per occurrence and aggregate in excess of its \$3,000,000 self-insured retention.

Valley Water maintains a risk management information system to track claims, litigation and establish claims reserves which are used to derive self-insurance fund requirements. These funding requirements are reviewed by outside actuaries biannually. The last biannual review was completed in September 2020. An updated review is planned for completion before the end of 2022.

Property Appraisal and Insurance. A property appraisal and valuation of Valley Water's buildings and contents was prepared in November 2019 for the period ending that date. The appraisal was in conformity with generally accepted appraisal practices for purposes of establishing insurable values and property records. The report provides current replacement costs for buildings and equipment in the event of a loss.

Valley Water maintains blanket property insurance coverage for its buildings and equipment, covering all traditional perils, but excluding earth movement (earthquakes) and floods. The current blanket limit for this coverage is \$250,000,000. There are sub-limits for particular perils consistent with normal property policies and appropriate to Valley Water loss exposures. Valley Water's dams are not insured.

Workers' Compensation. Since January 1, 1994, Valley Water has maintained a self-insurance program in connection with its workers' compensation risks. Under this program, Valley Water is responsible for the first \$1,000,000 per occurrence of any loss. Valley Water also purchases workers' compensation insurance with statutory limits above this self-insured retention and employers' liability limits of \$2,000,000 per employee/accident.

Valley Water contracts with a third-party claims administrator to review, investigate, track, pay and set case reserves for workers' compensation claims. As with the general liability self-insurance program, these reserves are used to derive funding requirements. Actuarial study frequency and funding confidence levels are the same as described above for the general liability program.

In addition to the above, Valley Water also purchases crime coverage up to \$1,000,000 per loss for Board members and \$2,000,000 for non-Board members. Such coverage includes public employee dishonesty, including public officials who are required by law to give bonds for the faithful performance of their service, forgery or alteration and computer fraud, subject to a \$5,000 deductible for Board members and \$10,000 for non-Board members.

Cyber Liability Insurance. Valley Water maintains cyber liability insurance coverage with a current coverage amount of \$10,000,000 with a self-insured retention of \$150,000. The liability associated with cybercrime, unauthorized access and failure to protect sensitive information are mitigated by cyber security insurance. See the caption "POTENTIAL INVESTMENT CONSIDERATIONS — Cybersecurity."

For all insured risks, settled claims have not exceeded commercial insurance coverage in any of the past three Fiscal Years. For more information with respect to Valley Water's insurance coverage, see Note 13 to Valley Water's audited financial statements attached hereto as Appendix A.

Budgeting Process

Valley Water's budget process uses a goal-driven approach that spans the planning, development, adoption and execution phases of the budget. These practices encourage development of organizational goals, and establishment of policies and plans to achieve these goals and policies. The guidelines used by Valley Water in developing this formal budget process are the recommended budget practices for improved state and local government budgeting prepared by the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association.

The Law requires that the budget be adopted prior to June 30 for any given year. Valley Water develops an annual budget for all funds. The budget process includes project plan, long-term cost forecasting and annual budget development. After adoption by the Board, Valley Water has authority to expend the appropriations for the given Fiscal Year. During the Fiscal Year, budget amendments and adjustments may be made to reflect changes in financial conditions, programs and/or authorizing laws that affect ongoing expenditures. The budget cycle is completed with the review and alignment of staff work plans to be consistent with the resource allocation made in the adopted budget.

Beginning with the Fiscal Year 2022-23 budget, Valley Water implemented a two-year rolling biennial budget process. With respect to the biennial budget process, the Board will adopt the first year budget and approve a plan for the following year. In the second year, the Board will adopt the budget for the next new Fiscal Year and a plan for the following year such that the budget process will continue to "roll" forward with a budget and plan to be approved by the Board annually. The annual approval of the rolling biennial budget process is in compliance with the District Act, Valley Water Policies and State guidance. Valley Water believes the implementation of a rolling biennial operating and capital budget process is conducive to long-term planning while remaining responsive to the dynamic and ever-changing needs of the organization.

The current biennial budget for Fiscal Year 2022-23 and plan for Fiscal Year 2023-24 was approved by the Board on May 10, 2022. There have been no material changes to the budget for Fiscal Year 2022-23 since its date of adoption.

As required by Measure S, each Fiscal Year, beginning with Fiscal Year 2021-22, the Chief Executive Officer or designee of Valley Water is directed to cause a written report to be prepared for which the SCW Parcel Tax is to be levied and to file and record the same with the Board. Such report is required to include the proposed SCW Parcel Tax rates for the upcoming Fiscal Year at any rate up to the maximum rate approved by voters in Measure S. The Board will then adopt a resolution setting forth the levy of the SCW Parcel Tax for the upcoming Fiscal Year. The foregoing report and resolution setting the SCW Parcel Tax levy for Fiscal Year 2022-23 was presented and approved by the Board on May 10, 2022.

Capital Improvement Program

Valley Water prepares a Capital Improvement Program ("CIP") plan annually. The CIP is a 5-year rolling document, meaning that it is updated annually and covers the upcoming 5-year period. The report on the CIP for Fiscal Years 2022-23 through 2026-27 was approved by the Board in May 2022. The SCW Program projects are part of the CIP. Valley Water currently expects to undertake approximately \$344.1 million of SCW Program projects from Fiscal Years 2022-23 through 2026-27. Valley Water is currently reviewing the costs of the projects included in the capital improvement program given the increasing costs resulting from inflation and other factors, which will be incorporated into the Fiscal Year 2023-24 through 2027-28 capital improvement program expected to be presented to the Board for adoption prior to July 1, 2023.

Valley Water expects to fund approximately \$38.5 million of such costs from the proceeds of the 2022B Interim Obligations, \$141.5 million from additional SCW Program debt issuance and the balance from

other non-financing sources. Certain of the SCW Program projects included in the CIP for Fiscal Years 2022-23 through 2026-27 are described below.

As required by Measure S, the SCW Program follows 15-year financial planning cycles. Within each 15-year planning cycle, Valley Water expects to produce 5-year project implementation plans. The first 5-year implementation plan covers Fiscal Year 2021-22 through Fiscal Year 2025-26. As projects under the SCW Program are completed, the Board is expected to identify and prioritize new projects for inclusion in the SCW Program in accordance with Measure S. These new projects may be identified and proposed for Board approval at a public meeting through the Board's review and approval of the SCW Program's five-year implementation plans.

Valley Water and the Corporation have entered into the SCW WIFIA Master Agreement for one or more SCW WIFIA Loans up to a maximum principal amount of \$146 million. SCW WIFIA Loan No. 1 was entered into on [November 1], 2022 in the amount of \$_____. As of the date of this Official Statement, no draw on SCW WIFIA Loan No. 1 has been made and no amounts are outstanding thereunder.

Amounts due under the SCW WIFIA Loan No. 1 and any future loans under the SCW WIFIA Master Agreement will be paid from installment payments to be made by Valley Water under an installment purchase agreements which are payable from SCW Revenues on a subordinate basis to the 2022A Bonds and Installment Payments, and any future Bonds and Contracts. However, upon an bankruptcy related event with respect to Valley Water or the Corporation, such installment payments will be payable from SCW Revenues on a parity with the 2022A Bonds, the Installment Payments, Bonds and Contracts.

Proceeds of the 2022B Interim Obligations will be applied to finance a portion of the costs of the five projects described below. Valley Water currently expects to draw upon the SCW WIFIA Loan No. 1, other WIFIA loans, if any, to pay, together with other available funds, the 2022B Interim Obligations at or prior to maturity. Valley Water may elect to pay all or a portion of the principal of the 2022B Interim Obligations at maturity from sources other than proceeds of the SCW WIFIA Loan No. 1. See, however, the caption "POTENTIAL INVESTMENT CONSIDERATIONS — Failure to Refund the 2022B Interim Obligations."

Proceeds of the 2022A Bonds will be applied to repay the portion of the outstanding Commercial Paper Certificates and Revolving Certificates described below under the caption "—Short-Term Indebtedness" which were issued to fund a portion of the costs of the five projects described below.

A portion of the costs of the following four projects will be funded from proceeds of the 2022B Interim Obligations as described herein:

Almaden Lake Improvement Project. The project is expected to restore the creek channel section within Almaden Lake Park and eliminate the current condition whereby Alamitos Creek flows through the lake. Having Alamitos Creek flow through Almaden Lake is unfavorable for the native fish population in the Guadalupe Watershed and further allows for a direct deposition of naturally occurring mercury-laden sediment into the lake. This has resulted in native fish (steelhead) potentially losing their way in the lake and falling prey to non-native fish (bass), as well as the lake having mercury-related water quality issues. To address both the fisheries and mercury issues, the project will separate the creek from the lake by constructing a new levee in a north-south direction through the lake. The new levee will become the lake's new west bank boundary and isolate the lake to the east side of the park. The new levee will also serve as the restored creek's east embankment. The estimated cost of the Almaden Lake Improvements project is approximately \$50 million.

Valley Water certified the final environmental impact report for the Almaden Lake Improvement Project in May 2021. Construction is expected to commence in mid-2023 and the project is expected to be complete in Fiscal Year 2026-27.

Coyote Creek Flood Protection Project. This component of the project includes planning, designing and constructing improvements along approximately nine miles of Coyote Creek, between Montague Expressway and Tully Road, in the City of San José. The primary objective is to provide protection from floods up to the level that occurred on February 21, 2017, equivalent to approximately a 5% flood (20-year event). The estimated cost of this project is approximately \$42.9 million and is expected to be complete in Fiscal Year 2025-26. Valley Water staff is currently reviewing the environmental approval method for this project.

Sunnyvale East and West Channels Flood Protection. This project is to upgrade approximately 6.4 miles of the existing Sunnyvale East Channel to provide 1% flood protection (100-year event) to 1,618 parcels and approximately three miles of the existing West Channel to provide 1% flood protection for 47 acres of industrial lands. Valley Water certified the final environmental impact report for this project in August 2014. The estimated cost of this project is approximately \$49.6 million and is expected to be complete in Fiscal Year 2026-27.

Upper Penitencia Flood Protection Projects. This component of the project involves the construction of improvements along 4.2 miles of Upper Penitencia Creek from the confluence with Coyote Creek to Dorel Drive. Part of the project is designed to protect the area around the Bay Area Rapid Transit's Berryessa station near King Road from flooding. The estimated cost of this project is approximately \$19.4 million. The Upper Penitencia project is currently in the planning phase.

Valley Water expects to fund a portion of the costs of the foregoing projects from proceeds of the 2022B Interim Obligations, SCW WIFIA Loan No. 1, future loans under the SCW WIFIA Master Agreement and proceeds of the Commercial Paper Certificates and Revolving Certificates described under the caption "— Short-Term Indebtedness" below, and available SCW Revenues. Valley Water also expects to seek cost sharing through federal sponsorship, subventions from the State of California Department of Water Resources, and grant funding opportunities for projects within the SCW Program.

DEBT STRUCTURE OF VALLEY WATER

Outstanding SCW Indebtedness

Other than the 2022A Bonds, the 2022B Interim Obligations Installment Purchase Agreement, and the installment purchase agreement for the SCW WIFIA Loan No. 1, Valley Water will not have any outstanding obligations payable from SCW Revenues at the time of delivery of the 2022A Bonds and the 2022B Interim Obligations. The table below also shows the authorized amount under the SCW WIFIA Master Agreement. The Corporation and Valley Water have entered into the SCW WIFIA Master Agreement pursuant to which the Corporation may draw up to \$146,662,503 principal amount to be repaid from installment payments made by Valley Water under installment purchase agreements entered into by Valley Water and the Corporation in connection therewith. To date, only SCW WIFIA Loan No. 1 has been entered into, no draws have been made and the outstanding amount is zero.

**SCHEDULE OF LONG-TERM INDEBTEDNESS
SAFE CLEAN WATER PROGRAM
(Dollars In Thousands)**

<i>Safe Clean Water Program Obligations:</i>	<i>Final Maturity</i>	<i>Balance Outstanding/ Authorized</i>
SCW WIFIA Loan No. 1 ⁽¹⁾		\$ [] ⁽¹⁾
Safe, Clean Water Program Refunding Bonds, Series 2022A Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations), Series 2022B ⁽²⁾	2026	_____
Total Safe Clean Water Program Obligations:		\$ _____

⁽¹⁾ Valley Water, the Corporation and the EPA have entered into the SCW WIFIA Master Agreement pursuant to which loans may be obtained thereunder from time-to-time. The maximum principal amount of loans authorized under the SCW WIFIA Master Agreement is \$146,662,503. As of the date of this Official Statement, the SCW WIFIA Loan No. 1 has been executed and delivered for a maximum authorized principal amount of \$[], however, no amounts have been drawn thereunder and the outstanding amount is zero.

⁽²⁾ Valley Water currently expects to draw upon the SCW WIFIA Loan No. 1, other WIFIA loans, if any, to pay, together with other available funds, the 2022B Interim Obligations at or prior to maturity. Valley Water may elect to pay all or a portion of the principal of the 2022B Interim Obligations at maturity from sources other than proceeds of the SCW WIFIA Loan No. 1.

Source: Valley Water.

Indebtedness Secured by Other Revenues

General. The following table shows Valley Water's outstanding obligations relating to Valley Water's Water Utility System and Flood Control System outstanding as of October 1, 2022. Such obligations are not payable from SCW Revenues. Valley Water is currently negotiating a WIFIA loan agreement with the EPA with respect to the Water Utility System. If executed and delivered, any loans made under the WIFIA loan agreement with respect to the Water Utility System will be payable from revenues of the Water Utility System and will not be secured by SCW Revenues.

The Board of Directors has authorized the issuance of refunding bonds in the not to exceed principal amount of \$200,000,000 and the execution and delivery of certificates of participation in the not to exceed principal amount of \$408,000,000 to be secured by revenues of the Water Utility System. Such obligations are not secured by and not payable from SCW Revenues. Valley Water expects to apply the proceeds of such obligations to finance and refinance the costs of Water Utility System improvements, including the repayment of Commercial Paper Certificates and Revolving Certificates issued to finance such improvements as described under the caption "—Commercial Paper Program and Revolving Certificates" below.

SCHEDULE OF LONG-TERM INDEBTEDNESS
WATER UTILITY SYSTEM AND FLOOD CONTROL SYSTEM
(Dollars In Thousands)

<i>Type of Indebtedness</i>	<i>Final Maturity</i>	<i>Balance Outstanding/Authorized</i>
Water Utility System Obligations:		
<i>Water Utility System Bonds and Contracts:</i>		
Water System Refunding Revenue Bonds, Series 2016A and Taxable Series 2016B	2046	\$ 181,530,000
Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2016C and Taxable Series 2016D	2029	63,750,000
Water System Refunding Revenue Bonds, Series 2017A	2037	45,770,000
Water System Refunding Revenue Bonds, Series 2019A and Taxable Series 2019B	2049	89,520,000
Water System Refunding Revenue Bonds, Series 2019C	2036	32,990,000
Water System Refunding Revenue Bonds, Series 2020A and Taxable Series 2020B	2050	92,650,000
Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C and Taxable Series 2020D	2050	<u>118,400,000</u>
Total Water Utility System Bonds and Contracts:		<u>\$ 624,610,000</u>
Flood Control System Obligations:⁽¹⁾		
1994 Installment Purchase Agreement ⁽²⁾	2024	\$ 10,925,000
1995 Installment Purchase Agreement ⁽³⁾	2030	<u>37,225,000</u>
Total Flood Control System Obligations:		<u>\$ 48,150,000</u>
Total Outstanding Indebtedness		<u>\$ 672,760,000</u>

⁽¹⁾ Obligations are secured by revenues of the Flood Control System and are not secured by revenues of the Water Utility System or the SCW Revenues.

⁽²⁾ Installment payments under the Installment Purchase Agreement dated as of June 15, 1994 (the "1994 Installment Purchase Agreement"), by and between Valley Water and the Corporation, secure Valley Water's Refunding and Improvement Certificates of Participation Series 2012A (the "2012A Certificates") and a portion of Valley Water's Refunding and Improvement Certificates of Participation, Series 2017A (the "2017A Certificates"). Proceeds of the 2012A Certificates and 2017A Certificates were used to finance and refinance Valley Water's Flood Control System facilities.

⁽³⁾ Installment payments under the Installment Purchase Agreement dated as of June 27, 1995 (the "1995 Installment Purchase Agreement"), by and between Valley Water and the Corporation, secure a portion of the 2017A Certificates.

Source: Valley Water.

No Cross-Collateralization. No revenues of the Water Utility System are available to pay debt service on the 2022A Bonds or the Installment Payments. Revenues relating to the Flood Control System are primarily revenues from benefit assessments approved by the voters within Valley Water's service area and amounts of the County-wide 1% tax allocated by the Board to the Flood Control System. No revenues of the Flood Control System are available to pay debt service on the 2022A Bonds or the Installment Payments. None of the SCW Revenues are available to pay the obligations of the Water Utility System and the Flood Control System shown in the table above.

Commercial Paper Program and Revolving Certificates

Valley Water may issue from time to time TRANs to secure Valley Water's Commercial Paper Certificates and Revolving Certificates. The TRANs are payable from taxes, income, revenue, cash receipts and other moneys which are received by the Water Utility System of Valley Water for the then-current Fiscal

Year and which are lawfully available for the payment of current expenses and other obligations of Valley Water. The obligation of Valley Water to make payments of principal and interest on the TRANs is a general obligation of Valley Water. Valley Water has additionally pledged net revenues of its Water Utility System on a subordinate basis to outstanding obligations secured by net revenues of its Water Utility System. Valley Water has not pledged any SCW Revenues to pay the TRANs.

The current TRANs in the aggregate principal amount of \$385 million, which secure the Commercial Paper Certificates and the Revolving Certificates, are dated July 1, 2022 and mature on October 1, 2023. The Commercial Paper Certificates are currently payable from draws under a letter of credit issued by MUFG Bank, Ltd. (formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.), acting through its New York Branch, in the maximum principal amount of \$150 million (the “Letter of Credit”). The Letter of Credit currently expires on December 10, 2024.

As of October 1, 2022, Valley Water had \$150.0 million in Commercial Paper Certificates outstanding which were issued to finance the following projects: \$55.2 million for SCW Program projects and \$94.8 million for Water Utility System projects.

The Revolving Certificates (Syndicated) may be issued from time-to-time to be purchased by certain banks under a Certificate Purchase and Reimbursement Agreement, dated as of October 1, 2020, as amended by the First Amendment to Certificate Purchase and Reimbursement Agreement, dated as of April 29, 2022 (as amended the “Syndicated Certificate Purchase Agreement”) by and among Valley Water, the Corporation and U.S. Bank National Association, as administrative agent, and the other lenders named therein. Valley Water may issue Revolving Certificates under the Syndicated Certificate Purchase Agreement from time to time in a principal amount not to exceed \$41 million to be purchased by the lenders under the Syndicated Certificate Purchase Agreement. As of October 1, 2022, \$41.0 million principal amount of Revolving Certificates were outstanding under the Syndicated Certificate Purchase Agreement which were issued to finance the following projects: \$1.6 million for SCW Program projects and \$39.4 million for Water Utility System projects. The Syndicated Certificate Purchase Agreement is currently scheduled to terminate on April 29, 2025.

The Revolving Certificates (Non-Syndicated) may be issued from time-to-time to be purchased by U.S. Bank National Association under a Certificate Purchase and Reimbursement Agreement, dated as of April 1, 2022 (the “Non-Syndicated Certificate Purchase Agreement”) by and among Valley Water, the Corporation and U.S. Bank National Association. Valley Water may issue Revolving Certificates under the Non-Syndicated Certificate Purchase Agreement from time to time in a principal amount not to exceed \$129 million to be purchased by U.S. Bank National Association. As of October 1, 2022, \$29.2 million principal amount of Revolving Certificates were outstanding under the Non-Syndicated Certificate Purchase Agreement all of which were issued to finance SCW Program projects. The Non-Syndicated Certificate Purchase Agreement is currently scheduled to terminate on April 29, 2025.

After applying the proceeds of the 2022A Bonds and the 2022B Interim Obligations to repay Commercial Paper Certificates and Revolving Certificates as described under the caption “FINANCING PLAN,” there is expected to be \$134.2 million of Commercial Paper Certificates and Revolving Certificates outstanding, none of which are allocated to the SCW Program. The Board of Directors has authorized the issuance of refunding bonds and certificates of participation to be secured by revenues of the Water Utility System, a portion of the proceeds of which are expected to be applied to repay all of the Commercial Paper Certificates and Revolving Certificates which remain outstanding.

While the current TRANs is in the aggregate principal amount of \$385 million, the ability to issue Commercial Paper Certificates and Revolving Certificates (which are secured by the TRANs) in an amount greater than \$320 million would require an additional letter of credit or an increase under the existing Letter of Credit, the Syndicated Certificate Purchase Agreement and/or Non-Syndicated Certificate Purchase Agreement. Valley Water could enter into additional agreements to obtain credit facilities in excess of the \$150 million under the Letter of Credit to support its Commercial Paper Certificates program and could enter

into additional certificate purchase and reimbursement agreements. As of the date of this Official Statement, Valley Water does not have any expectation to obtain such additional credit facilities. Notwithstanding the foregoing, there can be no guarantee that Valley Water will be able to renew the Letter of Credit or obtain similar credit facilities in the future to support a commercial paper program such as the Commercial Paper Certificates. Similarly, there can be no guarantee that Valley Water will be able to extend the term of the Syndicated Certificate Purchase Agreement or the Non-Syndicated Certificate Purchase Agreement or obtain similar credit facilities. See the caption “POTENTIAL INVESTMENT CONSIDERATIONS — Secondary Market” for a discussion on the risks with respect to the availability of a secondary market for the Commercial Paper Certificates.

THE SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM

General

In 2000, seeing a need to address stream stewardship and flood protection issues in the County, Valley Water created, and voters approved, a special parcel tax to fund the Clean, Safe Creeks and Natural Flood Protection Plan (the “Clean, Safe Creeks Plan”). The funding from the Clean, Safe Creeks Plan supported projects to restore habitat, maintain healthy creek and bay ecosystems, improve water quality, reduce flood risks, and provide open space and recreational opportunities. Valley Water also created an independent monitoring committee to oversee progress and ensure the Clean, Safe Creeks Plan was meeting its outcome goals cost-effectively. Prior to the Clean, Safe Creeks Plan sunset date of June 2016, Valley Water conducted outreach to determine community priorities regarding water, flood protection and the environment.

In 2012, Santa Clara County voters passed the Safe, Clean Water and Natural Flood Protection Program (the “2012 Safe, Clean Water Program”) ballot measure by the required two-thirds majority, which authorized the levy of a special parcel tax through June 2028. Like the Clean, Safe Creeks Plan, the 2012 Safe, Clean Water Program was also created with a commitment to accountability and transparency and included an independent monitoring committee to oversee the program’s progress and ensure that outcomes would be met in a cost-effective manner. In addition, the 2012 Safe, Clean Water Program also required three independent external audits over 15 years.

On November 3, 2020, voters in the County approved Measure S, a renewal of the 2012 Safe, Clean Water Program, by the required two-thirds majority (the “SCW Program”). The SCW Program identifies six key community priorities, established in collaboration with residents and stakeholders within the County. The 2020 voter authorization of the SCW Program continues the special parcel tax levied by Valley Water under the 2012 Safe, Clean Water Program until such time as may be reduced or suspended by the Board or repealed by voters.

Under current authorization, the SCW Program is expected to be funded by a combination of debt financing and pay-as-you-go funding from annual revenues from the SCW Parcel Taxes supplemented by reserves from unspent funds from the 2012 Safe, Clean Water Program, and state and federal funding. For more information with respect to the projects authorized under the SCW Program see the caption “VALLEY WATER — Capital Improvement Program.”

The SCW Parcel Taxes

The SCW Parcel Taxes are levied at fixed and uniform rates per area and according to County-designated land uses of each parcel subject to the SCW Parcel Taxes. The SCW Parcel Taxes for each taxable parcel are computed by determining the area of a parcel (in acres or fractions thereof) and applicable land use category (as hereinafter defined) and then multiplying the area by the special tax rate applicable to land in such land use category. The land use categories are as follows:

Group A: Land used for commercial or industrial purposes.

- Group B: Land used for institutional purposes such as churches and schools or multiple dwellings in excess of four units, including apartment complexes, mobile home parks, recreational vehicle parks, condominiums and townhouses.
- Group C: (1) Land used for single family residences and multiple family units up to four units.
(2) The first 0.25 acre of a parcel of land used for single family residential purposes.
- Group D: (1) Disturbed agricultural land, including irrigated land, orchards, dairies, field crops, golf courses and similar uses. (2) The portion of the land, if any, in excess of 0.25 acre of a parcel used for single family residential purposes.
- Group E: Vacant undisturbed land (1) in urban areas; and (2) in rural areas including dry farmed land, grazing and pasture land, forest and brush land, salt ponds and small parcels used exclusively as well sites for commercial purposes.
- Group F: Parcels used exclusively as well sites for residential uses are exempt from the special tax.

A minimum amount of the SCW Parcel Taxes is levied on each parcel of real property having a land area up to 0.25 acre for Groups A, B, and C, and up to 10 acres for Groups D and E Urban. For Group E Rural, the minimum amount of the SCW Parcel Taxes are as calculated for the E Urban category, but applies to parcels of 80 acres or less. A minimum amount of the SCW Parcel Taxes is also levied on condominiums and townhouses without regard to parcel size.

The rates of the SCW Parcel Taxes are set annually by the Board and annual increases of the rates of the SCW Parcel Taxes are limited to an increase based on the Bureau of Labor Statistics' San Francisco-Oakland-Hayward Consumer Price Index (CPI) for all urban consumers (previously the San Francisco-Oakland-San Jose CPI for all urban consumers) ("Bay Area CPI-U") in the preceding year or two percent, whichever is greater. For any period not exceeding three years, immediately following a year in which the Governor of the State of California or the President of the United States has declared an area within the flood control zones of Valley Water to be a disaster area by reason of flooding or other natural disaster, then to the extent of the cost of repair of Valley Water facilities damaged by such flooding or other natural disaster, the maximum tax rate shall the percentage increase in Bay Area CPI-U plus 4.5 percent.

The Fiscal Year 2021-22 (the first year of the levy under Measure S) and the Fiscal Year 2022-23 SCW Parcel Tax rates for each land use category are set forth in the table below. The Fiscal Year 2022-23 SCW Parcel Tax rates were increased by 5.19% over the Fiscal Year 2021-22 rates.

**SANTA CLARA VALLEY WATER DISTRICT
SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION SCW PARCEL TAX RATES**

<i>Land Use Categories</i>	<i>Fiscal Year 2021-22</i>	<i>Fiscal Year 2022-23</i>
A - Commercial, Industrial		
Rate (\$/Acre)	\$552.43	\$581.11
Minimum Assessment ⁽¹⁾	\$138.09	\$145.26
B - Apartment, Schools, Churches, Condominiums & Townhouse		
Rate (\$/Acre)	\$414.33	\$435.83
Minimum Assessment ⁽¹⁾	\$103.58	\$108.96
Condominiums & Townhouses (\$/unit)	\$ 33.61	\$ 35.35
C - Single Family Residential, Small Multiples (2-4 units) ⁽²⁾		
Minimum Assessment ⁽¹⁾	\$ 69.02	\$ 72.60
D - Utilized Agriculture⁽²⁾		
Rate (\$/Acre)	\$ 3.54	\$ 3.72
Minimum Assessment ⁽¹⁾	\$ 35.40	\$ 37.24
E - Urban - Nonutilized Agricultural, Grazing Land, Salt Ponds, Well Site in Urban Areas		
Rate (\$/Acre)	\$ 1.04	\$ 1.09
Minimum Assessment ⁽¹⁾	\$ 10.43	\$ 10.97
E - Rural - Nonutilized Agricultural, Grazing Land, Well Sites in Rural Areas		
Rate (\$/Acre)	\$ 0.14	\$ 0.15
Minimum Assessment ⁽¹⁾	\$ 10.43	\$ 10.97

- ⁽¹⁾ The minimum assessments shown for Categories A, B, and C apply to parcels 1/4 acre or less in size. Category C parcels larger than 1/4 acre pay the minimum assessment for the first 1/4 acre and the remaining acreage is assessed at the Category D rate. For Category D, the minimum assessment applies to parcels less than 10 acres. The minimum assessment for Group E parcels is the amount charged for 10 acres of urban undeveloped land; the minimum assessment is the same for both the Urban Category and the Rural Category parcels, however the Rural Category applies to parcels of 80 acres or less.

- ⁽²⁾ Residential land in excess of 1/4 acre is assessed at the “D” rate.

Source: Valley Water.

The size of each parcel and its land use is available from the County Assessor’s records. The SCW Parcel Tax is collected on the same bill as *ad valorem* property taxes sent by the County to property owners. The SCW Parcel Taxes are a lien on secured parcels in the same manner as *ad valorem* property taxes. Valley Water is a participant in the County’s Teeter Plan and receives the full amount of the SCW Parcel Tax levied, regardless of amounts actually collected by the County, less a maximum of 1% retained by the County as a collection fee. See the caption “VALLEY WATER — Teeter Plan.”

Parcels owned by federal, state, or local agencies are exempt from the SCW Parcel Taxes. Valley Water may provide an exemption from the SCW Parcel Tax for low-income owner-occupied residential properties for taxpayer-owners who are 65 years of age or older. In accordance with Measure S, a residential parcel where the total annual household income does not exceed 75 percent of the latest available figure for state median income at the time the annual tax is set, and is owned and occupied by at least one person who is aged 65 years or older, is qualified to apply for an exemption from the SCW Parcel Tax. Approximately 4,752 households are receiving the exemption, totaling approximately \$322,123 of SCW Parcel Taxes, in Fiscal Year 2022-23. Individual parcel tax levies may be corrected or removed during each fiscal year by Valley Water to account for property sales to exempt landowners or misstatement of levies.

Prior to Fiscal Year 2021-22, Valley Water levied a special parcel tax under the authorization of the 2012 Safe, Clean Water Program. The following tables show total revenues received by Valley Water from the proceeds of the parcel tax levied under the 2012 Safe, Clean Water Program for the last five Fiscal Years for which audited financial statements are available and the billings and collections of such levy. To mitigate the potential financial impact of the COVID-19 pandemic on taxpayers, the Board did not implement any increase in the Fiscal Year 2020-21 tax.

**SANTA CLARA VALLEY WATER DISTRICT
HISTORICAL PARCEL TAX REVENUES
(UNDER 2012 SAFE, CLEAN WATER PROGRAM)
FISCAL YEARS ENDING JUNE 30**

<i>Fiscal Year Ended June 30</i>	<i>Parcel Taxes Revenues⁽¹⁾</i>
2017	\$41,098,834
2018	42,487,520
2019	44,127,352
2020	46,091,377
2021	46,095,042

⁽¹⁾ Amounts rounded to the nearest thousand.
Source: Valley Water.

**SANTA CLARA VALLEY WATER DISTRICT
PARCEL TAX BILLINGS AND COLLECTIONS
(UNDER 2012 SAFE, CLEAN WATER PROGRAM)
FISCAL YEARS ENDING JUNE 30**

<i>Fiscal Year</i>	<i>Gross Billings⁽¹⁾</i>	<i>Percentage of Collections To Billings⁽²⁾</i>
2017	\$ 41,519,739	99.0%
2018	42,919,867	99.0
2019	44,573,569	99.0
2020	46,555,683	99.0
2021	46,559,868	99.0

⁽¹⁾ Gross billings include 1% collection fee retained by the County.

⁽²⁾ Valley Water is covered by the Teeter Plan and receives the full amount of the SCW Parcel Taxes less the collection fee that is retained by the County prior to disbursement of moneys to Valley Water. See the caption "VALLEY WATER — Teeter Plan."

Source: Valley Water.

Fiscal Year 2021-22 was the first year that the SCW Parcel Tax was levied pursuant to Measure S. The total SCW Parcel Tax levy (which includes a 1% collection fee that is retained by the County) under the SCW Program was \$47,445,835 in Fiscal Year 2021-22 and \$50,009,382 in Fiscal Year 2022-23. Based on unaudited actual results, total revenues received by Valley Water in Fiscal Year 2021-22 from the proceeds of the SCW Parcel Tax are estimated to be \$46,954,690. The following tables show the top ten landowners and land use breakdown for the Fiscal Year 2022-23 SCW Parcel Tax levy within the County.

**SANTA CLARA VALLEY WATER DISTRICT
TOP TEN SANTA CLARA COUNTY
LANDOWNERS WITH LARGEST SCW PARCEL TAX LEVY**

<i>Landowner⁽¹⁾</i>	<i>Number of Parcels</i>	<i>SCW Parcel Taxes Levy in Fiscal Year 2022-23</i>	<i>Percentage of Total SCW Parcel Taxes Levy in Fiscal Year 2022-23</i>
Leland Stanford Jr. University	1,370	\$ 1,068,125	2.14%
Google, Inc.	268	465,234	0.93
Pacific Gas & Electric Company	212	190,818	0.38
Lockheed Missiles and Space Company, Inc.	4	181,132	0.36
Campus Holdings, Inc.	7	154,261	0.31
Sobrato Interests	72	148,002	0.30
The Roman Catholic Bishop of San Jose	194	142,354	0.28
Cisco Technology, Inc.	29	138,725	0.28
Heidelberg Cement, Inc.	31	130,665	0.26
Hitachi Global Storage Technologies, Inc.	<u>2</u>	<u>104,623</u>	<u>0.21</u>
Top Ten Total	2,178	\$ 2,536,699	5.45%
All Others	<u>476,123</u>	<u>47,285,443</u>	<u>94.55</u>
Grand Total	478,312	\$ 50,009,382	100.00%

⁽¹⁾ The information regarding property ownership is based on Valley Water's review of the County Assessor's Office records.
Source: Valley Water.

**SANTA CLARA VALLEY WATER DISTRICT
SCW PARCEL TAX LEVY BY LAND USE**

<i>Land Use Category</i>	<i>Number of Parcels</i>	<i>SCW Parcel Taxes Levy in Fiscal Year 2022-23</i>	<i>Percentage of Total SCW Parcel Taxes Levy in Fiscal Year 2022-23</i>
Single-Family	351,171	\$ 25,696,949	51.4%
Commercial, Industrial	19,026	15,665,614	31.3
Institutional	6,691	4,401,591	8.8
Condominiums & Townhomes	92,013	3,251,739	6.5
Commercial, Industrial - Mixed Use	97	578,279	1.2
Utilized Agricultural	7,157	341,528	0.7
Nonutilized Agricultural	<u>2,157</u>	<u>73,682</u>	<u>0.1</u>
Total	478,312	\$ 50,009,382	100.0%

Source: Valley Water.

Review for Reduction/Repeal of Special Tax Under Measure S

Under the provisions of Measure S, after a period of no longer than fifteen (15) years (2036), the Board is required to evaluate the need for the SCW Program, and make an affirmative determination of whether the SCW Parcel Tax should be reduced or repealed, or is needed to build additional projects to achieve related programmatic benefits in accordance with the priorities of the SCW Program. Should the Board determine that no additional projects within the SCW Program are needed, the SCW Parcel Tax will be reduced accordingly, to reflect a transition from funding new SCW Program projects to funding operation, maintenance and replacement of SCW Program projects. Following the first fifteen-year determination of continued need for the SCW Parcel Tax, the determination shall be made every fifteen (15) years thereafter.

Notwithstanding the foregoing, Valley Water has covenanted in the SCW Master Resolution that, so long as any Bonds or Contracts are outstanding, and to the fullest extent permitted by law, Valley Water will at all times levy SCW Parcel Taxes in an amount sufficient, together with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding. In addition, Valley Water has covenanted in the SCW Master Resolution that, to the extent that any Bonds or Contracts remain outstanding, to the fullest extent permitted by law, Valley Water will make the determination set forth in Measure S described in the immediately preceding paragraph, to the extent necessary to provide SCW Parcel Taxes sufficient to pay Debt Service on such outstanding Bonds or Contracts on and after the 15-year period referenced therein (or any extension of such 15-year period determined by the Board of Directors of Valley Water).

In addition to reduction or repeal by the Board of Directors, Measure S provides that the voters may also elect to terminate the SCW Parcel Tax by ballot measure through the initiative process for local initiatives, as prescribed by State law.

With respect to the 1% *ad valorem* property taxes levied by the County within Valley Water, Valley Water has covenanted in the SCW Master Resolution that, so long as any Bonds or Contracts are outstanding, Valley Water will allocate to the SCW Program, the 1% *ad valorem* property taxes allocated to Valley Water, in an amount sufficient, together with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding.

1% Property Tax Moneys

Under the SCW Master Resolution, the portion of the 1% *ad valorem* property tax levied by the County within Valley Water which is allocated by the Board to the SCW Program is included in SCW Revenues. The County levies a 1% property tax on behalf of all taxing agencies in the County, including Valley Water. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

The taxes collected are allocated to taxing agencies within the County, including Valley Water, on the basis of a formula established by State law enacted in 1979 and modified from time to time. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of “situs” growth in assessed value (due to new construction, change of ownership, or a 2% inflation allowance allowed under Article XIII A of the State Constitution) prorated among the jurisdictions which serve the tax rate area within which the growth occurs. Tax rate areas are groups of parcels which are taxed by the same taxing entities. Cities, counties, special districts and school districts share the growth of “base” revenues from each tax rate area. Assessed valuation growth is cumulative, i.e., each year’s growth in property value becomes part of each agency’s allocation in the following year. Notwithstanding the foregoing, counties could also broadly reassess properties (i.e. during economic recessions) and adjust property values downwards.

California law exempts \$7,000 of the assessed valuation of an owner-occupied dwelling but this exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes which would have been payable on such exempt values is made up by the State.

Under Assembly Bill 454 (Statutes of 1987, Chapter 921), the State reports to each county auditor-controller only the county-wide unitary taxable value of State-assessed utility property, without an indication of the distribution of the value among tax rate areas. The provisions of Assembly Bill 454 apply to all State-assessed property except railroads and non-unitary properties, and do not constitute an elimination of a revision of the method of assessing utilities by the State Board of Equalization. Assembly Bill 454 generally allows valuation growth or decline of State-assessed unitary property to be shared by all jurisdictions within a county.

From time to time legislation has been considered as part of the State budget to shift property tax revenues from special districts to school districts or other governmental entities. While legislation enacted in connection with the 1992-93 State budget shifted approximately 35% of many special districts' shares of the countywide 1% *ad valorem* property tax, the share of the countywide 1% *ad valorem* property tax pledged to debt service by special districts, such as Valley Water, was exempted.

Proposition 1A. On November 2, 2004, California voters approved Proposition 1A, which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not, among other things: (i) shift property taxes from local governments to schools or community colleges; or (ii) change how 1% *ad valorem* property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature. Beginning in Fiscal Year 2009-10, the State is allowed to shift to schools and community colleges a limited amount of local government property tax revenues if certain conditions are met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 22. On November 2, 2010, the voters of the State-approved Proposition 22, known as "The Local Taxpayer, Public Safety, and Transportation Protection Act" ("Proposition 22"). Proposition 22, among other things, broadens the restrictions established by Proposition 1A. While Proposition 1A permits the State to appropriate or borrow local property tax revenues on a temporary basis during times of severe financial hardship, Proposition 22 amends Article XIII of the State Constitution to prohibit the State from appropriating or borrowing local property tax revenues under any circumstances. The State can no longer borrow local property tax revenues on a temporary basis even during times of severe financial hardship. Proposition 22 also prohibits the State from appropriating or borrowing proceeds derived from any tax levied by a local government solely for the local government's purposes. Furthermore, Proposition 22 restricts the State's ability to redirect redevelopment agency property tax revenues to school districts and other local governments and limits uses of certain other funds. Proposition 22 is intended to stabilize local government revenue sources by restricting the State government's control over local revenues.

There can be no assurance that the property tax revenues Valley Water currently expects to receive will not be reduced pursuant to State legislation enacted in the future. If the property tax formula is permanently changed in the future it could have a material adverse effect on the receipt of property tax revenue by Valley Water. Valley Water could undertake cost-cutting measures to address any future loss of tax revenues.

As a result of the implementation of the tax distribution system commonly referred to as the "Teeter Plan" by the County and the participation by Valley Water, Valley Water receives 100% of its share of the one-percent property tax levies without regard to delinquencies. There can be no assurance that the Teeter Plan or the participation of Valley Water therein will be continued indefinitely. See the caption "VALLEY WATER — Teeter Plan."

Valley Water determines the allocation of the 1% *ad valorem* property tax to the SCW Program, the Water Utility System and the Flood Control System annually. As shown in the table below, historically, the Board of Directors has allocated a small portion of the 1% property tax to the Water Utility System and has allocated the substantial majority of Valley Water's share of the 1% property tax to the Flood Control System. The 1% property tax allocated to the Flood Control System has been used to fund the costs of Valley Water's Flood Protection and Stream Stewardship Program, including payments of Flood Control System Obligations.

Valley Water has covenanted in the SCW Master Resolution that, so long as any Bonds or Contracts are outstanding, Valley Water will allocate to the SCW Program, the 1% *ad valorem* property taxes allocated

to Valley Water, in an amount sufficient, together with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding. Once 1% *ad valorem* property taxes are allocated to the SCW Program by Valley Water, such moneys are SCW Revenues and are pledged to the payment of principal of and interest on the 2022A Bonds, the Installment Payments and other Bonds and Contracts.

In the event SCW Revenues, other than the 1% property tax, are insufficient to pay Bonds and Contracts, the amount of the 1% property tax available to be allocated to the Water Utility System and the Flood Control System would be reduced, and the allocation of the 1% property tax as shown in the table below could materially change in future years.

Based on unaudited actual amounts for Fiscal Year 2021-22, Valley Water estimates that it has received \$127.3 million of 1% *ad valorem* property tax, \$2.6 million of which is anticipated to be transferred to the SCW Program from the Watershed Stream and Stewardship Fund (which accounts for the financial activities of the Flood Control System) and General Fund. Valley Water has budgeted no allocation or transfer-in of 1% *ad valorem* property tax to the SCW Program for Fiscal Year 2022-23.

The following table shows amounts from Valley Water's share of the 1% *ad valorem* property tax moneys as accounted for in Valley Water's funds for the last five fiscal years for which audited financial statements are available. Although not shown in the table below, the SCW Revenue Fund receives interfund transfers of 1% property taxes from the Watershed Stream and Stewardship Fund and General Fund to fund various SCW Program costs. Such transfers-in are included in SCW Revenues. See "FINANCIAL INFORMATION OF VALLEY WATER—Historical Operating Results" and "—Projected Operating Results and Debt Service Coverage" below.

**SANTA CLARA VALLEY WATER DISTRICT
ALLOCATION OF VALLEY'S WATER'S SHARE OF COUNTY 1% PROPERTY TAX
FISCAL YEAR ENDING JUNE 30⁽¹⁾**

<i>Allocation</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
Watershed Stream and Stewardship Fund	\$ 74,805,680	\$ 79,538,023	\$ 90,726,811	\$ 93,051,481	\$ 98,621,201
General Fund	\$7,419,980	\$7,864,536	\$8,993,866	9,224,367	9,777,201
Water Utility Fund	6,682,112	7,087,504	8,124,104	8,350,178	8,901,849
SCW Fund	-	-	-	-	-
Total:	\$ 88,907,772	\$ 94,490,063	\$ 107,844,781	\$ 110,626,026	\$ 117,309,251

⁽¹⁾ The amount received by Valley Water under its allocation of the County's 1% Property Tax is affected by its participation in the County's Teeter Plan. The County or Valley Water could change their participation in the Teeter Plan and this could affect Valley Water's allocation of such amounts. See "—Teeter Plan" below.

Source: Valley Water.

An additional property tax that is levied by Valley Water to pay State Water Project contract costs are not pledged to the payment of the 2022A Bonds, the Installment Payments and other Bonds and Contracts, and are not included in the amounts shown above.

Teeter Plan

In 1993, the County adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a tax redemption distribution system for all taxing agencies is avoided. Pursuant to the Teeter

Plan, the County establishes a tax losses reserve fund and a tax resources account and each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its tax fund in the same manner as if the amount credited had been collected.

The County is responsible for determining the amount of the tax levy on each parcel which is entered onto the secured property tax roll. Upon completion of the secured property tax roll, the County's Auditor-Controller determines the total amount of taxes and assessments actually extended on the roll for each tax fund for which a tax levy has been included, and apportions 100 percent of the tax and assessment levies to that tax fund's credit. Such moneys may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected. The County determines which moneys in the County treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent to the amount of uncollected taxes credited each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources accounts.

Direct and Overlapping Debt

Direct and overlapping debt with respect to Valley Water's service area as of June 30, 2021 (the "Debt Report"), is shown in the following table prepared by California Municipal Statistics, Inc. The Debt Report has been derived from data assembled and reported to Valley Water by California Municipal Statistics, Inc. None of Valley Water, the Underwriters nor the Municipal Advisor, have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

SANTA CLARA VALLEY WATER DISTRICT DIRECT AND OVERLAPPING DEBT

2021-22 Assessed Valuation: \$576,319,542,323

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/22	District's Share of % Applicable ⁽¹⁾	Debt 6/30/22
Santa Clara County	\$1,130,850,000	100.000%	\$1,130,850,000
Foothill-DeAnza Community College District	657,878,325	100.000	657,878,325
San Jose-Evergreen Community College District	834,059,604	100.000	834,059,604
West Valley-Mission Community College District	732,500,000	99.075	725,724,375
Other Community College Districts	470,526,373	0.050-74.647	154,580,186
Gilroy Unified School District	353,032,495	100.000	353,032,495
Palo Alto Unified School District	487,209,709	100.000	487,209,709
San Jose Unified School District	504,234,025	100.000	504,234,025
Santa Clara Unified School District	956,350,000	100.000	956,350,000
Other Unified School Districts	452,092,155	1.097-100	397,995,028
Campbell Union High School District	371,390,000	100.000	371,390,000
East Side Union High School District	907,685,546	100.000	907,685,546
Fremont Union High School District	582,770,088	100.000	582,770,088
Other High School Districts	440,889,176	0.522-100	338,865,820
Campbell School District	223,499,324	100.000	223,499,324
Cupertino Union School District	271,768,303	100.000	271,768,303
Evergreen School District	159,420,032	100.000	159,420,032
Franklin McKinley School District	151,996,804	100.000	151,996,804
Los Altos School District	145,755,000	100.000	145,755,000
Los Gatos Union School District	67,035,000	100.000	67,035,000
Moreland School District	118,647,251	100.000	118,647,251
Oak Grove School District	225,159,933	100.000	225,159,933
Sunnyvale School District	236,555,820	100.000	236,555,820
Other School Districts	763,273,733	4.473-100.	754,140,846
City of Campbell	47,200,000	100.000	47,200,000
City of Gilroy	24,616,950	100.000	24,616,950
City of Palo Alto	48,715,000	100.000	48,715,000
City of San Jose	582,110,000	100.000	582,110,000
City of Saratoga	6,965,000	100.000	6,965,000
Saratoga Fire Protection District	2,105,090	100.000	2,105,090

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El Camino Hospital District	111,240,000	100.000	111,240,000
City Community Facilities Districts	23,760,866	100.000	23,760,866
City 1915 Act Bonds (Estimated)	21,686,000	100.000	21,686,000
Midpeninsula Regional Open Space District	84,575,000	67.458	57,052,604
Santa Clara Valley Water District Benefit Assessment District⁽³⁾	48,150,000	100.000	48,150,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$11,730,205,024

Ratios to 2021-22 Assessed Valuation:

Direct Debt (\$48,150,000)	0.01%
Total Direct and Overlapping Tax and Assessment Debt	2.04%

	Total Debt 6/30/22	% Applicable ⁽¹⁾	District's Share of Debt 6/30/22
OVERLAPPING GENERAL FUND DEBT:			
Santa Clara County General Fund Obligations	\$1,210,694,365	100.000%	\$1,210,694,365
Santa Clara County Pension Obligation Bonds	335,638,470	100.000	335,638,470
Santa Clara County Office of Education Certificates of Participation	1,820,000	100.000	1,820,000
Foothill-De Anza Community College District General Fund Obligations	21,380,000	100.000	21,380,000
San Jose-Evergreen Community College District Other Post-Employment Benefit Obligations	47,450,000	100.000	47,450,000
Gavilan Joint Community College District General Fund Obligations	6,405,000	74.647	4,781,140
West Valley-Mission Community College District General Fund Obligations	12,000,000	99.075	11,889,000
Gilroy Unified School District Certificates of Participation	22,440,000	100.000	22,440,000
Other Unified School District School General Fund Obligations	54,208,823	1.097-100	43,660,818
East Side Union High School District Benefit Obligations	25,760,000	100.000	25,760,000
Other Union High School District General Fund Obligations	40,435,034	0.522-100	18,485,575
Alum Rock Union School District Certificates of Participation	11,375,000	100.000	11,375,000
Other School District General Fund Obligations	9,055,682	21.132-100	8,920,818
City of Cupertino Certificates of Participation	18,020,000	100.000	18,020,000
City of Gilroy General Fund Obligations	28,455,000	100.000	28,455,000
City of San Jose General Fund Obligations	682,755,000	100.000	682,755,000
City of Santa Clara General Fund Obligations	11,065,000	100.000	11,065,000
City of Sunnyvale General Fund Obligations	132,450,000	100.000	132,450,000
Other City General Fund Obligations	186,393,745	100.000	186,393,745
Santa Clara County Vector Control District Certificates of Participation	1,505,000	100.000	1,505,000
Midpeninsula Regional Park District General Fund Obligations	99,705,600	67.458	67,259,404
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$2,892,198,335
Less: Santa Clara County supported general fund obligations			<u>18,078,761</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$2,874,119,574

OVERLAPPING TAX INCREMENT DEBT:	\$1,550,375,000	100. %	\$1,550,375,000
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TOTAL DIRECT DEBT	\$48,150,000
TOTAL GROSS COMBINED OVERLAPPING DEBT	\$16,124,628,359
TOTAL NET COMBINED OVERLAPPING DEBT	\$16,106,549,598
GROSS COMBINED TOTAL DEBT	\$16,172,778,359⁽²⁾
NET COMBINED TOTAL DEBT	\$16,154,699,598

Ratios to 2021-22 Assessed Valuation:

Total Direct Debt (\$48,150,000)	0.01%
Gross Combined Total Debt.....	2.81%
Net Combined Total Debt	2.80%

Ratios to Redevelopment Incremental Valuation (\$66,156,156,561):

Total Overlapping Tax Increment Debt.....	2.34%
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- (1) The percentage of overlapping debt applicable to the water district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the water district divided by the district's total taxable assessed value.
- (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.
- (3) Consists of obligations of the Flood Control System. See the caption "DEBT STRUCTURE OF VALLEY WATER—Indebtedness Secured by Other Revenues."

Source: California Municipal Statistics, Inc.

FINANCIAL INFORMATION OF VALLEY WATER

Financial Statements

A copy of the most recent audited financial statements of Valley Water prepared by Valley Water staff and audited by Maze & Associates, Pleasant Hill, California (the “Auditor”) is attached as Appendix A hereto (the “Financial Statements”). The Auditor letter concludes that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Valley Water as of June 30, 2021 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Auditor has not been engaged to perform and has not performed, since the date of the Financial Statements, any procedures on the financial statements addressed in the Financial Statements. The Auditor has not performed any procedures relating to this Official Statement.

As part of the work to audit Valley Water’s financial statements for the year ended June 30, 2021, the Auditor prepared a report on their information systems review. Valley Water believes that the conclusions of this report will not have a material financial impact on Valley Water.

The Auditor has been engaged to and is currently in the process of performing an audit of Valley Water’s financial statements for Fiscal Year 2021-22. Valley Water expects the audit to be complete for approval by the Board by January 2023.

Valley Water’s government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which Valley Water gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes, benefit assessments, interest, grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences are recorded when payment is due. Capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting and distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Water Enterprise fund is the sale of water to outside customers and of Valley Water’s internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary fund operating revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Valley Water funds are used to account for assets held by Valley Water in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Valley Water funds do not have a measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities.

See the Financial Statements attached hereto as Appendix A for a discussion of accounting practices of Valley Water.

Historical Operating Results

The following table summarizes Valley Water's combined revenues and expenses relating to the 2012 Safe, Clean Water Program from Fiscal Years 2016-17 through 2020-21. The first year of the SCW Parcel Tax levy authorized under Measure S was Fiscal Year 2021-22. Historical results have been derived from the Financial Statements of Valley Water but exclude certain non-cash items.

Valley Water accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as Valley Water ("GAAP"). In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See Appendix A — "AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS AND COMPLIANCE REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021 AND MEMORANDUM OF INTERNAL CONTROL." Except as otherwise expressly noted herein, all financial information derived from Valley Water's audited financial statement reflect the application of GAAP.

**SANTA CLARA VALLEY WATER DISTRICT
HISTORICAL OPERATING RESULTS
FISCAL YEAR ENDING JUNE 30**

	2016-17	2017-18	2018-19	2019-20	2020-21
SCW Revenues					
SCW Parcel Taxes ⁽¹⁾	\$ 41,098,834	\$ 42,487,520	\$ 44,127,352	\$ 46,091,377	\$ 46,095,042
Investment Income ⁽²⁾	1,882,260	2,412,093	3,976,306	3,617,379	1,949,318
1% Property Tax Moneys ⁽³⁾	-	-	1,943,755	20,385,800	8,996,609
Total SCW Revenues	<u>\$ 42,981,094</u>	<u>\$ 44,899,613</u>	<u>\$ 50,047,413</u>	<u>\$ 70,094,556</u>	<u>\$ 57,040,969</u>
SCW Maintenance and Operation Costs					
Operations and Operating Projects ⁽⁴⁾	\$ 11,791,000	\$ 13,052,000	\$ 12,277,000	\$ 22,936,844	\$ 14,966,952
Administration ⁽⁵⁾	29,315	437,414	346,847	343,893	704,940
Total SCW Maintenance and Operation Costs	<u>\$ 11,820,315</u>	<u>\$ 13,489,414</u>	<u>\$ 12,623,847</u>	<u>\$ 23,280,737</u>	<u>\$ 15,671,892</u>

(1) Represents parcel taxes collected pursuant to the 2012 Safe, Clean Water Program. Fiscal Year 2021-22 was the first year in which the SCW Parcel Taxes were levied by Valley Water under the authorization of Measure S. For historical information with respect to the special parcel tax levied by Valley Water pursuant to the 2012 Safe, Clean Water Program, see the caption “—The SCW Parcel Taxes.” SCW Parcel Taxes remaining at the end of a Fiscal Year after payments of all amounts required under the SCW Master Resolution have been used for capital expenses or held as reserves for future capital or other expenses.

(2) Net of market value adjustments per GASB 31.

(3) Represents amounts from Valley Water’s share of the 1% *ad valorem* property tax moneys allocated by the Board to the SCW Program. Also includes transfers of 1% property taxes to the SCW Revenue Fund from the Watershed Stream and Stewardship Fund and General Fund to fund various SCW Program costs. See the caption “VALLEY WATER — 1% Property Tax Moneys” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — Allocation of Property Taxes.”

(4) Increase in Fiscal Year 2019-20 primarily a result of expediting SCW Project D7 (Partnerships for the Conservation of Habitat Lands) with a \$7 million payment to the Santa Clara Valley Habitat Agency for the acquisition of a property to preserve a population of an endangered plant species.

(5) Includes letter of credit fees, legal and advisory fees, banking costs, and transfers to other Valley Water funds for allocated overhead costs and SCW Program purposes.

Source: Valley Water.

Projected Operating Results and Debt Service Coverage

The estimated projected operating results related to the SCW Program for Fiscal Year 2021-22 (based on unaudited actual results) through Fiscal Year 2026-27 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. Unless otherwise specified below, amounts shown for Fiscal Year 2022-23 are based on the adopted budget for such year and the amounts shown for Fiscal Year 2023-24 are based on the forecasted amounts shown in the biennial budget.

The financial forecast represents the estimate of projected financial results of the SCW Program based upon Valley Water’s judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart below are material in the development of the financial projections of Valley Water, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

The financial forecast also incorporates projected SCW Parcel Tax rate increases in Fiscal Years 2023-24 through 2025-26 as set forth in the footnotes to the financial forecast. Under Measure S, the SCW Parcel Tax rates may be increased based on the San Francisco-Oakland-San Jose Consumer Price Index (Bay Area CPI-U) for all urban consumers in the preceding year or two percent, whichever is greater. See the caption “THE SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM — The SCW Parcel Taxes.” The projected operating results for Fiscal Years 2023-24 through 2025-26 may vary from

those presented below based on the actual increase in the SCW Parcel Tax rates, and such variance could be material.

**SANTA CLARA VALLEY WATER DISTRICT
PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE
FISCAL YEAR ENDING JUNE 30**

	2021-22 ⁽¹⁾	2022-23 ⁽¹⁾	2023-24 ⁽¹⁾	2024-25	2025-26
SCW Revenues					
SCW Parcel Taxes ⁽²⁾	\$ 46,954,690	\$ 49,645,791	\$ 50,737,999	\$ 51,686,862	\$ 52,823,973
Investment Income ⁽³⁾	1,699,940	1,561,000	1,561,000	1,953,237	1,922,379
1% Property Tax Moneys ⁽⁴⁾	<u>2,606,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
SCW Revenues - Subtotal	\$ 51,261,025	\$ 51,206,791	\$ 52,298,999	\$ 53,640,099	\$ 54,746,352
Transfers to (-)/from (+) SCW Rate Stabilization Reserve Fund ⁽⁵⁾	-	-	-	-	2,000,000
Transfers to (-)/from (+) SCW Contingency Reserve Fund ⁽⁵⁾	-	-	-	-	-
Transfers from Special Purpose Funds ⁽⁵⁾	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total SCW Revenues Available for Parity Obligations Debt Service	\$ 51,261,025	\$ 51,206,791	\$ 52,298,999	\$ 53,640,099	\$ 56,746,352
Debt Service on Parity Obligations					
2022A Bonds	-	5,762,260	5,759,500	5,315,500	5,317,000
2022 Installment Purchase Agreement ⁽⁶⁾	-	-	-	-	-
Future Bonds and Contracts ⁽⁷⁾	<u>-</u>	<u>-</u>	<u>4,870,880</u>	<u>10,122,688</u>	<u>12,031,500</u>
Total Debt Service – Parity Obligations	-	\$ 5,762,260	\$ 10,630,380	\$ 15,438,188	\$ 17,348,500
Parity Obligations Debt Service Coverage	N/A	8.89	4.92	3.47	3.27
SCW Maintenance and Operation Costs					
Operations and Operating Projects	\$ 16,224,822	\$ 25,249,468	\$ 25,687,094	\$ 26,506,115	\$ 28,414,799
Administration ⁽⁸⁾	<u>1,966,659</u>	<u>3,329,590</u>	<u>2,591,417</u>	<u>1,125,509</u>	<u>1,159,574</u>
Total SCW Maintenance and Operation Costs	\$ 18,191,481	\$ 28,579,058	\$ 28,278,511	\$ 27,631,624	\$ 29,574,373
SCW Revenues Available for Subordinate Obligations Debt Service	\$ 33,069,544	\$ 16,865,473	\$ 13,390,108	\$ 10,570,287	\$ 9,823,479
Debt Service on Subordinate Obligations					
Commercial Paper and Revolving Certificates ⁽⁷⁾⁽⁹⁾	\$ 38,618	\$ 2,262,000	\$ 3,666,000	\$ 1,803,000	\$ 403,000
Installment Purchase Agreement (SCW WIFIA Loan No. 1) ⁽¹⁰⁾	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Debt Service – Subordinate Obligations	\$ 38,618	\$ 2,262,000	\$ 3,666,000	\$ 1,803,000	\$ 403,000
Subordinate Obligations Debt Service Coverage	856.32	7.46	3.65	5.86	24.38
Total Debt Service on Parity and Subordinate Obligations	\$ 38,618	\$ 8,024,260	\$ 14,296,380	\$ 17,241,188	\$ 17,751,500
Parity and Subordinate Obligations Debt Service Coverage	856.32	2.82	1.68	1.51	1.53

(1) Fiscal Year 2021-22 based on unaudited actual amounts. Fiscal Year 2022-23 based on the adopted budget. Fiscal Year 2023-24 based on the preliminary budget plan.

(Footnotes continued on following page)

(Continued from previous page)

- (2) Annual increases of the rates of the SCW Parcel Taxes are limited to an increase based on Bay Area CPI-U in the preceding year or two percent, whichever is greater. Projected to increase between 1.9% to 2.2% in Fiscal Years 2023-24 through 2025-26. See the caption “—The SCW Parcel Taxes.” SCW Parcel Taxes remaining at the end of a Fiscal Year after payments of all amounts required under the SCW Master Resolution are expected to be used for capital expenses or held as reserves for future capital or other expenses.
- (3) Net of market value adjustments per GASB 31. Reflects projected interest earnings at a rate of 1% in each Fiscal Year through Fiscal Year 2024-25 and 1.25% for Fiscal Year 2025-26.
- (4) Represents amounts from Valley Water’s share of the 1% *ad valorem* property tax moneys allocated by the Board to the SCW Program. See the captions “VALLEY WATER—1% Property Tax Moneys” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — Allocation of Property Taxes.” Also includes transfers of 1% property taxes to the SCW Revenue Fund from the Watershed Stream and Stewardship Fund and General Fund to fund various SCW Program costs.
- (5) The SCW Master Resolution authorized the designation of the SCW Rate Stabilization Reserve Fund, the SCW Contingency Reserve Fund and Special Purpose Funds. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS AND THE INSTALLMENT PAYMENTS — SCW Rate Stabilization Reserve Fund,” “—SCW Contingency Reserve Fund and “—Special Purpose Funds.”
- (6) Interest represented by the 2022B Interim Obligations will be capitalized through maturity thereof. Valley Water expects to pay the principal amount of the 2022B Interim Obligations at maturity from a draw on the SCW WIFIA Loan No. 1 and other WIFIA loans, if any.
- (7) Assumes the issuance of new-money long-term and/or short-term (subordinate) debt projected at \$53 million in Fiscal Year 2022-23, \$101 million in Fiscal Year 2023-24, \$66 million in Fiscal Year 2024-25, and \$4 million in Fiscal Year 2025-26, and periodic issuance of long-term debt to refund the short-term debt.
- (8) Includes letter of credit fees, legal and advisory fees, banking costs, and operating cost transfers to the Water Utility Fund for water conservation and grants. Fiscal Years 2022-23 and 2023-24 include approximately \$1.4 million and \$618,000, respectively, in budgeted/planned closing costs for long-term debt issuances that may ultimately be funded by the debt proceeds
- (9) Calculated assuming interest only payments on projected outstanding Commercial Paper Certificate and Revolving Certificate balances at assumed rates ranging between 3.0% and 5.2% per annum between Fiscal Years 2022-23 and 2025-26.
- (10) Amounts under the SCW WIFIA Loans are payable from SCW Revenues on a subordinate basis to Bonds and Contracts. However, upon a bankruptcy related event with respect to Valley Water or the Corporation, such installment payments will be secured by SCW Revenues on a parity with Bonds and Contracts.

Source: Valley Water.

VALLEY WATER EMPLOYEE RELATIONS

Bargaining Units

On November 23, 2021, the Board approved new multi-year memorandum of understanding agreements (“MOUs”) between Valley Water and the bargaining units. The agreements became effective on January 1, 2022 and expire on December 31, 2025. The current agreements include across the board annual salary adjustments of 3.0% beginning in the fourteenth bi-weekly pay period in 2022 and then the fourteenth bi-weekly pay period in 2023, 2024 and 2025 (late June or early July of each year).

Under the current MOUs, Valley Water will continue to participate in the California Public Employment Retirement System (“CalPERS”), a cost sharing multiple-employer defined benefit plan operated on a statewide basis. Valley Water’s contract with CalPERS includes a three-tier benefit level: (1) benefits at the 2.5% of fiscal year compensation benefit level for every year of service for employees at age 55 (“2.5% @ 55”) hired prior to March 19, 2012; (2) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 60 (“2% @ 60”) hired on or after March 19, 2012 and before January 1, 2013, and (3) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 62 (“2.0% @ 62”) hired on or after January 1, 2013 (See the caption “Employees Retirement Plan – *Benefits Provided*” below).

Under the current MOUs, effective July 2022: (1) employees participating in the 2.5% @ 55 tier will contribute only the 8.0% employee contribution rate and will no longer contribute any additional amount to the

employer contribution and employees participating in the PERS 2.0% @ 60 formula will contribute only the 7.0% employee contribution rate and will no longer contribute any additional amount toward the employer contribution rate; and (2) employees participating in the 2% @ 62 (2.5% @ 67) tier will pay 50% of the normal cost as determined by CalPERS. The current normal cost as determined by CalPERS is 10.17% for Fiscal Year 2022-23 and is projected by CalPERS to decrease to 8.9% for Fiscal Year 2027-28. However, normal costs rates are subject to revision by CalPERS.

Employees are eligible for the following retiree medical coverage: (1) an employee hired on or after July 1, 1988 and prior to March 1, 2007 is eligible for (a) medical coverage for the employee with a minimum of 10 years (20,800 hours) of continuous service at Valley Water, and (b) medical coverage for the employee plus one eligible dependent with a minimum of 15 years (31,200 hours) of continuous service at Valley Water; and (2) an employee hired on or after March 1, 2007 is eligible for (a) medical coverage for the employee with 15 years (31,200 hours) of continuous service at Valley Water, and (b) medical coverage for the employee plus one eligible dependent with 20 years (41,600 hours) or more years of continuous service at Valley Water.

Employees' Retirement Plan

All qualified permanent and probationary employees are eligible to participate in the agent multiple employer defined benefit pension plan (the "Plan") administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website (<https://www.calpers.ca.gov/>), however, the contents on such website are not incorporated by reference herein.

Certain information under this caption "— Employees' Retirement Plan" has been updated with information contained in CalPERS' Annual Valuation Report and GASB 68 Accounting Valuation Report for Valley Water released in mid-2022, and therefore differs from the information contained in the Fiscal Year 2021-22 Annual Comprehensive Financial Report attached hereto as Appendix A.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of CalPERS credited service, the member's benefit formula, age and average final compensation. Members with five years of total service are eligible to retire at age 50 (if enrolled in the 2.5% @ 55 or 2% @ 60 benefit formulas) or age 52 (if enrolled in the 2% @ 62 benefit formula) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of CalPERS service credit. The death benefits are based on the members' eligibility to retire and consist of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit and the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law.

See Note 11 to Valley Water's audited financial statements attached hereto as Appendix A for more information with respect to Plan's provisions and benefits in effect on June 30, 2021.

Beginning with Fiscal Year 2017-18, CalPERS collects employer contributions towards the Plan's unfunded liability as a dollar amount instead of the prior method of using a contribution rate. In July 2022, CalPERS released the actuarial valuation report of Valley Water's pension plan as of June 30, 2021. As set forth in such actuarial valuation report, in Fiscal Year 2023-24, Valley Water's unfunded liability dollar amount is projected to be \$21,957,410. This amount will be collected along with the employer normal cost rate as a percentage of payroll of 10.94%. If the unfunded liability dollar amount was converted to a percentage of payroll and added to the normal cost rate of 10.94% the resulting employer contribution rate would be approximately 28.94%.

In the latest CalPERS actuarial valuation report delivered to Valley Water in July 2022, the projected normal cost ranges between 10.94% and 9.7% between Fiscal Years 2023-24 and 2028-29. The projected unfunded liability dollar contribution is \$21,957,410 in Fiscal Year 2023-24 and is projected to decrease to \$18,492,000 in Fiscal Year 2028-29.

CalPERS noted that the actual investment return for Fiscal Year 2021-22 was not known at the time the actuarial valuation report of Valley Water's pension plan for Fiscal Year 2020-21 was prepared. The projections in the previous paragraph for Fiscal Year 2023-24 assumed the investment return for Fiscal Year 2021-22 would be 6.8 percent. CalPERS has announced a preliminary investment return of (6.1)% for Fiscal Year 2021-22 and as a result, the actual contribution requirements for Fiscal Year 2023-24 can be expected to differ from such projections. Valley Water budgeted \$42,349,693 as its contribution to CalPERS for Fiscal Year 2022-23, including amounts to fund the normal cost and the unfunded actuarial liability.

Employees Covered. The following number of employees were covered by the benefit terms of the Plan as of Fiscal Year 2021-22, using the CalPERS actuarial valuation report with a measurement date of June 30, 2021:

Inactive employees or beneficiaries currently receiving benefits	1,044
Active employees	752

Contributions. California Government Code Section 20814(c) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Valley Water is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The table below provides a recent history of the required employer contributions for the Plan, as determined by the annual actuarial valuation, as well as the required employer contributions for Fiscal Years 2019-20 through 2023-24. The information below does not account for prepayments or benefit changes made during a fiscal year.

<i>Fiscal Year</i>	<i>Employer Normal Cost</i>	<i>Unfunded Rate⁽¹⁾</i>	<i>Total</i>
2019-20	10.276%	16.837%	27.113%
2020-21	10.911	18.012	28.923
2021-22	10.520	19.580	30.100
2022-23	10.170	20.320	30.490
2023-24	10.940	18.000	28.940

⁽¹⁾ As described above under “— *Benefits Provided*,” beginning with Fiscal Year 2017-18, CalPERS collects employer contributions toward the unfunded accrued liability as dollar amounts instead of a contribution rate. Therefore, the unfunded rates shown are for illustrative purposes only.

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2021.

Net Pension Liability. Valley Water's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan as of Fiscal Year 2021-22, was determined using the CalPERS actuarial valuation report with a measurement date of June 30, 2021. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions. The total pension liabilities in the June 30, 2021 actuarial valuation were determined using the following actuarial assumptions:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Investment rate of return ⁽¹⁾	7.00%
Mortality rate table ⁽²⁾	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.00% unit purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter.

⁽¹⁾ Net of pension plan investment and administrative expenses, including inflation.

⁽²⁾ The probabilities of mortality are based in the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% Scale MP-2016 published by the Society of Actuaries.

Source: GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2021.

Discount Rate. CalPERS reviews all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. In recent years, the CalPERS Board has lowered the discount rate. Such reductions in the discount rate are expected to increase Valley Water's required employer contributions as well as Valley Water's unfunded accrued pension liability. See the caption "*— Sensitivity of the Net Pension Liability to Changes in the Discount Rate*" for the estimated effect of changes in the discount rate to Valley Water's net pension liability. Valley Water does not expect such reductions in CalPERS' assumed discount rate and increases in its required payments to CalPERS which may result therefrom to have a material adverse impact on its ability to pay debt service on the 2022 Bonds or the Installment Payments. CalPERS may adjust the discount rate in the future, which will require action by CalPERS' Board and proper stakeholder outreach.

On November 18, 2015, the CalPERS Board adopted a Funding Risk Mitigation Policy that seeks to reduce funding risk over time. It establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return, and strategic asset allocation targets. Reducing the volatility of investment returns is expected to increase the long-term sustainability of CalPERS pension benefits for members. In February 2017, the CalPERS Board revised the Funding Risk Mitigation Policy. The revisions include suspension of the policy until Fiscal Year 2020-21, and a decrease of the required first excess investment return threshold from 4% to 2%.

On July 12, 2021, CalPERS reported a preliminary 21.3 percent net return on investment for the fiscal year ending June 30, 2021. The return exceeded the system's actuarially assumed 7 percent rate of return for the fiscal year. Since the returns outperformed the discount rate, the Funding Risk Mitigation Policy described above was triggered. Approximately half of the excess return was used for rate relief and half of the excess return was used to lower the discount rate to 6.8 percent. CalPERS notes that for a given risk mitigation event, it is estimated that employer rates will decrease by about half of what they would have with no risk mitigation. The Funding Risk Mitigation Policy requires staff to implement a new strategic asset allocation that will take effect on October 1 of the fiscal year immediately following the year the policy was triggered—in this case, 2020-21 is the trigger year. CalPERS completed its Asset Liability Management Process in November 2021 and this effort resulted in a new strategic asset allocation that keeps the discount rate at 6.8 percent, and

incorporates a 5 percent leverage allocation. An implementation plan for the strategic asset allocation, including benchmarks, ranges, and timeline, is anticipated at a future CalPERS Board meeting.

On July 20, 2022, CalPERS reported a preliminary negative 6.1 percent net return on investment for the fiscal year ending June 30, 2022. The return underperforms the system's actuarially assumed 6.8 percent rate of return for the fiscal year. Using a 6.8 percent discount rate and these preliminary fiscal year returns, the funded status of the overall Public Employees Retirement Fund is estimated at 72 percent on a preliminary basis.

On February 14, 2018, the CalPERS Board adopted revisions to its actuarial amortization policy. Major revisions that affect State plans were made to the amortization of investment gains and losses, as well as to actuarial surplus. For the amortization of investment gains and losses, the amortization period was reduced from 30 years to 20 years, and the 5-year direct smoothing process was removed from the end of the amortization period. Amortization of actuarial surplus was eliminated. These policy revisions will be applied to the amortization of investment gains and losses, and actuarial surplus, experienced on or after June 30, 2019. These revisions affect contributions on and after Fiscal Year 2020-21.

Changes in the Net Pension Liability. The following table shows the changes in net pension liability recognized over the measurement period.

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability (a)</i>	<i>Plan Fiduciary Net Position (b)</i>	<i>Net Pension Liability (c) = (a) – (b)</i>
Balance at 6/30/2020 ⁽¹⁾	\$ 910.6	\$ 654.5	\$ 256.1
Changes Recognized for the Measurement Period:			
Service Cost	18.1	-	18.1
Interest on Total Pension Liability	64.7	-	64.7
Changes of Assumptions	-	-	-
Difference between Expected and Actual Experience	8.0	-	8.0
Contribution from Employer	-	33.6	(33.6)
Contribution from Employees	-	8.4	(8.4)
Net Investment Income	-	149.3	(149.3)
Benefit Payments, including Refunds of Employee Contribution	(44.8)	(44.8)	-
Administrative Expense	-	(0.7)	0.7
Other Miscellaneous Income/Expenses	-	-	-
Net Changes During 2020-21	<u>46.0</u>	<u>145.8</u>	<u>(99.7)</u>
Balance at 6/30/2021 ⁽¹⁾	\$ 956.7	\$ 800.3	\$ 156.4

⁽¹⁾ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense.

Source: GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2021.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. Valley Water's net pension liability is affected by the discount rate used to project return on investments. See Note 11 to Valley Water's audited financial statements attached hereto as Appendix A for a discussion of the discount rate.

Funding History. The following table sets forth the schedule of funding progress in connection with Valley Water's Plan.

<i>Actuarial Valuation Date</i>	<i>Actuarial Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Unfunded Actuarial Liability</i>	<i>Funded Ratio</i>	<i>Annual Covered Payroll</i>
6/30/17	\$770,972,796	\$556,111,543	\$214,861,253	72.1%	\$86,163,654
6/30/18	842,052,151	594,286,353	247,765,798	70.6	89,667,844
6/30/19	889,898,474	628,762,018	261,136,456	70.7	94,694,653
6/30/20	934,989,298	652,552,527	282,436,771	69.8	103,622,600
6/30/21	1,002,118,636	800,214,091	201,904,545	79.9	112,310,541

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2021.

Pension Plan Fiduciary Net Position. Detailed information about Valley Water's pension plan fiduciary net position is available in the separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflow/Inflow of Resources. Based on the GASB 68 Accounting Valuation Report (provided by CalPERS) for the measurement date of June 30, 2021, the reported Valley Water pension expense is \$11.0 million, and the deferred outflows and inflows of resources related to pensions are as follows:

	<i>Deferred Outflow of Resources</i>	<i>Deferred Inflow of Resources</i>
Change of assumptions	\$ -	\$ (0.2)
Difference between actual and expected experience	15.2	(0.0)
Net differences between projected and actual earnings on plan investments	0.0	(74.7)
Total	\$ 15.2	\$ (74.9)

Source: Valley Water and GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2021.

As reported in Valley Water's Annual Comprehensive Financial Report for Fiscal Year 2020-21, based on a measurement date of June 30, 2020, \$31.6 million was reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction from the net pension liability in the following fiscal year. Deferred outflows for contributions subsequent to the June 30, 2021 measurement date is expected to be reported in Valley Water's Annual Comprehensive Financial Report for Fiscal Year 2021-22. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of the June 30, 2021 measurement date will be recognized as pension expense as shown in the succeeding table:

<i>Measurement Period</i>	<i>Deferred Outflows/(Inflows) of Resources</i>
2022	\$ (11.3)
2023	(12.5)
2024	(15.7)
2025	(20.1)
Total	\$ (59.6)

Source: GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2021.

For more information with respect to Valley Water's Plan, see Note 11 to Valley Water's audited financial statements attached hereto as Appendix A.

Other Post-Employment Benefits. Valley Water provides post-employment health care benefits ("OPEB"), in accordance with the negotiated MOUs with employee groups adopted by the Board for retired employees and/or their surviving dependents who meet the eligibility requirements and elect the option. As of June 30, 2021, there were 845 inactive employees or beneficiaries receiving such benefits.

Governmental Accounting Standards Board ("GASB") published Statement No. 45 ("GASB 45"), requiring governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as Valley Water, to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions.

In June 2015, GASB published Statement No. 75 ("GASB 75"), which replaced the requirements under GASB Statement No. 45. The provisions in GASB 75 became effective for fiscal years beginning after June 15, 2017. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (i.e. OPEB). GASB 75 requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. GASB 75 also requires certain descriptive information to be included in the notes to a public agency's audited financial statements as well as additional supplementary information such as sources of changes in net OPEB liability and the components of the net OPEB liability. Valley Water implemented GASB 75 beginning with its audited financial statements for Fiscal Year 2017-18.

See Note 15 to Valley Water's audited financial statements attached hereto as Appendix A for a description of the adjustment to Valley Water's beginning net position as a result of the implementation of GASB 75. While GASB 75 requires certain changes in the net OPEB liability to be included in OPEB expenses in the period of such change, Valley Water has determined that such changes which are non-cash items are not Operation and Maintenance Costs under the Parity Master Resolution.

Valley Water participates in the CalPERS California Employer's Retiree Benefit Trust Program ("CERBT"), a prefunding plan trust fund. On June 24, 2008, the Board approved the reallocation of \$17.7 million from its existing reserves for the initial prefunding of the unfunded liability as part of its multi-year financial planning strategy. Valley Water's OPEB plan and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between Valley Water and the bargaining groups. The annual contribution is based on the actuarially determined contribution ("ADC"). The ADC represents the annual employer contribution that along with member contributions and investment income is projected to fully fund the OPEB plan over a static 30 years beginning in Fiscal Year 2007-08. For the fiscal year ended June 30, 2021, Valley Water's total contribution to the OPEB plan amounted to approximately \$11 million. This amount reflects what was paid in employer OPEB contributions in Fiscal Year 2020-21, and accounts for approximately 2.71% of Valley Water expenses (approximately \$405.7 million) recognized in the same fiscal year. Based on unaudited actual results, Valley Water paid \$12.1 million in OPEB contributions in Fiscal Year 2021-22 and has budgeted \$13,015,300 for the OPEB contribution in Fiscal Year 2022-23.

Valley Water's net OPEB liability was measured on June 30, 2020 for the reporting date of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, based on the following actuarial methods and assumptions:

Discount Rate	7.59%
Inflation	3%
Salary Increases	2.75%
Investment Rate of Return ⁽¹⁾	7.59%
Mortality Rate	Derived from CalPERS Study of Miscellaneous Public Agency Experience
Pre-Retirement Turnover ⁽²⁾	Derived from CalPERS Study of Miscellaneous Public Agency Experience
Healthcare Trend Rate ⁽³⁾	Medical and Part B trend rate begin at 5.25% then taper to 4% by 2025/26; dental and vision are 3.0%

(1) The discount rate is the expected long-term rate of return on Valley Water assets using investment strategy #1 within the California Employers' Retiree Benefit Trust

(2) Net of OPEB plan investment expenses, including inflation.

(2) The mortality rate table was developed based on CalPERS' non-industrial miscellaneous public agency experience study for 14 years ending June 2011.

The discount rate of 7.59% is the expected long-term rate of return on Valley Water assets using investment "Strategy 1" within the CERBT. The projected cash flows used to determine the discount rate assumed that Valley Water contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The objective of the CERBT Strategy 1 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS board.

Valley Water's change in net OPEB liability for the Fiscal Year ended June 30, 2021, calculated and presented in accordance with GASB 75 are as follows:

Total OPEB Liability	June 30, 2021
Service Cost	\$ 2.5
Interest on Total OPEB Liability	12.8
Benefits Payment	(10.3)
Other Liability Experience Loss/(Gain)	0.2
Net Change in OPEB Liability	5.2
Total OPEB Liability, Beginning	172.7
Total OPEB Liability, Ending	<u>\$ 177.9</u>
 Plan Fiduciary Net Position	
Contributions	\$ 10.3
Benefits Payment	<u>(10.3)</u>
Net Investment Income	(4.6)
Investment Return – Differences between expected and actual experience	8.7
Administrative Expense	<u>(0.1)</u>
Net Change in Fiduciary Net Position	4.0
Plan Fiduciary Net Position, Beginning	114.0
Plan Fiduciary Net Position, Ending	<u>\$ 118.0</u>
 Net OPEB Liability, Ending	\$ 59.9

Source: Valley Water.

As of June 30, 2021, Valley Water's OPEB plan fiduciary net position was 66.33% of total OPEB liability and Valley Water net OPEB liability was 61.56% of covered payroll (approximately \$97.3 million).

For more information with respect to Valley Water's OPEB, see Note 12 to Valley Water's audited financial statements attached hereto as Appendix A.

Other Benefits. Valley Water provides employer-paid benefits as follows: medical, dental, vision, basic life, and basic long-term disability. Employees may also purchase supplemental life, supplemental long-term disability, and accidental death and dismemberment.

Valley Water has established a deferred compensation plan for employees wishing to defer part of their salaries. Under certain conditions, Valley Water makes matching contributions. In the Fiscal Year ended June 30, 2021, Valley Water contributed approximately \$1.2 million to the deferred compensation plan.

GENERAL LITIGATION

General

No litigation is pending or, to the knowledge of Valley Water, threatened, in any way questioning or affecting the validity or enforceability of the SCW Master Resolution, the 2022A Bonds, the 2022B Interim Obligations, the Indenture, the Installment Purchase Agreement or the Trust Agreement. Neither the creation, organization or existence of Valley Water, nor the title of the present directors or officers of Valley Water to their respective office is being contested. While Valley Water has certain other ongoing litigation that is not described herein, District Counsel does not believe such litigation is material to the finances or operation of the SCW Program.

Valley Water has ongoing litigation, certain of which are described herein. Such litigation affects Valley Water's Water Utility System and Valley Water generally, however, such litigation does not affect the SCW Program directly. Valley Water is engaged in routine litigation incidental to the conduct of its business. In the opinion of Valley Water's District Counsel, the aggregate amounts recoverable against Valley Water with respect to such routine litigation, taking into account insurance coverage, are not material.

Great Oaks Litigation

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that Valley Water's groundwater charges for 2005-06 violated the law and sought a partial refund. After its claim was deemed denied, Great Oaks filed a lawsuit alleging, among other things, that Valley Water's groundwater production charges violated Proposition 218 (which added Article XIID to the California Constitution), because proceeds are used to fund projects and services that benefit the general public, not just ratepayers (*Great Oaks Water Company v. Santa Clara Valley Water District*, Santa Clara County Superior Court Case No. 2005-CV-053142; Cal. Court of Appeals Case Nos. HO35260 and HO35885; Cal. Supreme Court No. S231846 (the "Great Oaks Case"). Great Oaks also alleged that the groundwater production charges violated the Law. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES — Proposition 218."

On February 3, 2010, the trial court issued a Judgment After Trial in the Great Oaks case, ruling that Valley Water owed Great Oaks a refund of groundwater charges of approximately \$4.6 million plus interest at 7% per annum. The award of pre-judgment interest amounted to approximately \$1.3 million, and the court awarded post-judgment interest of \$886.62 per day. Valley Water appealed this decision to the California Court of Appeal for the Sixth Appellate District (the "Court of Appeal"). During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, Valley Water recorded a liability in the amount of the judgment plus interest. After the favorable judgement by the Court of Appeal in 2015,

discussed below, Valley Water reversed its prior total recorded liability in the aggregate amount of \$7,386,000 in its audited financial statements for Fiscal Year 2016-17.

In 2015, the Court of Appeal reversed in full the judgment of the trial court. The Court of Appeal found that Valley Water's groundwater production charges did not violate Proposition 218 or the Law. Great Oaks petitioned the California Supreme Court to review the Court of Appeal's ruling, and the Supreme Court granted its petition. The case was placed on hold pending the California Supreme Court's decision in a similar case, *City of Buenaventura v. United Water Conservation District* ("UWCD"). In late 2017, the California Supreme Court issued its opinion in the UWCD case, finding that Proposition 218 does not apply to groundwater charges, but that Article XIII C of the California Constitution does apply. The Supreme Court vacated the Court of Appeal's decision and remanded the Great Oaks case for reconsideration in light of its UWCD opinion. On November 8, 2018, the Court of Appeal reaffirmed its 2015 decision. The Court of Appeal declined to consider Great Oaks' request to consider whether Valley Water's groundwater production charges violated Article XIII C of the California Constitution, as this cause of action had never been considered by the trial court. This case was remanded to the trial court for further proceedings in February 2019.

While the 2005 Great Oaks case was pending, Great Oaks filed additional annual claims and additional annual lawsuits challenging Valley Water's groundwater production charges for each year after 2005, continuing through the present. Great Oaks' subsequent, similar lawsuits were stayed pending resolution of its 2005 case. (Santa Clara Superior Court Case Nos. 2007-CV-087884; 2008-CV-119465; 2008-CV-123064; 2009-CV-146018; 2010-CV-178947; 2011-CV-205462; 2012-CV-228340; 2013-CV-249349; 2015-CV-281385; 2016-CV-292097; 2017-CV-308140; and 2018-CV-327641). In addition, in 2011 Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club filed a similar refund action, making similar claims (Santa Clara Superior Court Case No. 2011-CV-195879). Other water retailers including San Jose Water Company and the cities of Morgan Hill, Gilroy and Santa Clara, and the Los Altos Golf and Country Club and Stanford University, dispute Valley Water's groundwater charges and entered into tolling agreements with Valley Water pending the final decision in the Great Oaks Case. In 2019, Valley Water filed a collection action against Shatto Corporation for failure to pay groundwater charges from 2009 to 2014 and associated penalties and interest. Valley Water estimates that the amount due is approximately \$1 million. Shatto Corporation filed a cross-complaint, alleging that Valley Water's groundwater charges violate Article XIII C of the California Constitution (Santa Clara Superior Court Case No. 2019-CV-348413).

Once the Great Oaks Case was remanded to the trial court in February 2019, the court lifted the stay over Great Oaks' subsequently filed cases, as well as the case brought by Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club. At the request of the trial court, in order to streamline resolution of the remaining issues this litigation and related litigation, the parties stipulated and agreed to the filing of a new, omnibus complaint. On June 12, 2020, the proposed omnibus "Master Complaint" of plaintiffs Great Oaks and Shatto Corporation was approved for filing and filed under Santa Clara Superior Court Case No. 2011-CV-205462. Great Oaks alleges that Valley Water's groundwater production charges violate Proposition 26, and that Valley Water does not levy or collect groundwater charges from agricultural pumpers but instead uses property taxes to pay these charges. On or about October 7, 2020, Valley Water and Shatto Corporation entered into a settlement agreement by which both parties dismissed with prejudice all actions each had against the other. Shatto paid Valley Water \$1.1 million in connection with the settlement.

The trial in the Great Oaks Case took place in June 2022. The case was dismissed as to all plaintiffs except for Great Oaks Water Company. Valley Water and Great Oaks Water Company filed their post-trial briefs in September 2022 and are awaiting issuance of the final judgment from the court. In the event that a court rules that Valley Water's groundwater production charges are unlawful, such a ruling could materially impact Valley Water's rate revenue and finances. However, SCW Revenues do not include any amounts from Valley Water's groundwater production charges.

San Francisco Baykeeper Litigation

In September 2022, petitioners, San Francisco Baykeeper, filed a petition for writ of mandate and declaratory relief against Valley Water in Santa Clara County Superior Court for alleged violations of the California Fish and Game Code, waste and unreasonable use of water resources and violations of the public trust doctrine. (*San Francisco Baykeeper v. Valley Water*, Santa Clara County Superior Court, Case No. 22CV403523). Petitioners alleged that Valley Water does not operate its dams and waterways to allow sufficient water flows to maintain fish stocks in good condition, to remove artificial barriers that prevent fish passage and has failed to manage its waterways to protect habitat values for fish and wildlife. The petitioners in this action ask the court to order Valley Water to modify its operations to rectify the foregoing, and for an injunction enjoining all activity of Valley Water which violate the California Fish and Game Code and common law until Valley Water implements an appropriate flow regime. Valley Water staff and counsel are analyzing this lawsuit and currently expect to submit a timely response to the court. Valley Water cannot predict what effects this lawsuit may have or if such effects would be material.

Litigation Relating to the Pacheco Reservoir Expansion Project

On June 2, 2022, the Stop the Pacheco Dam Project Coalition (Coalition) filed a petition for writ of mandate against Valley Water in the Santa Clara County Superior Court for alleged violations of the California Environmental Quality Act relating to the Pacheco Reservoir Expansion Project's planned Phase-2 geotechnical investigation activities (*Stop the Pacheco Dam Project Coalition v. SCVWD*, Santa Clara County Superior Court, Case No. 22CV399384). On August 23, 2022, an amended petition for writ of mandate was filed. The amended petition putatively adds two new petitioners, the Sierra Club and the Amah Mutsun Tribal Band. If successful, this action could potentially create significant delay to the Pacheco Reservoir Expansion Project, which could in turn lead to significant increases in project costs. A case management conference was held on October 12, 2022. The parties are currently scheduling with the court to set a date for the hearing on the merits, which is currently expected to occur in late March or early April in 2023. No order to stop work has been issued by the court.

2017 Flooding in the City of San Jose

Following a series of storms, a flood event occurred on the Coyote Creek in San Jose, California on or about February 21, 2017. The Coyote Creek is approximately 42 miles long and is the longest creek in the County. In the southern portion of the County, Valley Water owns and maintains the Leroy Anderson Dam and Reservoir along the Coyote Creek near Morgan Hill, California. The Anderson Dam is upstream from the City of San Jose. After the reservoir reached capacity, water began going over the Anderson Dam spillway, as was designed, on February 18, 2017. The spillover volume peaked on the morning of February 21, 2017, increasing flows on Coyote Creek. Beginning on or about February 21, 2017, certain residential and non-residential areas of San Jose along Coyote Creek experienced flooding due to rising water levels in the creek. Thousands of residents were temporarily evacuated, and numerous properties experienced flood damage. Such flood water receded within a short period of time after February 21, 2017.

A number of claimants filed lawsuits in Santa Clara County Superior Court against Valley Water and the City of San Jose alleging damage from the Coyote Creek flood event. In July 2022, Valley Water and plaintiffs in the consolidated reached a full settlement in the amount of \$8,250,000. This settlement resulted in the entry of an amended stipulated judgment on July 11, 2022. The settlement has been paid by Valley Water and its insurer; Valley Water's contributions towards this settlement was \$3,175,000.

There are two pending actions in the Santa Clara County Superior Court arising from the same flood event (*San José Unified School District v. SCVWD*, Case No. 18CV330233; *PG&E v. SCVWD*, Case No. 20CV371349). Valley Water believes that the aggregate amounts recoverable against Valley Water with respect to these cases, taking into account insurance coverage, are not material.

Stanford University Claim

On April 23, 2021, Valley Water received a claim from Stanford University (“Stanford”) challenging Valley Water’s application of groundwater charges in Charge Zone W-2 to Stanford. Stanford seeks a refund of the 2020-2021 groundwater charges that it paid to Valley Water, which as of May 1, 2021, was \$594,782. Stanford argues that Valley Water’s groundwater charges, as applied to it, violate the Law, Proposition 218, Proposition 26, Stanford’s water rights, and the Sustainable Groundwater Management Act. In its claim, Stanford asserts that the groundwater charges are unlawful because Stanford does not benefit from Valley Water’s groundwater recharge activities.

Stanford presented Valley Water with another claim on May 10, 2022, demanding a refund of 2021-2022 groundwater charges paid to Valley Water, which Stanford identified as \$449,630.77 for the months of July 2021 through February 2022. This latest claim contains the same legal theories asserted in its claim for 2020-2021 groundwater charges.

Valley Water believes Stanford’s claims are without merit since Valley Water’s consultant concluded in a 2020 groundwater benefit zone study that groundwater wells that Stanford pumps from do benefit from Valley Water’s groundwater recharge activities. This comprehensive study was finalized and relied upon by the Board when it updated Valley Water’s groundwater charge zones, including Charge Zone W-2, through adoption of Board Resolution No. 20-12 on April 28, 2020.

The Board denied Stanford’s 2020-2021 groundwater charge claim on May 25, 2021, and 2021-2022 groundwater charge claim on May 24, 2022. Stanford and Valley Water have entered an agreement that tolls the deadline for Stanford to initiate a lawsuit regarding its claims, which provides the parties an opportunity to discuss whether a resolution can be reached to avoid the time, effort and expense of litigation. The tolling agreement currently extends the tolling period through April 30, 2023.

If Stanford were to be successful in challenging its groundwater charges, Valley Water would not only be liable for groundwater charges levied against Stanford since Fiscal Year 2020-21 but may potentially be liable for refunding groundwater charges of other similarly situated groundwater pumpers. As a result, a successful challenge by Stanford may have a material impact on Valley Water’s groundwater charge revenue generated from groundwater benefit zone W-2. However, SCW Revenues do not include any amounts from Valley Water’s groundwater production charges.

Deanna Lacy v. SCVWD et. al.

This case concerns a fatal accident where a pedestrian was struck by an ACE train while jogging across the railroad tracks on or near one or more trails adjacent to land either owned or leased by Valley Water. This action, brought by decedent’s estate, remains an active matter and discovery is ongoing. No settlement conference or mediation or trial date has yet been set. Valley Water intends to vigorously defend against this action. Plaintiff’s counsel has indicated an intention to seek damages in excess of \$2,000,000.

Cesar Toledo v. SCVWD, et al.

The plaintiff filed this lawsuit in April 2021 relating to the death of his daughter, Celeste Toledo. Ms. Toledo was walking her dog with a friend along the railroad tracks on a trestle bridge crossing the lower Guadalupe River near Alviso and the Bay on October 6, 2020. Ms. Toledo was struck and killed by an Altamont Commuter Express train. Valley Water owns or leases certain real property in this general vicinity but does not own or control the bridge. Valley Water intends to vigorously defend this matter. Plaintiff’s counsel has indicated an intention to seek damages in excess of \$1,000,000.

Howard Jarvis Taxpayer Association v. Coachella Valley Water District

Howard Jarvis Taxpayers Association has taken over litigation in several cases against Coachella Valley Water District (“Coachella”) challenging Coachella’s collection of the State Water Project (“SWP”) tax and use of SWP tax proceeds. It alleges that Coachella must make a finding of necessity (i.e., that Coachella’s water rate revenue is insufficient to pay all SWP expenses) before it is authorized to impose the SWP tax under the Burns-Porter Act.

Many SWP contractors, including Valley Water, rely on the imposition of the SWP tax to pay for all or most of their SWP expenses to the State. State Water Contractors, Inc., an association representing all SWP contractors, has intervened in this action and filed an amicus brief in support of Coachella’s collection of the SWP tax. If the plaintiff is successful, this action could impair Valley Water’s ability to pay for its SWP expenses through use of the SWP tax, resulting in a need to find or use other revenue to pay these expenses.

POTENTIAL INVESTMENT CONSIDERATIONS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the 2022A Bond and the 2022B Interim Obligations. The investment considerations included in this section are not exhaustive and other events or factors could materially adversely affect Valley Water’s operations and financial condition.

Insufficiency of SCW Parcel Taxes

The 2022A Bonds and the Installment Payments are payable from SCW Revenues, which consist primarily of SCW Parcel Taxes levied on property within Valley Water’s service area. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE INTERIM OBLIGATIONS.” Valley Water has covenanted in the SCW Master Resolution that, so long as any Bonds or Contracts are outstanding, and to the fullest extent permitted by law, Valley Water will at all times levy SCW Parcel Taxes in an amount sufficient, together with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding. However, Valley Water’s ability to pay debt service with respect to the 2022A Bonds and to make the Installment Payments depends on the timely payment of SCW Parcel Taxes. Many factors outside of Valley Water’s control could impact the receipt of SCW Parcel Taxes. These factors include reclassification of property to a class exempt from taxation (such as exemptions for property owned by the federal government, the State and local agencies), or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination. See the captions “THE SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM — Teeter Plan” and “—Teeter Plan Termination.” See also the caption “—Natural Disasters.”

Limitations on SCW Revenues

The ability of Valley Water to generate SCW Revenues sufficient to pay principal of and interest on the 2022A Bonds and to make the Installment Payments may be adversely affected by actions and events outside of the control of Valley Water and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.” Furthermore, the remedies available to the owners of the 2022A Bonds and the 2022B Interim Obligations upon the occurrence of an event of default under the SCW Master Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

SCW Revenues include the portion of the 1% *ad valorem* property tax levied by the County within Valley Water which is allocated by the Board to the SCW Program. Valley Water has covenanted in the SCW Master Resolution that, so long as any Bonds or Contracts are outstanding, Valley Water will allocate to the SCW Program the 1% *ad valorem* property taxes allocated to Valley Water, in an amount sufficient, together

with other SCW Revenues, to pay in the current Fiscal Year Debt Service with respect to any Bonds or Contracts then remaining outstanding.

None of the revenues from Valley Water's Water Utility System, flood control benefit assessments which Valley Water is authorized to levy on property within its service area or property taxes levied by Valley Water to pay certain State Water Project costs are available to pay debt service on the 2022A Bonds or to make the Installment Payments.

Teeter Plan Termination

In 1993, the County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including Valley Water, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may protect the Owners of the 2022A Bonds and the 2022B Interim Obligations from the risk of delinquencies in the payment of SCW Parcel Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to Valley Water would eliminate such protection from delinquent SCW Parcel Taxes.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of Valley Water may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Reduction/Repeal of SCW Parcel Taxes

See "THE SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION PROGRAM—Review for Reduction/Repeal of Special Tax Under Measure S" for a description of the required review process under Measure S for potential reduction/repeal of the SCW Parcel Taxes.

Change in Law and Regulations

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by Valley Water. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce the revenues and adversely affect the security of the 2022A Bonds and the 2022B Interim Obligations. In addition, new regulations could come into effect or existing regulations could be interpreted or revised in a manner which adversely impacts the ability to implement the projects in the SCW Program or affect the collection of SCW Revenues.

Natural Disasters

The ability and willingness of property owners within Valley Water's service area to pay property taxes, including the SCW Parcel Taxes, could be influenced by natural disasters such as a severe earthquake, wildfire or flood. Certain areas within Valley Water's boundaries have flooded in the past. For example, major rainstorms in 2017 caused flooding in areas surrounding Valley Water -managed facilities, resulting in property damage and claims against Valley Water. See the caption "LITIGATION — Flooding in the City of San Jose."

The area encompassed by Valley Water, like that in much of California, may be subject to unpredictable seismic activity. Valley Water are located within a regional network of several active and potentially active faults. Seismic activity represents a potential risk for damage to property within Valley Water. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event.

California is currently experiencing a number of significant wildfires, including in areas near Valley Water's service area. In some cases outside of the County, these fires have burned thousands of acres and destroyed hundreds and in some cases thousands of homes. Several fires which occurred in recent years damaged or destroyed property in areas that were not previously considered to be at risk from such events. Some commentators believe that climate change will lead to even more frequent and damaging wildfires in the future.

In the event of a severe earthquake, wildfire, flood or other natural disaster, there may be significant damage to both property and infrastructure in Valley Water's service area. As a result, a substantial portion of the property owners may be unable or unwilling to pay the SCW Parcel Taxes when due.

Cybersecurity

Valley Water has adopted information security practices and maintains an active information security posture, which is annually reviewed by independent third-party consultants engaged by Valley Water. Valley Water has appointed a Deputy Operating Officer for Information Technology and a Unit Manager for Infrastructure Services, who together are responsible for updates to information security practices and are charged with identifying and monitoring threats which are typically addressed by Valley Water's Infrastructure Services team and educating staff concerning vulnerabilities. Valley Water security practices support network, computer and mobile device security (both digital and physical), email security, anti-virus and anti-malware requirements, operating system and application patching, encryption requirements, personnel, third party management, asset management, business continuity and disaster recovery, PCI compliance and secure computing asset disposal. Valley Water currently engages external consultants to audit and assess internal controls of the information security program annually.

Valley Water maintains liability insurance covering certain cyber losses. See the caption "VALLEY WATER — Insurance — *Cyber Liability Insurance*" for more information. Valley Water requires vendors contracted to work on technology-related projects to purchase Technology Errors & Omissions coverage.

Valley Water is also reliant on other entities and service providers in connection with the administration of the 2022A Bonds and the 2022B Interim Obligations, including without limitation the County tax collector for the levy and collection of SCW Parcel Taxes and the Trustee. No assurance can be given that Valley Water and these other entities will not be affected by cyber threats and attacks in a manner that may affect the owners of the 2022A Bonds and the 2022B Interim Obligations.

Potential Impact of Climate Change

Climate change is an important issue facing water resources planning. Therefore, Valley Water is evaluating climate change risks and vulnerabilities in its long-term water supply planning for future water supply reliability. There is scientific consensus that increasing concentrations of greenhouse gases have caused and will continue to cause increases in global temperatures, which will result in a wide range of changes in climate patterns (i.e. climate change). Moreover, there is evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes will have a direct effect on water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, climate change is likely to result in various types of impacts on Valley Water's Water Utility System, including among others, changes in the quantity, timing, intensity, and annual variability of precipitation, increased incidences and intensity of wildfires that could degrade water quality, sea level rise and riverine flooding, increased storm intensity and flooding, and increased temperatures. The foregoing is not an exhaustive list of the potential impact of climate change on Valley Water's operations. Such changes, among others, could affect the Water Utility System's water source reliability as well as water utility assets.

In July 2021, Valley Water completed an agency-wide Climate Change Action Plan ("CCAP") that includes vulnerability and risk assessments. The CCAP discusses Valley Water's current greenhouse gas emissions and climate efforts, Santa Clara County's climate and projected climate changes, Valley Water's vulnerabilities and risks due to climate change impacts, and goals, strategies, and possible actions to mitigate and adapt to climate change. The CCAP identifies seven goals—three that address GHG mitigation, three that address adaptation in each of Valley Water's mission areas—water supply, flood protection, and ecosystem stewardship—and one pertaining to emergency preparedness. Strategies are identified in the CCAP to achieve each goal. With respect to GHG mitigation, the CCAP identifies reductions to be achieved through adding fuel efficient/EV vehicles to Valley Water's fleet, replacing older equipment and consideration of GHG emissions when designing new capital projects. With respect to adaptation, the CCAP sets forth goals to maximize climate resilience of the County water supply, diversify local water supplies, increase the reliability of imported water and ensure that residents, waterways and infrastructure are protected from risks associated with increased flooding. With respect to emergency preparedness, the CCAP sets forth actions to maximize resilience to climate change-related emergencies which include improving Valley Water's internal procedures for emergency education and response as well as Valley Water's engagement with external emergency planning groups.

Valley Water staff is conducting further studies into a few of the issues above to look at climate change-related water supply risks and uncertainties into the late 21st century. Staff is evaluating risks and uncertainties related to climate-change related changes in: water demand, evaporative losses, changes in volume and timing of reservoir inflow, and degraded imported water reliability. Preliminary results indicate that climate change may result in increased water demand and overall decreased water supply reliability. Based on these preliminary studies and the results of literature reviews, Valley Water does not currently expect the potential impacts of climate change to have a material adverse effect on Valley Water's ability to pay debt service on the 2022A Bonds and to make the Installment Payments. Valley Water staff continues to monitor the available scientific information relating to climate change. Valley Water's water supply planning studies are updated regularly and will consider new or changing climate information as it becomes available.

The effect of sea level rise on water utility assets has been, and continues to be, evaluated. Valley Water's 2015 Infrastructure Reliability Plan considered the potential impact of sea level rise on Valley Water's infrastructure assets and its ability to reliably deliver water within its service area. Valley Water's delivery of drinking water is dependent on imported water that is delivered through the San Francisco Bay Delta, which is vulnerable to sea level rise and storm surges. However, Valley Water does not currently believe that the potential for sea level rise will have a material adverse effect on Valley Water's ability to pay debt service on the 2022A Bonds and to make the Installment Payments.

Economic, Political, Social and Environmental Conditions

Changes in economic political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, availability of skilled labor, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

Change in Tax Law

As discussed under “TAX MATTERS,” current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2022A Bonds and the 2022B Interim Obligations to be subject, directly or indirectly, in whole or in part, to federal income taxation or 2022A Bonds and the 2022B Interim Obligations to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

Failure to Maintain Credit Ratings

Certain rating agencies have assigned ratings to the 2022A Bonds and the 2022B Interim Obligations. The ratings issued reflect only the views of such rating agencies. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. See “RATINGS.” There are no assurances that current ratings will continue for any given period or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings could be expected to have an adverse effect on the market price or the marketing of the 2022A Bonds and the 2022B Interim Obligations. Valley Water undertakes no obligation to maintain its current credit ratings on the 2022A Bonds or the 2022B Interim Obligations or to oppose any such downward revision, suspension or withdrawal.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2022A Bonds and the 2022B Interim Obligations or, if a secondary market exists, that the 2022A Bonds and the 2022B Interim Obligations can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

From time-to-time, Valley Water issues Commercial Paper Certificates to finance projects of the SCW Program. Due to the foregoing risks described above with respect to the availability of a secondary market for 2022A Bonds and the 2022B Interim Obligations, Valley Water can make no assurances that there will continue to be a market for such short-term obligations.

Uncertainties of Projections, Forecasts and Assumptions

Certain information contained in this Official Statement is based upon assumptions and projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and Valley Water assumes no responsibility for the accuracy of such projections. See the caption “INTRODUCTION — Forward-Looking Statements.”

Failure to Refund the 2022B Interim Obligations

Valley Water has entered into the SCW WIFIA Loan No. 1 with the United States Environmental Protection Agency. The authorized principal amount to be drawn under the SCW WIFIA Loan No. 1 may be less than the principal amount of the 2022B Interim Obligations due at maturity. Valley Water expects to apply proceeds of SCW WIFIA Loan No. 1 to pay a portion of the 2022B Interim Obligations at maturity and to pay the remaining principal from other sources, which may include proceeds of additional SCW WIFIA Loans, reserves, proceeds of the Commercial Paper Certificates, Revolving Certificates, Bonds, Contracts. Valley Water must satisfy certain conditions in order to draw under each SCW WIFIA Loan, including the SCW WIFIA Loan No. 1. As a result, there can be no assurance that any loan proceeds will be available to pay the principal of the 2022B Interim Obligations at maturity.

If the proceeds of the SCW WIFIA Loans are not received by Valley Water in a timely manner, whether as a result of a failure to honor a draw by the EPA, a default by Valley Water under the SCW WIFIA Loans, or otherwise, Valley Water would need to use reserves, proceeds of the Commercial Paper Certificates, Revolving Certificates, Bonds, Contracts or other obligations to pay the entire principal of the 2022B Interim Obligations. Debt service on such bonds, notes or other obligations could be materially higher than payments on the SCW WIFIA Loans. A variety of events could prevent access to the municipal securities market, prohibit Valley Water from issuing such Bonds or other obligations, or make the issuance of such Bonds or other obligations prohibitively expensive. No assurance can be given that such a financing will be available to Valley Water on sufficiently favorable terms.

Development Default Under SCW WIFIA Loans

Under the SCW WIFIA Master Agreement, a “Development Default” will have occurred if, with respect to a project financed from proceeds of a SCW WIFIA Loan, (a) Valley Water abandons work related to such project or fails, in the reasonable judgment of the EPA, to diligently prosecute the work related to such project or (b) Valley Water fails to achieve the stage at which such project is able to perform the functions for which such project is designed (i.e. substantial completion), within twenty four (24) months following the projected date for substantial completion as set forth in the relevant WIFIA Loan agreement as of the effective date of such WIFIA Loan agreement. If a Development Default occurs, the EPA may, among other remedies, declare the unpaid principal amount of related WIFIA Loan to be immediately due and payable. In such circumstance, Valley Water would either need to pay such amount from available SCW Revenues or issue Bonds or incur Contracts or other obligations to pay such amount. Debt service on such bonds, notes or other obligations could be materially higher than payments on the SCW WIFIA Loans. During the construction of the projects eligible to be funded from the SCW WIFIA Loans, Valley Water currently expects to repay interim obligations issued to fund such projects, rather than from proceeds of a SCW WIFIA Loan.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII A

The taxing powers of California public agencies are limited by Article XIII A of the California Constitution (“Article XIII A”), added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum *ad valorem* tax on real property to one percent of “full cash value” which is defined as “the County Assessor’s valuation of real property as shown on the Fiscal Year 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year or reduction in the consumer price index, or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to *ad valorem* taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county within the State is required to levy the *ad valorem* tax permitted by Article XIII A and to distribute the proceeds to local agencies, including special districts such as Valley Water. Allocation of property tax revenue to Valley Water is governed by state law.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and two percent annual value growth) is allocated on the basis of situs among the jurisdictions that serve the tax rate areas within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenues from tax areas to such entities may be affected by the establishment of redevelopment area by redevelopment agencies which, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

From time to time legislation has been considered as part of the State budget to shift property tax revenues from special districts to school districts or other governmental entities. While legislation enacted in connection with the 1992-93 State budget shifted approximately 35% of many special districts' shares of the countywide 1% *ad valorem* property tax, the share of the countywide 1% *ad valorem* property tax pledged to debt service by special districts, such as Valley Water, was exempted.

Article XIII B

An initiative constitutional amendment entitled Limitations on Government Appropriations was approved by California voters on November 6, 1979. Under the amendment which added Article XIII B to the California Constitution ("Article XIII B"), State and local government agencies are subject to an annual limitation on certain appropriations. Appropriations subject to limitation consist of "tax revenues," State subventions and certain other funds (together herein referred to as "proceeds of taxes"). Article XIII B does not affect the appropriation of money excluded from the definition of "appropriations subject to limitation," such as debt service on indebtedness existing or authorized before January 1, 1979 or subsequently authorized by the voters and appropriations mandated by any court having proper jurisdiction. Article XIII B also excludes from limitation the appropriation of proceeds from regulatory licenses, user charges or other fees to the extent such proceeds equal "the costs reasonably borne by such entity in providing the regulations, product or service."

In general terms, Article XIII B provides that the appropriations limit will be based on certain 1978-79 expenditures and will be adjusted annually to reflect changes in cost of living, population and transfer of financial responsibility of providing services from one governmental unit to another. Article XIII B also provides that if an agency's revenues in any year exceed the amount which is appropriated by such agency in compliance with the provisions of Article XIII B, the excess must be returned during the next two fiscal years by revising tax rates or fee schedules. Valley Water's revenues do not exceed any applicable appropriations limit.

Proposition 218

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Article XIIIIC. Article XIIIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIIIC does not define the terms “local tax,” “assignment,” “fee” or “charge.” In the case of *Bighorn-Desert View Water Agency v. Virgil (Kelley)* (the “Bighorn Decision”), the California Supreme Court held that water service charges may be reduced or repealed through a local voter initiative subject to Article XIIIIC. The Supreme Court did state that it was not holding that the initiative power is free of all limitations. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Legislation adopted in 1997 provides that Article XIIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Future Initiatives

Articles XIIIIB, XIIIIC and XIIID were adopted as a measure that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting Valley Water’s revenues or ability to increase revenues.

CERTAIN LIMITATIONS ON RIGHTS AND OBLIGATIONS

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2022A Bonds and the 2022B Interim Obligations are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinions of Bond Counsel and Special Counsel (the forms of which are attached as Appendix D and E, respectively), will be similarly qualified.

TAX MATTERS

2022A Bonds

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2022A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. However, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), generally certain corporations with more than \$1,000,000,000 of average annual adjusted financial statement income, interest (and original issue discount) with respect to the 2022A Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2022A Bonds is exempt from State of California personal income tax.

The excess of the stated redemption price at maturity of a 2022A Bond over the issue price of a 2022A Bond (the first price at which a substantial amount of the 2022A Bonds of a maturity is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2022A Bond Owner before receipt of cash attributable to such

excludable income. The amount of original issue discount deemed received by the 2022A Bond Owner will increase the 2022A Bond Owner's basis in the applicable 2022A Bond.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2022A Bonds is based upon certain representations of fact and certifications made by Valley Water and others and is subject to the condition that Valley Water complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2022A Bonds to assure that interest (and original issue discount) on the 2022A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2022A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2022A Bonds. Valley Water has covenanted to comply with all such requirements.

The amount by which a 2022A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2022A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2022A Bond Owner's basis in the applicable 2022A Bond (and the amount of tax-exempt interest received with respect to the 2022A Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2022A Bond Owner realizing a taxable gain when a 2022A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2022A Bond to the Owner. Purchasers of the 2022A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

2022B Interim Obligations

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the portion of each Installment Payment with respect to the 2022B Interim Obligations constituting interest (and original issue discount) is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. However, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Code, generally certain corporations with more than \$1,000,000,000 of average annual adjusted financial statement income, the portion of each Installment Payment with respect to the 2022B Interim Obligations constituting interest (and original issue discount) might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations. In the further opinion of Special Counsel, the portion of each Installment Payment with respect to the 2022B Interim Obligations constituting interest (and original issue discount) is exempt from State personal income tax.

The excess of the stated redemption price at maturity of a 2022B Interim Obligation over the issue price of a 2022 Interim Obligation (the first price at which a substantial amount of the 2022B Interim Obligations of a maturity is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2022B Interim Obligation Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2022B Interim Obligation Owner will increase the 2022B Interim Obligation Owner's basis in the applicable 2022 Interim Obligation.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Installment Payment with respect to the 2022B Interim Obligations constituting interest (and original issue discount) is based upon certain representations of fact and certifications made by Valley Water and others and is subject to the condition that Valley Water comply with all requirements of the Code, that must be satisfied subsequent to the execution and delivery of the 2022B Interim Obligations to assure that the portion of each Installment

Payment with respect to the 2022B Interim Obligations constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Installment Payment with respect to the 2022B Interim Obligations constituting interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2022B Interim Obligations. Valley Water has covenanted to comply with all such requirements.

The amount by which a 2022 Interim Obligation Owner's original basis for determining loss on sale or exchange in the applicable 2022 Interim Obligation (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2022 Interim Obligation premium, which must be amortized under Section 171 of the Code; such amortizable 2022 Interim Obligation premium reduces the 2022 Interim Obligation Owner's basis in the applicable 2022 Interim Obligation (and the amount of tax-exempt interest received with respect to the 2022B Interim Obligations), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2022 Interim Obligation premium may result in a 2022 Interim Obligation Owner realizing a taxable gain when a 2022 Interim Obligation is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2022 Interim Obligation to the Owner. Purchasers of the 2022B Interim Obligations should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2022 Interim Obligation premium.

General

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the 2022A Bonds and the 2022B Interim Obligations will be selected for audit by the IRS. It is also possible that the market value of the 2022A Bonds and the 2022B Interim Obligations might be affected as a result of such an audit of the 2022A Bonds and the 2022B Interim Obligations (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2022A Bonds and the execution and delivery of the 2022B Interim Obligations to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2022A Bonds or the portion of each Installment Payment with respect to the 2022B Interim Obligations constituting interest (and original issue discount) or the market values of the 2022A Bonds and the 2022B Interim Obligations.

It is possible that subsequent to the issuance of the 2022A Bonds and the execution and delivery of the 2022B Interim Obligations there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the 2022A Bonds and the 2022B Interim Obligations or the market value of the 2022A Bonds and the 2022B Interim Obligations. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2022A Bonds and the 2022B Interim Obligations. No assurance can be given that subsequent to the issuance of the 2022A Bonds and the execution and delivery of the 2022B Interim Obligations such changes will not be introduced or enacted or interpretations will not occur. Before purchasing any of the 2022A Bonds or 2022B Interim Obligations, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the 2022A Bonds and the 2022B Interim Obligations.

Bond Counsel and Special Counsel's opinions with respect to the 2022A Bonds and the 2022B Interim Obligations, respectively, may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel and Special Counsel have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture, the Installment Purchase Agreement, the Trust Agreement and the Tax Certificate relating to the 2022A Bonds and the 2022B Interim Obligations, as applicable, permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel or Special Counsel is provided with respect thereto. Bond Counsel and Special Counsel express

no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2022A Bond or the portion of each Installment Payment with respect to the 2022B Interim Obligations constituting interest if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel and Special Counsel have rendered opinions that interest on the 2022A Bonds and the portion of each Installment Payment with respect to the 2022B Interim Obligations constituting interest (and original issue discount), respectively, are excluded from gross income for federal income tax purposes provided that Valley Water continues to comply with certain requirements of the Code, the ownership of the 2022A Bonds and the 2022B Interim Obligations and the accrual or receipt of interest on the 2022A Bonds and the 2022B Interim Obligations may otherwise affect the tax liability of certain persons. Bond Counsel and Special Counsel express no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2022A Bonds or the 2022B Interim Obligations, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2022A Bonds or the 2022B Interim Obligations.

RATINGS

Valley Water expects that Moody's Investors Service, Inc. ("Moody's") will assign the 2022A Bonds and the 2022B Interim Obligations the rating of "____" (____ outlook) and that Fitch Ratings, Inc. ("Fitch") will assign the 2022A Bonds and the 2022B Interim Obligations the rating of "____" (____ outlook). There is no assurance that any credit rating given to the 2022A Bonds and the 2022B Interim Obligations will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by Moody's and Fitch if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the 2022A Bonds and the 2022B Interim Obligations. Such ratings reflect only the views of Moody's and Fitch, as the case may be, and an explanation of the significance of such ratings may be obtained from Moody's and Fitch, as the case may be. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from Valley Water which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

Valley Water has covenanted in Continuing Disclosure Agreements for the 2022A Bonds and the 2022B Interim Obligations to file on EMMA, notices of any ratings changes on the 2022A Bonds and the 2022B Interim Obligations. See the caption "CONTINUING DISCLOSURE UNDERTAKING" below and Appendices G and H, respectively. Notwithstanding such covenant, information relating to ratings changes on the 2022A Bonds and the 2022B Interim Obligations may be publicly available from the rating agencies prior to such information being provided to Valley Water and prior to the date Valley Water is obligated to file a notice of rating change on EMMA. Purchasers of the 2022A Bonds and the 2022B Interim Obligations are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the 2022A Bonds and the 2022B Interim Obligations after the initial issuance of the 2022A Bonds and delivery of the 2022B Interim Obligations.

CONTINUING DISCLOSURE UNDERTAKINGS

Valley Water has covenanted in Continuing Disclosure Agreements for the benefit of the holders and beneficial owners of the 2022A Bonds and the 2022B Interim Obligations to provide certain financial information and operating data relating to Valley Water by not later than each April 1, commencing April 1, 2023, to provide notices of the occurrence of certain enumerated events, and to provide notices of the occurrence of certain other enumerated events, if material. The Annual Reports and the notices of enumerated events will be filed by Valley Water with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. The specific nature of the information to be contained in the Annual Report and the notice of material events with respect to the 2022A Bonds and the 2022B Interim Obligations are set forth in Appendix F — "FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022A BONDS" and

in Appendix G — “FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022B INTERIM OBLIGATIONS,” respectively. These covenants have been made in order to assist the Underwriters in complying with Section (b)(5) of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the “Rule”).

Over the past five years, Valley Water has been subject to obligations under various continuing disclosure certificates entered into pursuant to the Rule (collectively, the “Prior Continuing Disclosure Undertakings”). Pursuant to the Prior Continuing Disclosure Undertakings, Valley Water agreed to file its audited financial reports, certain operating data with respect to the Water Utility System and Flood Control System, as well as notices of certain enumerated events. In 2018, Valley Water filed two supplements to its continuing disclosure annual report for Fiscal Year 2016-17 to correct certain debt service coverage calculations with respect to Valley Water’s Flood Control System Obligations and obligations secured by revenues of the Water Utility System.

In order to implement a process for compliance with continuing disclosure undertakings under Rule 15c2-12, Valley Water’s Debt Management Policy was updated to include disclosure procedures effective March 1, 2016 (the “Disclosure Procedures”). Pursuant to the Disclosure Procedures, the Treasury, Debt and Grants Officer is required to take steps to ensure that continuing disclosure filings are prepared and filed in a timely manner. Valley Water updated the Disclosure Procedures in Fiscal Year 2019 to include processes with respect to event notices relating to financial obligations, as required by the amendments to Rule 15c2-12 which became effective February 27, 2019. Valley Water also updated the Disclosure Policies to acknowledge recent legal bulletins of the SEC staff relating to public statements by municipal issuers, such as Valley Water. A copy of the Disclosure Procedures has been provided to the Underwriters and is available from the Treasury, Debt and Grants Officer of Valley Water at 5750 Almaden Expressway, San Jose, California Telephone: (408) 265-2600.

UNDERWRITING

The 2022A Bonds are being purchased by an underwriting syndicate consisting of J.P. Morgan Securities LLC, acting as representative, and the other underwriters named on the cover page hereto (collectively, the “Underwriters”) pursuant to a Purchase Contract, dated _____, 2022, by and between the Underwriters and Valley Water (the “Bond Purchase Contract”). The purchase price of the 2022A Bonds is equal to \$_____, being the aggregate principal amount of the 2022A Bonds of \$_____, plus original issue premium of \$_____ and less an underwriters’ discount of \$_____. The Bond Purchase Contract provides that the Underwriters will purchase all of the 2022A Bonds, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions.

The 2022B Interim Obligations are being purchased by the Underwriters pursuant to an Interim Obligation Purchase Contract, dated _____, 2022, by and between the Underwriters and Valley Water (the “Interim Obligation Purchase Contract”). The purchase price of the 2022B Interim Obligations is equal to \$_____, being the aggregate principal amount of the 2022B Interim Obligations of \$_____, plus original issue premium of \$_____ and less an underwriters’ discount of \$_____. The Interim Obligations Purchase Contract provides that the Underwriters will purchase all of the 2022B Interim Obligations, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Interim Obligation Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions.

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2022A Bonds and the 2022B Interim Obligations to certain dealers (including dealers depositing 2022A Bonds and 2022B Interim Obligations into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

MUNICIPAL ADVISOR

Valley Water has retained Public Resources Advisory Group, of Los Angeles, California, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the 2022A Bonds and the execution and delivery of the 2022B Interim Obligations. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Resources Advisory Group is an independent municipal advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of certain fees of the Municipal Advisor for the 2022A Bonds and the 2022B Interim Obligations is contingent upon the issuance and the execution and delivery thereof, respectively.

CERTAIN LEGAL MATTERS

Bond Counsel will render an opinion with respect to the 2022A Bonds substantially in the form set forth in Appendix D hereto and Special Counsel will render an opinion with respect to the 2022B Interim Obligations substantially in the form set forth in Appendix E hereto. Copies of such opinions will be furnished to the Underwriters at the time of delivery of the 2022A Bonds and the 2022B Interim Obligations, respectively. Certain legal matters will be passed upon for Valley Water and the Corporation by District Counsel to Valley Water, J. Carlos Orellana, Esq., for the Underwriters by their counsel, Nixon Peabody LLP, and for the Trustee by its counsel. The payment of the fees of Bond Counsel is contingent upon the issuance of the 2022A Bonds and the payment of the fees of Special Counsel is contingent upon the execution and delivery of the 2022B Interim Obligations. Bond Counsel and Special Counsel express no opinion to the owners of the 2022A Bonds and the 2022B Interim Obligations as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2022A Bonds and the 2022B Interim Obligations and expressly disclaims any duty to advise the Owners of the 2022A Bonds and the 2022B Interim Obligations as to matters related to this Official Statement. From time to time, Stradling Yocca Carlson & Rauth, a Professional Corporation represents the Underwriters on matters unrelated to the 2022A Bonds and the 2022B Interim Obligations.

MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by Valley Water and the Corporation. Copies of this Official Statement may be obtained from the Treasury, Debt and Grants Officer of Valley Water at the address indicated on the inside cover page of this Official Statement.

The general purpose financial statements of Valley Water, a summary of the principal legal documents related to the 2022A Bonds and the 2022B Interim Obligations, information with respect to the book-entry only system relating to the 2022A Bonds and the 2022B Interim Obligations, the forms of opinions of Bond Counsel and Special Counsel and the form of the proposed Continuing Disclosure Agreements are attached hereto as Appendices. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

The delivery of this Official Statement, including the Appendices and other information herein, has been duly authorized by Valley Water.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Chief Executive Officer

Attest:

Clerk of the Board of Directors

APPENDIX A
AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 AND
MEMORANDUM OF INTERNAL CONTROL

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the SCW Master Resolution, the Indenture, the Installment Purchase Agreement and the Trust Agreement which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE SCW MASTER RESOLUTION

[TO BE INSERTED BY BOND COUNSEL]

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS
OF THE 2022A BOND INDENTURE**

[TO BE INSERTED BY BOND COUNSEL]

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS
OF THE INSTALLMENT PURCHASE AGREEMENT RELATED TO THE
2022B INTERIM OBLIGATIONS**

[TO BE INSERTED BY BOND COUNSEL]

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS
OF THE TRUST AGREEMENT RELATED TO THE
2022B INTERIM OBLIGATIONS**

[TO BE INSERTED BY BOND COUNSEL]

APPENDIX C

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that Valley Water believes to be reliable, but Valley Water takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2022A Bonds and the 2022B Interim Obligations (the "Obligations"), payment of principal, premium, if any, accreted value, if any, and interest on the Obligations to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Obligations and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Obligation will be issued for each annual maturity of the Obligations, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such

Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligations documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Valley Water as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Valley Water or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or Valley Water, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Valley Water or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

An Obligation Owner shall give notice to elect to have its Obligations purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Obligations by causing the Direct Participant to transfer the Participant's interest in the Obligations, on DTC's records, to the Trustee. The requirement for physical delivery of Obligations in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Obligations are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Obligations to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Obligations at any time by giving reasonable notice to Valley Water or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

Valley Water may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Obligations will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE OBLIGATIONS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE OBLIGATIONS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX D

FORM OF BOND COUNSEL OPINION WITH RESPECT TO THE 2022A BONDS

Upon issuance of the 2022A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118

Re: \$_____ Santa Clara Valley Water District Safe Clean Water Program
Refunding Revenue Bonds Series 2022A

Members of the Board of Directors:

We have examined a certified copy of the record of the proceedings of the Santa Clara Valley Water District (the “District”) relative to the issuance of the \$_____ Santa Clara Valley Water District Safe Clean Water Program Refunding Revenue Bonds, Series 2022A (the “Bonds”), dated the date hereof, and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds are being issued in accordance with Resolution No. 21-34 adopted on May 11, 2021 by the Board of Directors of the District (the “SCW Master Resolution”), and an Indenture of Trust, dated as of November 1, 2022 (the “Indenture”), by and between the District and U.S. Bank Trust Company, National Association, as trustee (the “Trustee”). The Bonds mature on the dates and in the amounts referenced in the Indenture. The Bonds are dated their date of delivery and bear interest at the rates per annum referenced in the Indenture. The Bonds are registered in the form set forth in the Indenture.

Based on our examination as Bond Counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. The proceedings of the District show lawful authority for the issuance and sale of the Bonds under the laws of the State of California now in force, and the Indenture has been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the Bonds and the Indenture are valid and binding obligations of the District enforceable against the District in accordance with their terms.

2. The obligation of the District to make the payments of principal of and interest on the Bonds from SCW Revenues (as defined in the SCW Master Resolution) is an enforceable obligation of the District and does not constitute a debt of the District, or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals; however, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), interest (and original issue discount) on the Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed on such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

5. The excess of the stated redemption price at maturity of a Bond over the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the applicable Bond.

6. The amount by which a Bond Owner’s original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code by Owners of the Bonds. Such amortizable bond premium reduces the Owner’s basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

By delivering this letter, we are not expressing any opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the SCW Master Resolution, the Bonds or the Indenture. The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. We express no opinion herein with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the SCW Master Resolution, the Indenture or the Bonds, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on any assets thereunder.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX E

FORM OF SPECIAL COUNSEL OPINION WITH RESPECT TO THE 2022B INTERIM OBLIGATIONS

Upon execution and delivery of the 2022B Interim Obligations, Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118

Re: \$_____ Santa Clara Valley Water District Safe Clean Water Program
Revenue Certificates of Participation (Interim Obligations) Series 2022B

Members of the Board of Directors:

We have acted as Special Counsel to the Santa Clara Valley Water District (the “District”) in connection with the execution and delivery of \$_____ aggregate principal amount of Santa Clara Valley Water District, Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations) Series 2022B (the “Interim Obligations”). The Interim Obligations will be dated the date hereof, each evidencing and representing an interest of the registered owner thereof in the right to receive Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Installment Purchase Agreement (the “Agreement”), dated as of November 1, 2022, by and between the District and the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”). The Agreement is being executed and delivered in accordance with Resolution No. 21-34 adopted on May 11, 2021 by the Board of Directors of the District (the “SCW Master Resolution”). The Corporation’s right to receive such Installment Payments has been assigned by the Corporation to U.S. Bank Trust Company, National Association, as trustee (the “Trustee”), pursuant to the Assignment Agreement, dated as of November 1, 2022, by and between the Trustee and the Corporation. The Interim Obligations have been executed by the Trustee pursuant to the terms of the Trust Agreement, dated as of November 1, 2022 (the “Trust Agreement”), by and among the District, the Corporation and the Trustee.

In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Interim Obligations and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

Based on our examination as Special Counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. The proceedings show lawful authority for the execution and delivery by the District of the Agreement and the Trust Agreement under the laws of the State of California now in force, and the Agreement and the Trust Agreement have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the Trustee and the Corporation, as appropriate, are valid and binding obligations of the District enforceable against the District in accordance with their respective terms.

2. The Interim Obligations, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement.

3. The obligation of the District to make the Installment Payments from SCW Revenues (as defined in the SCW Master Resolution) is an enforceable obligation of the District and does not constitute a debt of the District, or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction.

4. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the portion of each Installment Payment with respect to the Interim Obligations constituting interest (and original issue discount) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals; however, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the "Code"), interest (and original issue discount) with respect to the Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed on such corporations.

5. The portion of each Installment Payment with respect to the Interim Obligations constituting interest (and original issue discount) is exempt from State of California personal income tax.

6. The excess of the stated prepayment price at maturity of the Interim Obligations over the issue price of the Interim Obligations (the first price at which a substantial amount of the Interim Obligations is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an Interim Obligation Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Interim Obligation Owner will increase the Interim Obligation Owner's basis in the applicable Interim Obligation.

7. The amount by which a Interim Obligation Owner's original basis for determining loss on sale or exchange in the applicable Interim Obligation (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Interim Obligation premium, which must be amortized under Section 171 of the Code; such amortizable Interim Obligation premium reduces the Interim Obligation Owner's basis in the applicable Interim Obligation (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Interim Obligation premium may result in a Interim Obligation Owner realizing a taxable gain when a Interim Obligation is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Interim Obligation to the Owner.

The opinions expressed herein as to the exclusion from gross income of the portion of each Installment Payment with respect to the Interim Obligations constituting interest (and original issue discount) are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the delivery of the Interim Obligations to assure that such portion of each Installment Payment with respect to the Interim Obligations constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the portion of each Installment Payment with respect to the Interim Obligations constituting interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of delivery of the Interim Obligations. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Agreement, the Trust Agreement and the Tax Certificate

relating to the Interim Obligations permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of the portion of each Installment Payment with respect to the Interim Obligations constituting interest (and original issue discount) for federal income tax purposes with respect to any Interim Obligations if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Interim Obligations.

By delivering this letter, we are not expressing any opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the Interim Obligations, the Agreement or the Trust Agreement. We express no opinion herein with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the SCW Master Resolution, the Interim Obligations, the Agreement or the Trust Agreement, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on any assets thereunder.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the SCW Master Resolution, the Agreement, the Trust Agreement and the Interim Obligations are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Interim Obligations or other offering material relating to the Interim Obligations and expressly disclaim any duty to advise the owners of the Interim Obligations with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022A BONDS

Upon issuance of the 2022A Bonds, Valley Water proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

[TO BE INSERTED BY BOND COUNSEL]

APPENDIX G

**FORM OF CONTINUING DISCLOSURE AGREEMENT
FOR THE 2022B INTERIM OBLIGATIONS**

Upon execution and delivery of the 2022B Interim Obligations, Valley Water proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

[TO BE INSERTED BY BOND COUNSEL]