

PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2022

NEW ISSUE-Book Entry Only

See “RATINGS” herein.

\$[ ]\*  
**Santa Clara Valley Water District  
Water System Refunding Revenue Bonds  
Series 2022A and Taxable Series 2022B**

\$[ ]\*  
**Santa Clara Valley Water District  
Revenue Certificates of Participation  
(Water Utility System Improvement Projects)  
Series 2022C**

\$[ ]\*  
**Series 2022A**

\$[ ]\*  
**Taxable Series 2022B**

**Dated: Date of Delivery**

**Due: June 1, as shown on the inside cover**

The proceeds of the 2022A Bonds and the 2022B Bonds (together, the “2022 Bonds”) are being issued to provide a portion of the money to (i) pay a portion of the principal of the currently outstanding Commercial Paper Certificates, and Revolving Certificates issued to finance projects for the Water Utility System; and (ii) pay costs of issuance of the 2022 Bonds, all as more fully described herein. Interest due on the 2022 Bonds is payable on each June 1 and December 1, commencing June 1, 2023.

The 2022 Bonds are being issued pursuant to Resolution No. 16-10 adopted by the Board of Directors of Valley Water on February 23, 2016 (as amended to the date hereof, the “Parity Master Resolution”) and an indenture of trust, dated as of November 1, 2022 (the “Refunding Bond Indenture”) by and between Valley Water and U.S. Bank Trust Company, National Association, as trustee thereunder. **The 2022 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity as described in this Official Statement.**

The proceeds of the 2022C Certificates will be used to (i) finance the cost of certain water utility system improvements, (ii) fund capitalized interest with respect to all or a portion of the 2022C Certificates, and (iii) pay the costs of executing and delivering the 2022C Certificates. Interest with respect to the 2022C Certificates is payable on each June 1 and December 1, commencing June 1, 2023.

The 2022C Certificates are being executed and delivered pursuant to a Trust Agreement (the “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 2022C Certificates 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 2022C Certificates are subject to optional, mandatory sinking fund and extraordinary prepayment prior to maturity as described in this Official Statement.**

The 2022 Bonds are being issued in fully registered form and the 2022C Certificates are being prepared as fully registered certificates and, when each of the 2022 Bonds and the 2022C Certificates 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 2022 Bonds and the 2022C Certificates. Purchasers of beneficial interests will not receive certificates representing their interest in the 2022 Bonds or the 2022C Certificates. So long as Cede & Co. is the registered owner of the 2022 Bonds or 2022C Certificates, 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 2022 Bonds or the 2022C Certificates. Individual purchases of the 2022 Bonds and the 2022C Certificates 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 2022 Bonds and evidenced by the 2022C Certificates 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 2022 Bonds and the 2022C Certificates.

The principal and interest on the 2022 Bonds and the Installment Payments are secured by a pledge of and lien under the Parity Master Resolution on District Water Utility System Revenues and are payable from Net Water Utility System Revenues. Valley Water has covenanted in the Parity Master Resolution that it will not create or allow any lien on the payment from the Water Utility System Revenues superior to the obligation to pay Bonds and Contracts, including the 2022 Bonds and the Installment Purchase Agreement. The principal and interest on the 2022 Bonds and the Installment Payments are secured by Water Utility System Revenues and are payable from Net Water System Revenues on a parity with the obligation of Valley Water to pay debt service and to make installment payments on Bonds and Contracts outstanding, as of October 1, 2022, in the aggregate principal amount of \$624,610,000. The revenues of Valley Water’s flood control system and parcel tax revenue of the Safe, Clean Water Program, as well as property taxes levied by Valley Water to pay certain State Water Project costs, are not included in Water Utility System Revenues pledged to the payment of the 2022 Bonds or the Installment Payments. No reserve fund has been created or will be funded with respect to the 2022 Bonds or the 2022C Certificates.

*The obligation of Valley Water to pay the principal of and interest on the 2022 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 on the 2022A Bonds and the portion of each Installment Payment constituting interest with respect to the 2022C Certificates (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. In the further opinion of Bond Counsel and Special Counsel, interest on the 2022 Bonds and the portion of each Installment Payment constituting interest is exempt from State of California personal income tax. See “TAX MATTERS — Tax-Exempt Obligations” and “TAX MATTERS — Taxable Obligations” herein with respect to tax consequences with respect to the 2022 Bonds and the 2022C Certificates, 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 2022 Bonds and the 2022C Certificates are offered when, as and if executed and delivered to the Purchasers, 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., and for the Trustee by its counsel. It is expected that the 2022 Bonds and the 2022C Certificates will be available for delivery in book-entry only form through the facilities of DTC on or about \_\_\_\_\_, 2022.*

Dated: \_\_\_\_\_, 2022

## MATURITY SCHEDULES

\$[        ]\*  
**Santa Clara Valley Water District**  
**Water System Refunding Revenue Bonds**  
**Series 2022A and Taxable Series 2022B**

\$[        ]\*  
**Series 2022A**

<i>Payment Date</i> <i>(June 1)</i>	<i>Principal</i> <i>Amount</i>	<i>Interest</i> <i>Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP</i> <sup>†</sup>
	\$	%	%	%	

\$\_\_\_\_\_ % 2022A Term Bonds due June 1, 20\_\_ – Yield \_\_\_\_% – Price \_\_\_\_\_ CUSIP<sup>†</sup> \_\_\_\_\_

\$[        ]\*  
**Taxable Series 2022B**

<i>Payment Date</i> <i>(June 1)</i>	<i>Principal</i> <i>Amount</i>	<i>Interest</i> <i>Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP</i> <sup>†</sup>
	\$	%	%	%	

\$\_\_\_\_\_ % 2022B Term Bonds due June 1, 20\_\_ – Yield \_\_\_\_% – Price \_\_\_\_\_ CUSIP<sup>†</sup> \_\_\_\_\_

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\* Preliminary, subject to change.

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\$[            ]\*

**Santa Clara Valley Water District**  
**Revenue Certificates of Participation**  
**(Water Utility System Improvement Projects)**  
**Series 2022C**

<i><b>Payment Date</b></i> <i><b>(June 1)</b></i>	<i><b>Principal</b></i> <i><b>Amount</b></i>	<i><b>Interest</b></i> <i><b>Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP<sup>†</sup></b></i>
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\$\_\_\_\_\_ % 2022C Term Certificates due June 1, 20\_\_ – Yield \_\_\_\_% – Price \_\_\_\_\_ CUSIP<sup>†</sup> \_\_\_\_\_

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\* Preliminary, subject to change.

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## **SANTA CLARA VALLEY WATER DISTRICT**

5750 Almaden Expressway  
San Jose, California 95118

### **BOARD OF DIRECTORS AND OFFICERS OF VALLEY WATER**

John L. Varela, Chair Pro Tem, District 1  
Barbara Keegan, Vice Chair Pro Tem, District 2  
Richard P. Santos, Director, District 3  
Linda J. LeZotte, Director, District 4  
Nai Hsueh, Director, District 5  
Tony Estremera, Director, District 6  
Gary Kremen, Director, District 7

### **BOARD OF DIRECTORS AND OFFICERS OF THE PUBLIC FACILITIES FINANCING CORPORATION**

\_\_\_\_\_, President  
Steve M. Mullen, Vice President  
Spencer Horowitz, Director/Chief Financial Officer  
Dean Chu, Director  
Carolyn M. Bauer, Director

### **VALLEY WATER STAFF**

Rick Callender, Chief Executive Officer  
Melanie Richardson, Assistant Chief Executive Officer, Operations  
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 Purchasers, 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 2022 Bonds or the 2022C Certificates 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 2022 Bonds or the 2022C Certificates. 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 Purchasers.

In reliance upon exemptions contained in such acts, the 2022 Bonds and the 2022C Certificates have not been registered under the Securities Act of 1933, as amended, nor has the Refunding Bond Indenture and the Trust Agreement been qualified under the Trust Indenture Act of 1939, as amended. The registration or qualification of the 2022 Bonds or the 2022C Certificates in accordance with applicable provisions of securities laws of any state in which the 2022 Bonds or the 2022C Certificates 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 2022 Bonds or the 2022C Certificates or the accuracy or completeness of this Official Statement.

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

The Purchasers 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 Purchasers 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 Purchasers. 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 2022 BONDS AND THE 2022C CERTIFICATES, THE PURCHASERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2022 BONDS AND 2022C CERTIFICATES 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 2022 Bonds or the 2022C Certificates.

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  
Water System Refunding Revenue Bonds  
Series 2022A and Taxable Series 2022B**

\$[ ]\*  
**Santa Clara Valley Water District  
Revenue Certificates of Participation  
(Water Utility System Improvement Projects)  
Series 2022C**

\$[ ]\*  
**Series 2022A**

\$[ ]\*  
**Taxable Series 2022B**

## INTRODUCTION

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 Water System Refunding Revenue Bonds, Series 2022A (the “2022A Bonds”) and Taxable Series 2022B (the “2022B Bonds” and together with the 2022A Bonds, the “2022 Bonds”) and (ii) \$[ ]\* aggregate principal amount of Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2022C (the “2022C Certificates”). 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 2022 Bonds and the 2022C Certificates and not otherwise defined shall have the meanings set forth in “APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS.”

### **The 2022 Bonds**

**General.** The 2022 Bonds will be issued pursuant to Resolution No. 16-10, adopted by the Board of Directors of Valley Water on February 23, 2016 (as amended to the date hereof, the “Parity Master Resolution”) and an Indenture of Trust, dated as of November 1, 2022 (the “Refunding Bond Indenture”) by and between Valley Water and U.S. Bank Trust Company, National Association, as trustee thereunder (the “Trustee”).

**Purpose.** The 2022 Bonds are being issued to (i) pay a portion of the principal of the currently outstanding Commercial Paper Certificates, and Revolving Certificates issued to finance projects for the Water Utility System; and (ii) pay costs of issuance of the 2022 Bonds, all as more fully described herein and (ii) pay costs of issuance of the 2022 Bonds, all as more fully described herein. See the caption “PLAN OF FINANCE — The Refunding Plan.”

**Security for the 2022 Bonds.** The 2022 Bonds are secured by a pledge of the Water Utility System Revenues of Valley Water’s Water Utility System (as such terms are defined in the Parity Master Resolution and as more particularly described under the caption “SOURCES OF PAYMENT FOR THE BONDS AND THE 2022C CERTIFICATES — Pledge of Water Utility System Revenues”) and amounts on deposit in certain funds and accounts established under Parity Master Resolution and the Refunding Bond Indenture. The obligation of Valley Water to pay principal of and interest on the 2022 Bonds is a special obligation of Valley Water payable solely from Net Water Utility System Revenues of the Water Utility System. Net Water Utility System Revenues of the Water Utility System of Valley Water include the Water Utility System Revenues remaining after payment of Operation and Maintenance Costs, and transfers to and from the Rate Stabilization Fund and Special Purpose Funds. Valley Water’s obligation to pay debt service on the 2022 Bonds from Net Water Utility System Revenues is on a parity with Valley Water’s obligation to make Installment Payments (as defined below) which secure the 2022C Certificates, and any obligations hereafter issued or incurred on a parity therewith subject to the terms and conditions of the Parity Master Resolution. See the captions

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\* Preliminary, subject to change.

“SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS — Pledge of Water Utility System Revenues” and “DEBT STRUCTURE OF VALLEY WATER.”

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

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

### **The 2022C Certificates**

***General.*** The 2022C Certificates 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 2022C Certificates 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 2022C Certificates will be used to (i) finance the cost of certain water utility system improvements, (ii) fund capitalized interest with respect to all or a portion of the 2022C Certificates, and (iii) pay the costs of executing and delivering the 2022C Certificates. See the caption “PLAN OF FINANCE — Water Utility System Infrastructure Improvements.”

***Security for the Installment Payments.*** The Installment Payments are secured by a pledge of the Water Utility System Revenues of Valley Water’s Water Utility System and amounts on deposit in certain funds and accounts established under the Parity 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 Net Water Utility System Revenues of the Water Utility System. Valley Water’s obligation to make the Installment Payments from Net Water Utility System Revenues is on a parity with Valley Water’s obligation to pay debt service on the 2022 Bonds, and any obligations hereafter issued or incurred on a parity therewith subject to the terms and conditions of the Parity Master Resolution. Valley Water’s obligation to make the Installment Payments from Net Water Utility System Revenues is absolute and unconditional and Valley Water has covenanted to continue to make such payments whether or not the facilities financed from the proceeds of the 2022C Certificates (as more particularly described under the caption “PLAN OF FINANCE — Water Utility System Infrastructure Improvements”) is operating or operable. Such payments are not subject to annual appropriation or abatement in the event of loss or destruction of the Project. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE SERIES 2022C CERTIFICATES — Pledge of Water Utility System Revenues” and “DEBT STRUCTURE OF VALLEY WATER.”

***No Reserve Fund for the 2022C Certificates.*** No reserve fund has been created or will be funded with respect to the 2022C Certificates.

***Prepayment.*** The 2022C Certificates will be subject to optional, mandatory sinking fund and extraordinary prepayment prior to maturity, as more fully described under the caption “THE 2022C CERTIFICATES.”

***Payment of 2022C Certificates at Maturity.*** Valley Water may pay the principal with respect to the 2022C Certificates on or before maturity from reserves, Bonds, Contracts, notes or other obligations. Valley Water is negotiating a WIFIA master loan agreement (the “Water Utility WIFIA Master Agreement”) with the United States Environmental Protection Agency (the “EPA”) under the authorization of the Water Infrastructure Finance and Innovation Act for one or more loans to be obtained thereunder (each a “Water Utility WIFIA Loan”). If executed and delivered, subject to satisfying the applicable requirements of the Water Utility WIFIA Master Agreement, Valley Water may also obtain Water Utility WIFIA Loans under the

Water Utility WIFIA Master Agreement to pay the 2022C Certificates on or before maturity. No assurances can be made that the Water Utility WIFIA Master Agreement will be executed and delivered or that any Water Utility WIFIA Loans will be obtained thereunder. See the captions “DEBT STRUCTURE OF VALLEY WATER — Proposed WIFIA Loan” and “POTENTIAL INVESTMENT CONSIDERATIONS — Failure to Refund the 2022C Certificates.”

### **Senior Obligations**

Valley Water does not have any obligations secured by Water Utility System Revenues senior to Bonds and Contracts, including the 2022 Bonds and the Installment Purchase Agreement. Valley Water has covenanted in the Parity Master Resolution that it will not create or allow any lien on the payment from the Water Utility System Revenues superior to the obligation to pay Bonds and Contracts, including the 2022 Bonds and the Installment Purchase Agreement.

### **Parity Obligations**

The obligation of Valley Water to pay principal of and interest on the 2022 Bonds and to make the Installment Payments from Net Water Utility System Revenues is secured by a pledge of the Water Utility System Revenues and certain funds and accounts established under the Parity Master Resolution and are payable from Net Water Utility System Revenues on a parity with Parity Obligations (as defined below) outstanding as of October 1, 2022 in the principal amount of \$624,610,000 including: (i) the obligation of Valley Water to pay principal of and interest on Valley Water’s Water System Refunding Revenue Bonds, Series 2016A (the “2016A Bonds”) and Taxable Series 2016B (the “2016B Bonds” and together with the 2016A Bonds the, “2016 Bonds”) in the aggregate principal amount of \$181,530,000; (ii) the obligation of Valley Water to make installment payments under an installment purchase agreement dated as of February 1, 2016 (the “2016 Installment Purchase Agreement”) by and between Valley Water and the Corporation, which installment payments secure \$63,750,000 aggregate principal amount of Valley Water’s Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2016C and Taxable Series 2016D (collectively, the “2016 Certificates”); (iii) the obligation of Valley Water to pay principal of and interest on Valley Water’s Water System Refunding Revenue Bonds, Series 2017A (the “2017A Bonds”) in the aggregate principal amount of \$45,770,000; (iv) the obligation of Valley Water to pay principal of and interest on Valley Water’s Water System Refunding Revenue Bonds, Series 2019A (the “2019A Bonds”) and Taxable Series 2019B (the “2019B Bonds” and together with the 2019A Bonds the, “2019AB Bonds”) in the aggregate principal amount of \$89,520,000; (v) the obligation of Valley Water to pay principal of and interest on Valley Water’s Water System Refunding Revenue Bonds, Series 2019C (the “2019C Bonds”) in the aggregate principal amount of \$32,990,000; (vi) the obligation of Valley Water to pay principal of and interest on Valley Water’s Water System Refunding Revenue Bonds, Series 2020A (the “2020A Bonds”) and Taxable Series 2020B (the “2020B Bonds” and together with the 2020A Bonds the, “2020AB Bonds”) in the aggregate principal amount of \$92,650,000; (vii) the obligation of Valley Water to make installment payments under an installment purchase agreement dated as of September 1, 2020 (the “2020 Installment Purchase Agreement”) by and between Valley Water and the Corporation, which installment payments secure \$118,400,000 aggregate principal amount of Valley Water’s Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2020C and Taxable Series 2020D (collectively, the “2020 Certificates”); and (viii) the obligation of Valley Water to pay principal of and interest on any obligations hereafter issued or incurred on a parity therewith subject to the terms of the Parity Master Resolution (collectively, the “Parity Obligations”).

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

### **Rate Covenants**

**Parity Obligations.** Valley Water has covenanted under the Parity Master Resolution, to the fullest extent permitted by law, to fix and prescribe rates, fees and charges for Water Service at the commencement of

each Fiscal Year, which, together with other Current Water Utility System Revenues or Net Water Utility System Revenues (as such terms are defined in the Parity Master Resolution), as the case may be, are reasonably expected to be at least sufficient to yield during each Fiscal Year (i) Current Water Utility System Revenues in an amount sufficient to meet the Maintenance and Operation Costs and the Debt Service for the then current Fiscal Year, and (ii) Net Water Utility System Revenues which are at least 1.25 times the sum of all Debt Service for such Fiscal Year. Debt Service under the Parity Master Resolution includes the principal of and interest on the 2022 Bonds and the Installment Payments.

Valley Water may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Current Water Utility System Revenues or Net Water Utility System Revenues, as the case may be, from such reduced rates, fees and charges are reasonably expected to be sufficient to meet the foregoing requirements. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS — Rate Covenant” herein.

So long as Valley Water has complied with its obligations described above, the failure of Current Water Utility System Revenues to meet the threshold in clause (i) in the second preceding paragraph or the failure of Net Water Utility System Revenues to meet the threshold in clause (ii) in the second preceding paragraph will not constitute a default or an event of default under the Parity Master Resolution.

#### **Additional Parity Debt Test**

The Parity Master Resolution provides for the incurring of Parity Obligations payable from Net Water Utility System Revenues on a parity with the Installment Payments and the 2022 Bonds upon satisfaction of certain conditions. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS — Additional Bonds and Contracts” and in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE WATER UTILITY MASTER RESOLUTION — BONDS AND CONTRACTS — Additional Bonds and Contracts.”

#### **Rate Stabilization Fund**

Valley Water has established a Rate Stabilization Fund under the Parity Master Resolution to be held by Valley Water. Valley Water may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Water Utility System Revenue Fund for application in accordance with the Parity Master Resolution. Amounts transferred from the Rate Stabilization Fund to the Water Utility System Revenue Fund may be taken into account as Water Utility System Revenues for purposes of the calculations for the rate covenant and the issuance of additional Bonds or Contracts under the Parity Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS — Rate Stabilization Fund.” As of June 30, 2022, approximately \$35.4 million was on deposit in the Rate Stabilization Fund. Valley Water transferred amounts from the Rate Stabilization Fund to the Water Utility System Revenue Fund in Fiscal Year 2021-22 and expects to transfer additional amounts from the Rate Stabilization Fund to the Water Utility System Revenue Fund in each of Fiscal Years 2022-23 through 2024-25. See the caption “FINANCIAL INFORMATION OF VALLEY WATER — Projected Operating Results and Debt Service Coverage.”

#### **Special Purpose Funds**

The Parity Master Resolution authorizes Valley Water to establish Special Purpose Funds. Upon certain determinations made by the Board, Valley Water may withdraw all or any portion of the amounts in a Special Purpose Fund and transfer such amounts to the Water Utility System Revenue Fund for application in accordance with the Parity Master Resolution. Amounts transferred from a Special Purpose Fund to the Water Utility System Revenue Fund may be taken into account as Water Utility System Revenues for purposes of the calculations for the rate covenant and the issuance of additional Bonds or Contracts under the Parity Master

Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022 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 transferred amounts from the Special Purpose Funds to the Water Utility System Revenue Fund in Fiscal Year 2021-22 and expects to transfer additional amounts from the Special Purpose Funds to the Water Utility System Revenue Fund in each of Fiscal Years 2022-23 through 2024-25. See the caption “FINANCIAL INFORMATION OF VALLEY WATER — Projected Operating Results and Debt Service Coverage.”

### **Flood System Obligations, Parcel Tax Revenue and State Water Project Property Taxes are not Water Utility System Revenues**

Valley Water has executed and delivered two installment purchase agreements outstanding as of September 1, 2020 in the aggregate principal amount of \$65,495,000 (the “Flood Control System Obligations”) secured by revenues of Valley Water’s flood and storm water control system (the “Flood Control System”). No Water Utility System 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 2022 Bonds.

Valley Water also receives parcel tax revenues in connection with its Safe, Clean Water program which are not pledged to the payment of the 2022 Bonds or the Installment Payments. On November 3, 2020, voters within Valley Water’s service area approved a ballot measure to renew the authority to levy the parcel tax for the Safe, Clean Water program.

Valley Water levies additional property taxes to pay certain costs under Valley Water’s State Water Project contract. Such State Water Project contract costs are not Maintenance and Operation Costs of the Water Utility System. Such State Water Project property taxes are not pledged to the payment of the 2022 Bonds.

### **Limited Obligations**

The obligation of Valley Water to pay principal of and interest on the 2022 Bonds and to make the Installment Payments described herein are secured by a pledge of and lien on, Valley Water’s Water Utility System Revenues and are payable from the Net Water Utility System Revenues (which remain after the payment of Maintenance and Operations Costs). The obligation of Valley Water to pay the principal of and interest on the 2022 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 Parity Master Resolution, the 2022 Bonds and the 2022C Certificates, the security and sources of payment for the 2022 Bonds and the 2022C Certificates and Valley Water are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definition of certain capitalized terms used herein with respect to the Parity Master Resolution may be found in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS.” 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 SCW TRANSACTIONS]

## **Continuing Disclosure**

Valley Water has covenanted in Continuing Disclosure Agreements for the benefit of the holders and beneficial owners of the 2022 Bonds and of the 2022C Certificates 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 2022 BONDS" with respect to the 2022 Bonds and in Appendix G — "FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022C CERTIFICATES" with respect to the 2022C Certificates. These covenants have been made in order to assist the Purchasers 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 "CAPITAL IMPROVEMENT 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 2022 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 Water Utility System. Valley Water currently has outstanding \$150.0 million aggregate principal amount of Commercial Paper Certificates, \$94.8 million of which were issued to finance projects for the Water Utility System. In addition, Valley Water currently has outstanding \$70.2 million aggregate principal amount of Revolving Certificates, \$39.4 million of which were issued to finance projects for the Water Utility System.



In order to pay a portion of the outstanding Commercial Paper Certificates and Revolving Certificates, pursuant to the Refunding Bond Indenture, Valley Water will transfer a portion of the proceeds of the 2022 Bonds to U.S. Bank Trust Company, National Association, as paying agent, which, together with certain available funds of Valley Water, will be sufficient to pay approximately \$126.2 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 2022 Bonds are set forth below.

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

<i>Sources</i>	<i>2022A Bonds</i>	<i>2022B Bonds</i>
Principal Amount of 2022 Bonds	\$	\$
Plus Original Issue Premium		
<b>TOTAL</b>	<u>\$</u>	<u>\$</u>
<i>Uses</i>		
Transfer to Paying Agent for the Commercial Paper Certificates <sup>(1)</sup>	\$	\$
Transfer to Paying Agent for the Revolving Certificates <sup>(2)</sup>		
Costs of Issuance <sup>(3)</sup>		
<b>TOTAL</b>	<u>\$</u>	<u>\$</u>

<sup>(1)</sup> Equals the outstanding principal amount of the Commercial Paper Certificates being refunded from proceeds of the 2022 Bonds.

<sup>(2)</sup> Equals the outstanding principal amount of the Revolving Certificates being refunded from proceeds of the 2022 Bonds.

<sup>(3)</sup> Includes fees for the Trustee, Municipal Advisor's fees, legal fees, printing costs, rating agency fees, Purchaser's discount and other costs of delivery.

### **Water Utility System Infrastructure Improvements**

Valley Water expects to apply a portion of the proceeds of the 2022C Certificates to finance and reimburse Valley Water for certain costs relating to the Anderson Dam Seismic Retrofit Project and the Pacheco Reservoir Expansion Project (collectively, the "Project"). See the caption "CAPITAL IMPROVEMENT PROGRAM."

As described under the caption "CAPITAL IMPROVEMENT PROGRAM," environmental review of the Anderson Dam Seismic Retrofit Project is underway. Valley Water expects to apply proceeds of the 2022C Certificates on design costs of the Coyote Percolation Dam Replacement project, which is a component of the Anderson Dam Seismic Retrofit Project, and additional design costs of the Anderson Dam Seismic Retrofit Project. No costs of construction of components of the Anderson Dam Seismic Retrofit Project is expected to be paid from proceeds of the 2022C Certificates.

As described under the caption "CAPITAL IMPROVEMENT PROGRAM," environmental review of the Pacheco Reservoir Expansion Project is underway. Valley Water expects to apply proceeds of the 2022C Certificates toward design costs of the Pacheco Reservoir Expansion Project. No costs of construction of components of the Pacheco Reservoir Expansion Project is expected to be paid from proceeds of the 2022C Certificates.

Valley Water expects that substantially all 2022C Certificates proceeds deposited in the acquisition fund under the Installment Purchase Agreement will be expended within three years.

In addition, Valley Water expects to apply a portion of the proceeds of the 2022C Certificates to pay a portion of the principal of the outstanding Commercial Paper Certificates. Valley Water currently has outstanding \$150.0 million aggregate principal amount of Commercial Paper Certificates, \$94.8 million of

which were issued to finance certain costs of the Project. In order to pay a portion of the Commercial Paper Certificates, pursuant to the Trust Agreement, Valley Water will transfer a portion of the proceeds of the 2022C Certificates to U.S. Bank Trust Company, National Association, as paying agent, which, together with certain available funds of Valley Water, will be sufficient to pay approximately \$[7,957,000] principal amount and accrued interest of such Commercial Paper Certificates through the payment date.

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

**Table 2**  
**SANTA CLARA VALLEY WATER DISTRICT**  
**Estimated Sources and Uses of Funds – The 2022C Certificates**

<i>Sources</i>	<i>2022C Certificates</i>
Principal Amount of Bonds	\$
Plus Original Issue Premium	
<b>TOTAL</b>	<b>\$</b>
<i>Uses</i>	
Deposit to Acquisition and Construction Fund	\$
Deposit to Capitalized Interest Fund	
Transfer to Paying Agent for the Commercial Paper Certificates <sup>(1)</sup>	
Costs of Issuance <sup>(2)</sup>	
<b>TOTAL</b>	<b>\$</b>

<sup>(1)</sup> Equals the outstanding principal amount of the Commercial Paper Certificates being refunded from proceeds of the 2022C Certificates.

<sup>(2)</sup> Includes fees for the Trustee, Municipal Advisor's fees, legal fees, printing costs, rating agency fees, Purchaser's discount and other costs of delivery.

## THE 2022 BONDS

### Terms of the 2022 Bonds

The 2022A Bonds will be issued in the aggregate principal amount of \$[ ]\* and the 2022B Bonds will be issued in the aggregate principal amount of \$[ ]\*. The 2022 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 June 1 and December 1, commencing June 1, 2023 (each, an "Interest Payment Date"), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2022 Bonds will be computed on the basis of a 360 day year of twelve 30 day months.

The 2022 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 2022 Bonds. Ownership interests in the 2022 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 2022 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 2022 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

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\* Preliminary, subject to change.

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 2022 Bonds may, at such Owner's option, 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 2022 Bonds will be payable in lawful money of the United States of America.

Interest on any 2022 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 May 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, on or after June 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 June 1, 20\_\_ and June 1, 20\_\_ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20\_\_ and June 1, 20\_\_, respectively, 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>(June 1)</i>	<i>Principal</i> <i>Amount</i>
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\* Final Maturity.

<i>Redemption Date</i> <i>(June 1)</i>	<i>Principal</i> <i>Amount</i>
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\* 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 Parity 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 WITH RESPECT TO PARITY OBLIGATIONS — 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 Refunding Bond 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 Refunding Bond Indenture.

## **Redemption of 2022B Bonds**

***Optional Redemption.*** The 2022B 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, on or after June 1, 20\_\_ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

***Optional Redemption With Make-Whole Payment.*** The 2022B Bonds shall be subject to redemption prior to June 1, 20\_\_ at the option of Valley Water, as a whole or in part on any Business Day 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 at the “Make-Whole Redemption Price.” The “Make-Whole Redemption Price,” as determined by Valley Water, is the greater of (1) 100% of the principal amount of the Series 2022B Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal of and interest to the maturity date on the Series 2022B Bonds to be redeemed, not including any portion of those payments of interest thereon accrued and unpaid as of the date on which the Series 2022B Bonds are to be redeemed, discounted to the date on which the Series 2022B Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus the Applicable Spread, in each case plus accrued and unpaid interest on the Series 2022B Bonds to be redeemed on the Redemption Date.

The term “Applicable Spread” means, (i) with respect to the 2022B Bonds maturing on June 1, 20\_\_, through June 1, 20\_\_, inclusive, \_\_ basis points; and (ii) with respect to the 2022B Bonds maturing on June 1, 20\_\_, through June 1, 20\_\_, inclusive, \_\_ basis points.

***Mandatory Sinking Fund Redemption.*** The 2022B Bonds with stated maturities on June 1, 20\_\_ and June 1, 20\_\_ are subject to mandatory sinking fund redemption in part, by lot, on each June 1 on and after June 1, 20\_\_ and June 1, 20\_\_, respectively, 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:

<b><i>Redemption Date (June 1)</i></b>	<b><i>Principal Amount</i></b>
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\* Final Maturity.

***Redemption Date  
(June 1)***

***Principal  
Amount***

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\* Final Maturity.

***Redemption from Insurance or Eminent Domain Proceeds.*** The 2022B 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 Parity 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 WITH RESPECT TO PARITY OBLIGATIONS — 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 2022B Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

***Selection of 2022B Bonds for Redemption.*** Whenever provision is made in the Refunding Bond Indenture for the optional redemption or redemption from Net Proceeds of less than all of the 2022B Bonds, the Trustee will select the 2022B 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 Refunding Bond 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 2022 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 2022 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 2022 Bonds of any such maturity are to be redeemed, the serial numbers of the 2022 Bonds of such maturity to be redeemed by giving the individual number of each 2022 Bond or by stating that all 2022 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2022 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 2022 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 2022 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 2022 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 2022 Bond. Notice of redemption of 2022 Bonds shall be given by the Trustee at the expense of Valley Water.

With respect to any notice of optional redemption of 2022 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 2022 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 2022 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 2022 Bond of each maturity and series will be issued in the principal amount of the 2022 Bonds of such maturity and series. Such 2022 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 2022 Bonds will be printed and delivered and will be governed by the provisions of the Refunding Bond 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 2022 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 2022 Bonds will be printed and delivered as provided in the Refunding Bond Indenture. Thereafter, any 2022 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 2022 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 2022 Bond for transfer, the Trustee is to issue a new 2022 Bond or 2022 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 2022 Bond issued upon any transfer. The Trustee may require the payment by any 2022 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 2022 Bonds, the Trustee will cancel and destroy the 2022 Bonds it has received.

2022 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2022 Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new 2022 Bond issued upon any exchange except in the case of any exchange of temporary 2022 Bonds for definitive 2022 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 2022 Bonds, the Trustee will cancel and destroy the 2022 Bonds it has received.

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

## THE 2022C CERTIFICATES

### Terms of the 2022C Certificates

The 2022C Certificates will be executed and delivered in the aggregate principal amount of \$[ ]\*. The 2022C Certificates 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 2022C Certificates will be computed on the basis of a 360 day year of twelve 30 day months. All or a portion of the interest represented by the 2022C Certificates will be capitalized through maturity thereof.

One fully registered certificate for the maturity of the 2022C Certificates registered in the name of Cede & Co., as nominee of DTC, as registered owner of all Certificates will be delivered to DTC on the Delivery Date. The principal and interest with respect to the 2022C Certificates 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 2022C Certificates. The 2022C Certificates will be dated the date of delivery. For information relating to DTC and the DTC book-entry system as it relates to the 2022C Certificates, see Appendix C — “BOOK-ENTRY SYSTEM.”

Principal with respect to the 2022C Certificates will be payable on June 1, 2026 in the amount set forth on the inside cover page of this Official Statement unless paid upon prior prepayment.

### Prepayment of 2022C Certificates

**Optional Prepayment.** The 2022C Certificates 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.

**Mandatory Sinking Fund Prepayment.** The Series 2022C Certificates with stated maturities on June 1, 20\_\_ are subject to mandatory sinking fund prepayment in part, on each June 1 on and after June 1, 20\_\_, in integral multiples of \$5,000 at a prepayment price of the principal amount thereof plus accrued interest evidenced thereby to the prepayment date, without premium, in accordance with the following schedule:

<i>Prepayment Date</i> <i>(June 1)</i>	<i>Principal</i> <i>Amount</i>
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\* Final Maturity.

**Extraordinary Prepayment From Insurance or Condemnation Proceeds.** The 2022C Certificates are subject to extraordinary prepayment by Valley Water on any date prior to their respective Certificate Payment Dates, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each Certificate Payment Date, in such order of prepayment as Valley Water may determine, in integral multiples of Authorized Denominations, from payments made by Valley Water from Net Proceeds, upon the terms and conditions of, and as provided for in the Parity Master Resolution, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the 2022C Certificates to be prepaid,

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\* Preliminary, subject to change.

plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium. See Appendix B under the caption “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — 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 2022C Certificates could be subject to extraordinary prepayment from Net Proceeds of insurance or condemnation.

***Selection of 2022C Certificates for Prepayment.*** If less than all Outstanding 2022C Certificates 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 2022C Certificates of such maturity date to be prepaid in any manner that it deems appropriate and fair. For purposes of such selection, 2022C Certificates 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 2022C Certificates 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 2022C Certificates, 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 2022C Certificates of such maturity to be prepaid and, in the case of 2022C Certificates 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 2022C Certificates 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 2022C Certificates shall cease to accrue, and shall require that such 2022C Certificates 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 2022C Certificates 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 2022C Certificates (other than sinking fund prepayments), the Trustee shall give notice of optional prepayment, other than any notice that refers to Certificates 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 2022C Certificates to be prepaid. Valley Water shall give the Trustee written notice of its intention to optionally prepay Certificates 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 2022C Certificates called for prepayment is held by the Trustee, then on the prepayment date designated in such notice, Certificates shall become due and payable, and from and after the date so designated interest evidenced and represented by the 2022C Certificates so called for prepayment shall cease to accrue, and the Owners of such 2022C Certificates shall have no rights in respect



thereof except to receive payment of the prepayment price thereof. Any prepayment of 2022C Certificates 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 Certificates 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 certificate will be executed and delivered in the principal amount of the 2022C Certificates. Such 2022C 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 2022C Certificates 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 2022C Certificates 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 2022C Certificates will be printed and delivered as provided in the Trust Agreement. Thereafter, any 2022C Certificate 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 2022C Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any 2022C Certificate or 2022C Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new 2022C Certificate or 2022C Certificates 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 2022C Certificates, the Trustee will cancel and destroy the 2022C Certificates it has received.

2022C Certificates may be exchanged at the Corporate Trust Office of the Trustee for a 2022C Certificate evidencing and representing a like aggregate principal amount of 2022C Certificates 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 2022C Certificate during the period in which the Trustee is selecting 2022C Certificates for prepayment or for any 2022C Certificate which the Trustee has selected for prepayment.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS**

### **Pledge of Water Utility System Revenues**

Pursuant to the Parity Master Resolution, Valley Water has continued and agreed to maintain, so long as any Bonds or Contracts remain outstanding, the Water Utility System Revenue Fund. Valley Water has covenanted that all Water Utility System Revenues received by Valley Water will be deposited in the Water Utility System Revenue Fund. Amounts in the Water Utility System Revenue Fund will be disbursed, allocated and applied solely to the uses and purposes described in the Parity Master Resolution. Pursuant to the Parity Master Resolution, amounts held in the Water Utility System Revenue Fund will be accounted for separately and apart from all other accounts, funds, money or other resources of Valley Water.

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

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

The Installment Purchase Agreement is a Contract under the Parity 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 Parity Master Resolution, Valley Water will pay from Net Water Utility System 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 2022C Certificates.

Water Utility System Revenues are defined in the Parity Master Resolution to be, with respect to any Fiscal Year or other period, (i) Current Water Utility System Revenues (which include any transfers to the Water Utility System Revenue Fund from Special Purpose Funds), plus (ii) deposits to the Water Utility System Revenue Fund from amounts on deposit in the Rate Stabilization Fund, representing amounts other than Current Water Utility System Revenues, less (iii) any Current Water Utility System Revenues transferred from the Water Utility System Revenue Fund to the Rate Stabilization Fund.

Current Water Utility System Revenues are defined by the Parity Master Resolution to be, for any Fiscal Year or other period, (1) all gross income and revenue of the Water Utility System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees, contributions in aid of construction legally available for Debt Service, and charges and standby or water availability charges), 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 Water Utility System and all other income and revenue howsoever derived by Valley Water from the ownership or operation of the Water Utility System or arising from the Water Utility System, (2)(a) all income from the deposit or investment of any money in the Water Utility System Revenue Fund and the Rate Stabilization Fund and (b) all income from the investment of money held in any construction or acquisition

fund established pursuant to a Trust Agreement to the extent such income is required to be deposited in the Water Utility System Revenue Fund, and (3) deposits to the Water Utility System Revenue Fund from amounts on deposit in Special Purpose Funds made in accordance with the Parity Master Resolution; but excluding benefit assessments and proceeds of taxes, including but not limited to proceeds of taxes levied to pay costs with respect to the State Water Project, and excluding also any refundable deposits made to establish credit and advances or contributions in aid of construction.

Net Water Utility System Revenues are defined by the Parity Master Resolution to be, for any Fiscal Year or other period, the Water Utility System Revenues during such Fiscal Year or period less the Maintenance and Operation Costs during such Fiscal Year or period. The obligation of Valley Water to pay the principal of and interest on the 2022 Bonds and to make Installment Payments from Net Water Utility System Revenues is absolute and unconditional.

**THE OBLIGATION OF VALLEY WATER TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2022 BONDS AND TO MAKE THE INSTALLMENT PAYMENTS WITH RESPECT TO THE 2022C CERTIFICATES IS A LIMITED OBLIGATION OF VALLEY WATER PAYABLE SOLELY FROM NET WATER UTILITY SYSTEM REVENUES OF VALLEY WATER'S WATER UTILITY SYSTEM 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 2022 BONDS AND THE INSTALLMENT PAYMENTS. THE OBLIGATION OF VALLEY WATER TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2022 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 Water Utility System Revenues**

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

***Parity Master Resolution.*** Water Utility System Revenues will be allocated only as provided in the Parity Master Resolution to the following purposes, at the following times and in the following order of priority:

(a) to provide for the payment of Maintenance and Operation Costs of the Water Utility System as Valley Water requires;

(b) 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;

(c) to each trustee for deposit in the applicable reserve fund with respect to such Bonds or Contracts, if any, 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;

(d) so long as Valley Water reasonably determines that there will be sufficient Current Water Utility System Revenues to make the transfers described in (a) through (c) above for the remainder of such Fiscal Year, for any purpose of the Water Utility System; and

(e) so long as Valley Water reasonably determines that there will be sufficient Current Water Utility System 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.

### **Rate Covenant**

Valley Water has covenanted under the Parity Master Resolution, to the fullest extent permitted by law, to fix and prescribe rates, fees and charges for Water Service at the commencement of each Fiscal Year, which, together with other Current Water Utility System Revenues or Net Water Utility System Revenues, as the case may be, are reasonably expected to be at least sufficient to yield during each Fiscal Year (i) Current Water Utility System Revenues in an amount sufficient to meet the Maintenance and Operation Costs and the Debt Service for the then current Fiscal Year, and (ii) Net Water Utility System Revenues of at least 1.25 times the sum of all Debt Service.

Valley Water may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Current Water Utility System Revenues or Net Water Utility System Revenues, as the case may be, from such reduced rates, fees and charges are reasonably expected to be sufficient to meet the foregoing requirements.

So long as Valley Water has complied with the foregoing requirements, the failure of Current Water Utility System Revenues to meet the threshold in clause (i) of the second preceding paragraph or the failure of Net Water Utility System Revenues to meet the threshold in clause (ii) of the second preceding paragraph will not constitute a default or an event of default under the Parity Master Resolution.

### **No Reserve Fund for the 2022 Bonds and 2022C Certificates**

No reserve fund has been created with respect to the 2022 Bonds or with respect to the 2022C Certificates.

### **Rate Stabilization Fund**

The Parity Master Resolution establishes a special fund designated as the “Rate Stabilization Fund” to be held by Valley Water in trust, so long as any Bonds or Contracts remain outstanding. Amounts in the Rate Stabilization Fund shall be disbursed, allocated and applied solely to the uses set forth in the Parity Master Resolution. Amounts in Rate Stabilization Fund shall be accounted for separately and apart from all other accounts, funds, money or other resources of Valley Water.

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

Valley Water may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Water Utility System Revenue Fund for application in accordance with the Parity Master Resolution. Amounts transferred from the Rate Stabilization Fund to the Water Utility System Revenue Fund during or within 270 days after the end of a Fiscal Year, may be taken into account as Water Utility System Revenues for purposes of the calculations to issue additional Bonds or execute additional Contracts and for the calculations described under “—Rate Covenant” above, to the extent provided in the definition of Water Utility System Revenues.

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 Rate Stabilization 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 \$35.4 million on deposit in the Rate Stabilization Fund. Valley Water transferred amounts from the Rate Stabilization Fund to the Water Utility System Revenue Fund in Fiscal Year 2021-22 and expects to transfer additional amounts from the Rate Stabilization Fund to the Water Utility System Revenue Fund in each of Fiscal Years 2022-23 through 2024-25. See the caption “FINANCIAL INFORMATION OF VALLEY WATER — Projected Operating Results and Debt Service Coverage.”

### **Special Purpose Funds**

The Parity Master Resolution authorizes the establishment of Special Purpose Funds. 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 the Bonds and Contracts, including the 2022 Bonds and the Installment Purchase Agreement, as provided in the Parity Master Resolution; provided that amounts on deposit in the Special Purpose Funds there may be apportioned for such purposes as are expressly permitted by the Parity Master Resolution. Such pledge constitutes a first lien on amounts on deposit in the Special Purpose Funds for the payment of Contracts and Bonds in accordance with the terms of the 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 Water Utility System 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, and (ii) reduced Current Water Utility System 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, and (c) 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 Water Utility System Revenue Fund. Amounts transferred from Special Purpose Funds to the Water Utility System Revenue Fund during or within 270 days after the end of a Fiscal Year, may be taken into account as Current Water Utility System Revenues for purposes of the calculations to issue additional Bonds or execute additional Contracts and for the calculations described under “—Rate Covenant” above.

Valley Water has designated the Drought Reserve, the San Felipe Emergency Reserve, the Advanced Water Purification Center Reserve, the 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 on deposit in such Special Purpose Funds. Valley Water transferred amounts from the Special Purpose Funds to the Water Utility System Revenue Fund in Fiscal Year 2021-22 and expects to transfer additional amounts from the Special Purpose Funds to the Water Utility System Revenue Fund in each of Fiscal Years 2022-23 through 2024-25. See the caption “FINANCIAL INFORMATION OF VALLEY WATER — Projected Operating Results and Debt Service Coverage.”

### **Additional Bonds and Contracts**

***No Senior Obligations.*** Valley Water does not have any obligations secured by Water Utility System Revenues senior to Bonds and Contracts, including the 2022 Bonds and the Installment Purchase Agreement.

Valley Water has covenanted in the Parity Master Resolution that it will not create or allow any lien on the payment from the Water Utility System Revenues superior to the obligation to pay Bonds and Contracts, including the 2022 Bonds and the Installment Purchase Agreement.

***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 Water Utility System Revenues on a parity with the 2022 Bonds and the Installment Purchase Agreement), provided:

(a) The Net Water Utility System 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, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Water Service 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 Net Water Utility System 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, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Water Utility System Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for the Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of an Authorized Officer 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 the Bonds and Contracts after the refunding is not greater than Average Annual Debt Service on the Bonds and Contracts prior to the refunding.

As of July 1, 2022, Valley Water has tax and revenue notes (“TRANS”) outstanding in the amount of \$385,000,000 securing the Commercial Paper Certificates and Revolving Certificates which are payable from Net Water Utility System Revenues subordinate to the 2022 Bonds and other Bonds and Contracts. After the issuance of the 2022 Bonds and the execution and delivery of the 2022C Certificates and payment therefrom of the Commercial Paper Certificates issued to finance projects for the Water Utility System, Valley Water will not have any Commercial Paper Certificates outstanding. See the caption “DEBT STRUCTURE OF VALLEY WATER—Commercial Paper Program and Revolving Certificates” below for a description of the letter of credit which supports Valley Water’s commercial paper program and the certificate purchase and reimbursement agreements relating to the Revolving Certificates.

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

### **Payment of 2022C Certificates at Maturity**

Valley Water may pay the principal with respect to the 2022C Certificates on or before maturity from reserves, Bonds, Contracts, notes or other obligations. Valley Water is negotiating the Water Utility WIFIA Master Agreement with the EPA under the authorization of the Water Infrastructure Finance and Innovation Act for one or more Water Utility WIFIA Loans to be obtained thereunder. If executed and delivered, subject to satisfying the applicable requirements of the Water Utility WIFIA Master Agreement, Valley Water may also obtain Water Utility WIFIA Loans under the Water Utility WIFIA Master Agreement to pay the 2022C Certificates on or before maturity. No assurances can be made that the Water Utility WIFIA Master Agreement will be executed and delivered or that any Water Utility WIFIA Loans will be obtained thereunder. See the captions “DEBT STRUCTURE OF VALLEY WATER — Proposed WIFIA Loan” and “POTENTIAL INVESTMENT CONSIDERATIONS — Failure to Refund the 2022C Certificates.”

### **DEBT SERVICE SCHEDULE**

Set forth below is a schedule of debt service with respect to the 2022 Bonds, the Installment Payments with respect to the 2022C Certificates and the schedule debt service of the outstanding Parity Obligations due in each annual period ending June 30 of the following years.

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**Outstanding Debt Service Schedule<sup>(1)</sup>**  
**(As of October 1, 2022 for Parity Obligations)**

<i>Year Ending June 30</i>	<i>Bonds</i>				<i>Installment Payments</i>		<i>Other Parity Obligations<sup>(4)</sup></i>
	<i>Series 2022A</i>		<i>Series 2022B</i>		<i>Series 2022C Certificates</i>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal<sup>(2)</sup></i>	<i>Interest<sup>(3)</sup></i>	
2023					--	--	--
2024					--	--	--
2025					--	--	--
2026					--	--	--
2027					--	--	--
2028					--	--	--
2029					--	--	--
2030					--	--	--
2031					--	--	--
2032					--	--	--
2033					--	--	--
2034					--	--	--
2035					--	--	--
2036					--	--	--
2037					--	--	--
2038					--	--	--
2039					--	--	--
2040					--	--	--
2041					--	--	--
2042					--	--	--
2043					--	--	--
2044					--	--	--
2045					--	--	--
2046					--	--	--
2047					--	--	--
2048					--	--	--
2049					--	--	--
2050					--	--	--
2051					--	--	--
2052					--	--	--
<b>Total</b>					--	--	--

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

<sup>(2)</sup> Principal with respect to the 2022C Certificates at maturity is omitted. [Valley Water may pay the principal with respect to the 2022C Certificates on or before maturity from Bonds, Contracts, notes or other obligations.]

<sup>(3)</sup> All or a portion of the interest represented by the 2022C Certificates will be capitalized.

<sup>(4)</sup> Includes scheduled debt service on all outstanding debt issued pursuant to the Parity Master Resolution, which includes the 2016 Bonds, the 2017A Bonds, the 2019AB Bonds, the 2019C Bonds, the 2020AB Bonds and the outstanding installment payments under the 2016 Installment Purchase Agreement and the 2020 Installment Purchase Agreement. See the caption "DEBT STRUCTURE OF VALLEY WATER."



## 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 Santa Clara County, California (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 has been providing flood protection services since 1951. These services include maintenance and construction of flood protection facilities. Valley Water’s priority is to provide flood protection in a non-structural way, through coordination with the local land use agencies, resorting to using structural flood protection methods only as a last alternative. The level of protection that Valley Water aims to provide as a matter of policy is protection from flood damage that would result from a one percent flood (the flood that has a one percent chance of occurring in any given year).

Valley Water seeks to provide water supply of adequate quantity and quality to meet the desired quality of life in the community. To fulfill this mission, Valley Water imports water into the County, manages two groundwater subbasins, and owns and operates three water treatment plants, an advanced water purification center, a state-of-the-art water quality laboratory, 10 reservoirs, three pumping stations, 18 recharge facilities in six major recharge systems, and related distribution facilities.

Valley Water wholesales water to water retailers as well as protects and augments groundwater for the benefit of multiple water retailers, mutual water companies and thousands of private well owners that pump groundwater. Water retailers then deliver water to the consumers in the County. Valley Water receives revenue from groundwater charges for water pumped from areas receiving benefit from Valley Water groundwater management activities, and the sale of treated water, nonpotable surface water and recycled water. See the captions “GENERAL LITIGATION—Great Oaks Litigation” and “—Stanford University Claim” for a discussion of certain litigation relating to Valley Water’s imposition of charges on groundwater producers.

Valley Water’s current contracts with its water retailers for the sale of treated water have a term of the greater of: (1) 70 years from the date of execution (the expiration dates of the current contracts range from January 2051 to September 2054) or (2) the date all loans and debt service for the construction of Valley Water’s water treatment and distribution facilities have been paid. In the event Valley Water terminates a contract due to a water retailer’s failure to cure a material breach (such as failure to remit payment), Valley Water may pursue remedies to which it is entitled under applicable law, which may include recovery of amounts Valley Water would have received if the retailer had not breached the contract and any other damages that are reasonably foreseeable from the water retailer’s breach. Valley Water has not experienced any material delinquencies in the payment of amounts due from its water retailers.

Some of the water retailers within Valley Water’s service area also receive supplies from the San Francisco Public Utilities Commission through the Bay Division Pipelines (“SFPUC” or “Hetch Hetchy”). Additional storage and supply is provided by San Jose Water Company, which owns and operates two small surface water reservoirs, Williams and Elsmar, and two small water treatment plants within the County. Some

local governmental agencies operate water reclamation projects. Valley Water does not receive revenue from the sale of water from the SFPUC water source, San Jose Water Company local water sources or wastewater reclamation sources other than the Gilroy Reclamation Facility.

The sources of water for Valley Water are the California State Water Project (“SWP”), the U.S. Bureau of Reclamation’s (“USBR”) Central Valley Project (“CVP”), imported water purchases through water transfer and exchange agreements, Valley Water reservoirs, naturally recharged groundwater, and recycled water produced by the South County Regional Wastewater Authority. Valley Water is one of the 29 contractors with the SWP and receives imported SWP water through the South Bay Aqueduct. Valley Water also receives imported water through the San Felipe Division of the CVP. Both the SWP and the CVP water are transported to Valley Water from the San Francisco Bay/Sacramento San Joaquin River Delta Estuary (“Bay-Delta” or “Delta”). Locally, Valley Water owns and operates ten surface water reservoirs, which collect runoff during the winter rains. Valley Water also owns and operates the Silicon Valley Advanced Water Purification Center, which can deliver up to 8 million gallons per day (“MGD”) of purified water.

Valley Water operates a conjunctive use system in which Valley Water recharges surface water, from the imported water sources and the local reservoirs into the Santa Clara and Llagas groundwater subbasins to augment natural recharge. Valley Water uses streams and ponds as recharge facilities. The groundwater subbasins serve as natural storage, conveyance, and treatment facilities.

The Law authorizes Valley Water to exercise the power of eminent domain; to levy and collect taxes; to levy and collect a groundwater charge for the production of water from groundwater supplies benefited by Valley Water recharge activities; and to contract for the fixing, revision and collection of rates or other charges under contract for the delivery of treated water, use of facilities or property or provisions for service. Valley Water may also issue bonds, borrow money and incur indebtedness. Valley Water may also acquire property of any kind; enter into contracts; and adopt ordinances with the force of law to effectuate its purposes.

As provided under State of California law, Valley Water receives a share of the County-wide 1% tax levy. 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 Watershed and Stream Stewardship Fund. The 1% property tax allocated to the Watershed and Stream Stewardship Fund has been used to fund the costs of Valley Water’s Flood Protection and Stream Stewardship Program, including payments of Flood Control System Obligations. See “WATER UTILITY SYSTEM — Primary Sources of Revenues— *Valley Water Revenue Derived from Property Taxes*” for a description of the covenant of the Board of Directors adopted in 2021 to allocate 1% property tax as necessary, to the Safe, Clean Water Program, which could materially change future availability of the 1% property tax to be allocated to the Watershed and Stream Stewardship Fund and the Water Utility System.

## **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 H<sub>2</sub>O. 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. See the caption "WATER UTILITY SYSTEM—Primary Sources of Revenues—*Water Charge Setting Process*."

## **PAWS Report**

In compliance with the Law, Valley Water prepares an Annual Report on the Protection and Augmentation of Water Supplies which provides an analysis of Valley Water's present and future water requirements and supply reliability, programs to promote reliability and an overview of Valley Water's future capital improvements, maintenance and operating requirements. This report also generally forms the basis on which Valley Water proposes its groundwater production and water charges for the next fiscal year. See caption "WATER UTILITY SYSTEM—Primary Sources of Revenues—*Water Charge Setting Process*" for more information with respect to Valley Water's rate-setting process.

On February 25, 2022, Valley Water released its Annual Report on the Protection and Augmentation of Water Supplies for 2022 (the "2022 PAWS Report"). Copies of the 2022 PAWS Report may be obtained from Valley Water's website, however, the contents of the 2022 PAWS Report are not incorporated by reference herein.

## DEBT STRUCTURE OF VALLEY WATER

### Outstanding Indebtedness

The following table shows Valley Water's outstanding Bonds and Contracts and obligations relating to Valley Water's Flood Control System outstanding as of October 1, 2022.

### SCHEDULE OF LONG-TERM INDEBTEDNESS (Dollars In Thousands)

<i>Type of Indebtedness</i>	<i>Final Maturity</i>	<i>Balance Outstanding/ Authorized</i>
<b>Water Utility System Obligations:<sup>(1)</sup></b>		
<b><i>Water Utility System Bonds and Contracts:</i></b>		
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>
<b>All Other Debt Not Secured by Water Utility System Revenues:<sup>(2)</sup></b>		
<b><i>Flood Control System Obligations:</i></b>		
1994 Installment Purchase Agreement <sup>(3)</sup>	2024	\$ 10,925,000
1995 Installment Purchase Agreement <sup>(4)</sup>	2030	<u>37,225,000</u>
Total Flood Control System Obligations:		<u>\$ 48,150,000</u>
<b><i>Safe Clean Water Program Obligations:<sup>(5)</sup></i></b>		
Safe, Clean Water Program WIFIA Master Agreement <sup>(6)</sup>		\$ [_____] <sup>(7)</sup>
Safe, Clean Water Program Refunding Bonds, Series 2022A		
Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations), Series 2022B <sup>(7)</sup>	2026	
Total Safe Clean Water Program Obligations:		
<b>Total Outstanding Indebtedness</b>		<u>\$</u>

<sup>(1)</sup> Valley Water does not have any outstanding obligations secured by Net Water Utility System Revenues senior to Bonds and Contracts. Valley Water has covenanted in the Parity Master Resolution that it will not create any lien on Net Water Utility System senior to Bonds and Contracts.

(Footnotes continued on following page)



(Continued from previous page)

- (2) Obligations are secured by revenues of the Flood Control System and are not secured by revenues of the Water Utility System.
- (3) 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.
- (4) 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.
- (5) Obligations are secured by revenues of the Safe, Clean Water Program and are not secured by revenues of the Water Utility System.
- (6) Valley Water, the Corporation and the EPA entered into a WIFIA master loan agreement with respect to the Safe, Clean Water Program pursuant to which loans may be obtained thereunder from time-to-time. The maximum principal amount of loans authorized under the WIFIA master loan agreement with respect to the Safe, Clean Water Program is \$146,662,503. As of the date of this Official Statement, no amounts have been drawn under the first loan. Valley Water currently expects to draw on such loan to pay, together with other available funds, the Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations), Series 2022B at maturity thereof.
- (7) Valley Water currently expects to draw on the WIFIA loan with respect to the Safe, Clean Water Program to pay, together with other available funds, the Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations), Series 2022B at maturity thereof.

Source: Valley Water.

### **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 Water Utility System Revenues on a subordinate basis to Bonds and Contracts (as defined in the Parity Master Resolution), in accordance with the Parity Master Resolution.

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: \$94.8 million for Water Utility System projects and \$55.2 million for Safe, Clean Water Program projects. After the delivery date of Valley Water’s Safe, Clean Water Program Refunding Bonds, Series 2022A and Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations), Series 2022B, Valley Water expects to repay \$55.2 million in principal amount of Commercial Paper Certificates issued to finance Safe, Clean Water Program projects from a portion of the proceeds of the Safe, Clean Water Program Refunding Bonds, Series 2022A and Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations), Series 2022B. After the delivery date of the 2022 Bonds and the 2022C Certificates, Valley Water expects to repay approximately \$94.8 of Commercial Paper Certificates issued to finance Water Utility System projects from a portion of the proceeds of the 2022 Bonds and the 2022C Certificates. After the foregoing repayments, Valley Water does not expect to have any Commercial Paper Certificates outstanding until additional Commercial Paper Certificates are issued, if any.

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, \$39.4 million of which were issued to finance projects for the Water Utility. 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 projects for the Safe, Clean Water and Natural Flood Protection Program. The Non-Syndicated Certificate Purchase Agreement is currently scheduled to terminate on April 29, 2025.

After the delivery date of Valley Water’s Safe, Clean Water Program Refunding Bonds, Series 2022A and Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations), Series 2022B, Valley Water expects to repay \$30.8 million in principal amount of Revolving Certificates issued to finance Safe, Clean Water Program projects from a portion of the proceeds of the Safe, Clean Water Program Refunding Bonds, Series 2022A and Safe Clean Water Program Revenue Certificates of Participation (Interim Obligations), Series 2022B. After the delivery date of the 2022 Bonds, Valley Water expects to repay approximately \$39.4 million of Revolving Certificates issued to finance Water Utility System projects from a portion of the proceeds of the 2022 Bonds. After the foregoing repayments, Valley Water does not expect to have any Revolving Certificates outstanding, until additional Revolving Certificates are issued, if any.

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.

### **Proposed WIFIA Loan**

Valley Water and the Corporation are negotiating a Water Utility WIFIA Master Agreement with the EPA under the authorization of the Water Infrastructure Finance and Innovation Act for one or more loans to be obtained thereunder. If the Water Utility WIFIA Master Agreement is executed and delivered, Valley

Water expects that, in connection with each loan to be obtained thereunder, Valley Water will enter into an installment purchase agreement with the Corporation pursuant to which Valley Water will be obligated to make installment payments from Net Water Utility System Revenues to the Corporation, which will be applied by the Corporation to repay such loan. Valley Water currently expects that the obligation of Valley Water to make such installment payments from Net Water Utility System Revenues will be on a subordinate basis to the 2022 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, Valley Water expects that the Water Utility WIFIA Master Agreement will require such installment payments to be payable from Net Water Utility System Revenues on a parity with the 2022 Bonds, the Installment Payments, Bonds and Contracts. No assurances can be made that the Water Utility WIFIA Master Agreement will be executed and delivered. If executed and delivered, no assurances can be made as to the final terms thereof or that any Water Utility WIFIA Loans will be obtained thereunder.

## **WATER UTILITY SYSTEM**

### **Service Area**

Valley Water's service area encompasses all of Santa Clara County, one of nine counties that make up the San Francisco Bay area. The service area is approximately 1,330 square miles and constitutes a major portion of "Silicon Valley." According to the U.S. Census Bureau, the County's estimated population increased by approximately 5.8% between April 1, 2010 and July 1, 2021 to a total of approximately 1,885,508. Of the approximately 320,000 acre-feet of water used in the County on average annually, Valley Water estimates that approximately 60 percent of water use is residential, 20 percent is commercial, 5 percent is industrial, 10 percent is agricultural and 5 percent is public water use. The 320,000 acre-feet of water referred to above includes treated water provided by Valley Water, local groundwater pumped by the water retailers and individual well owners, water provided by the SFPUC, local surface water, and recycled water.

### **Primary Sources of Revenues**

**Water Charges.** Water charges are established by the Board and are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. For a discussion of the applicability of certain substantive and procedural requirements of Article XIID to the California Constitution to Valley Water's treated water rates see the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES — Proposition 218." In addition, see the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES" herein for a discussion of certain constitutional limitations applicable to certain rate setting authorities of the Board.

**Groundwater Charges.** The Board has the power to, and does, levy and collect a groundwater charge for the production of water from the groundwater supplies within zones of Valley Water that will benefit from the recharge and protection of groundwater supplies or the distribution of imported water in such zones. Prior to July 1, 2020, Valley Water set and levied groundwater charges within two zones (one in the northern area of the County and one in the southern area). As described under the caption "*Water Charge Setting Process*" below, effective July 1, 2020, Valley Water modified the zone in the northern area of the County and partitioned the zone in the southern area of the County into three zones. Valley Water prepares an annual PAWS report supporting the basis for the groundwater charges that are adopted. The charges are levied upon the production of groundwater from all water-producing facilities within groundwater benefit zones, whether public or private. A fixed and uniform rate per acre-foot is set for agriculture water, and another rate per acre-foot, by zone, for all water other than agricultural water.

Valley Water's groundwater charges have been the subject of litigation. See the caption "GENERAL LITIGATION — Great Oaks Litigation" herein for a discussion of the recent California Supreme Court case of *City of Buenaventura v. United Water Conservation District* on such litigation.

***Treated Water and Other Charges.*** The groundwater charge per acre-foot for water other than agricultural water becomes the basic user charge per acre-foot for treated water delivered pursuant to Valley Water's treated water delivery contracts. The contracts also provide for the imposition of a treated water surcharge which is annually set by the Board. Water that is purchased and delivered in addition to certain fixed or minimum deliveries under the contract is charged at a non-contract rate per acre-foot. Surface water deliveries of Valley Water to users are charged at variants of these rates. In the southern portion of the County, rates are charged for usage of recycled water produced by the South County Regional Wastewater Authority and sold by Valley Water under a producer-wholesaler agreement.

***Water Charge Setting Process.*** Each year, the Board establishes groundwater production charges for groundwater benefit zones in accordance with the Law. Zone W-2 refers to the northern area of the County and largely coincides with the Santa Clara Plain portion of the Santa Clara Groundwater Subbasin. Effective July 1, 2020, Zone W-5 (which is in the southern area of the County) was partitioned into three zones - W-5 (which approximately coincides with the valley floor of the Llagas Subbasin) and two new zones W-7 (Coyote Valley, the southern portion of the Santa Clara Subbasin) and W-8 (upland areas of the Llagas Subbasin below Uvas and Chesbro Reservoirs). Although not required under the Law, the Board also sets surface water charges, recycled water charges, treated water surcharges and the amount of the SWP cost to be recouped through the SWP tax, within the framework of the groundwater charge setting process. The Water Utility Taxing and Pricing Policy, Resolution No. 99-21 and legal requirements, guide staff in the development of the overall structure for such charges. The water charge setting process is conducted consistent with Board Resolution 12-10.

Under the Law, an annual PAWS report is to be filed with the Clerk of the Board on or before the first Tuesday in April. A noticed public hearing must be held on or before the fourth Tuesday in April. In addition, all well owners on record are notified of the public hearing at least 45 days in advance. Groundwater production charges must be determined for the ensuing fiscal year prior to July 1. For each groundwater benefit zone, uniform groundwater production charges must be fixed per acre-foot for agricultural water and per acre-foot for all water other than agricultural water. The Law sets forth the allowable uses for Valley Water's groundwater production charges.

The Board may establish groundwater benefit zones in accordance with the Law. The objective of establishing various groundwater benefit zones is to recover costs for the benefits of Valley Water activities to protect and augment groundwater supplies in the applicable zone. As provided for in the annual PAWS report, staff describes those benefits and costs which are apportioned to the groundwater benefit zone by customer class.

The projected operating results under the caption "FINANCIAL INFORMATION OF VALLEY WATER—Historical and Projected Operating Results and Debt Service Coverage" for Fiscal Years 2023-24 through 2026-27 reflect the effect of the forecasted rate increases in the 2022 PAWS Report for such Fiscal Years, however, no assurances can be made that the Board will adopt rates increases consistent with the 2022 PAWS Report for future Fiscal Years.

***Water Revenue Zones.*** The water charges listed in the following table for Fiscal Years 2017-18 through 2019-20 are the historical agricultural and non-agricultural water charges for Zones W-2 and W-5 (which were based on the configuration of such zones prior to the adjustments effective July 1, 2020 as described above under the caption "*Water Charge Setting Process*"). The water charges listed in the following table for Fiscal Years 2020-21 and 2021-22 reflect the adjustments to Zone W-5, which was partitioned into three zones: W-5 and two new zones W-7 and W-8.

The treated water deliveries are all for municipal and industrial water use. The non-contract treated water may be available at the discretion of Valley Water to encourage more treated water use and reduce groundwater pumping to maintain local aquifer storage. The water charges for the northern area of the County are higher than the southern area because the three water treatment plants and most of the distribution system

service the northern area of the County. The southern area depends solely on groundwater, raw surface water, and recycled water, rather than treated water. See the caption “VALLEY WATER FACILITIES—Groundwater Subbasins” for a description of the groundwater basins managed by Valley Water.

**HISTORICAL WATER RATES  
(DOLLARS (\$) PER ACRE-FOOT)<sup>(1)</sup>**

<i>Fiscal Year</i>	<i>Zone</i>	<i>Groundwater</i>		<i>Treated Water</i>		<i>Surface Water</i>		<i>Reclaimed Water</i>	
		<i>Non-Agricultural</i>	<i>Agricultural</i>	<i>Non-Contract</i>	<i>Contract</i>	<i>Non-Agricultural</i>	<i>Agricultural</i>	<i>Non-Agricultural</i>	<i>Agricultural</i>
2017-18	W-2	1,175.00	25.09	1,225.00	1,275.00	1,208.36	58.45	-	-
	W-5	418.00	25.09	-	-	451.36	58.45	398.00	48.88
2018-19	W-2	1,289.00	27.02	1,339.00	1,389.00	1,324.93	62.94	-	-
	W-5	450.00	27.02	-	-	485.93	62.94	430.00	54.41
2019-20 <sup>(2)</sup>	W-2	1,374.00	28.86	1,574.00	1,474.00	1,411.50	66.36	-	-
	W-5	481.00	28.86	-	-	518.50	66.36	461.00	56.26
2020-21 <sup>(3)</sup>	W-2	1,374.00	28.86	1,574.00	1,474.00	1,411.50	66.36	-	-
	W-5	467.00	28.86	-	-	504.50	66.36	447.00	56.26
	W-7	481.00	28.86	-	-	518.50	66.36	-	-
	W-8	327.00	28.86	-	-	364.50	66.36	-	-
2021-22	W-2	1,499.00	34.15	1,699.00	1,614.00	1,539.90	75.05	-	-
	W-5	488.00	34.15	-	-	528.90	75.05	468.00	61.55
	W-7	528.50	34.15	-	-	569.40	75.05	-	-
	W-8	341.50	34.15	-	-	382.40	75.05	-	-

<sup>(1)</sup> The agricultural rates for groundwater, surface water and reclaimed water were set at 6% of the Zone W-5 non-agricultural (municipal and industrial) groundwater rate per prior Board action in Fiscal Year 2016-17 through Fiscal Year 2019-20. In Fiscal Year 2020-21 the agricultural rates were set at 6% of the Zone W-7 non-agricultural (M&I) groundwater rate. The agricultural rates for surface water include certain surcharges.

<sup>(2)</sup> Due to lower surface water supplies, non-contract treated water rates have been set higher than contract rates since Fiscal Year 2019-20 to incentivize retail customers to not take more water than their contract allotment.

<sup>(3)</sup> Effective July 1, 2020 former Zone W-5 (which is in the southern area of Santa Clara County) was partitioned into three zones: modified Zone W-5 and new zones W-7 and W-8.

Source: Valley Water.

**Projected Rates and Charges.** The water charges listed in the following table are the approved agricultural and non-agricultural water charges by Valley Water for Zones W-2, W-5, W-7 and W-8 for Fiscal Year 2022-23 and projected charges for Fiscal Years 2023-24 through 2026-27 based on the 2022 PAWS Report. The projected water charges set forth below have not been approved by the Board. As described under the caption “*Water Charge Setting Process*” above, effective July 1, 2020, the area that was within Zone W-5 has been partitioned into three zones.

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**PROJECTED WATER RATES  
(DOLLARS PER ACRE-FOOT)<sup>(1)</sup>**

<i>Fiscal Year</i>	<i>Zone</i>	<i>Groundwater</i>		<i>Treated Water</i>		<i>Surface Water</i>		<i>Reclaimed Water</i>	
		<i>Non-Agricultural</i>	<i>Agricultural</i>	<i>Non-Contract</i>	<i>Contract</i>	<i>Non-Agricultural</i>	<i>Agricultural</i>	<i>Non-Agricultural</i>	<i>Agricultural</i>
2022-23	W-2	1,724.00	36.85	1,924.00	1,839.00	1,771.10	83.95	-	-
	W-5	513.00	36.85	-	-	560.10	83.95	493.00	64.25
	W-7	582.50	36.85	-	-	629.60	83.95	-	-
	W-8	368.50	36.85	-	-	415.60	83.95	-	-
2023-24 <sup>(2)</sup>	W-2	1,983.00	39.80	2,183.00	2,098.00	2,036.80	94.00	-	-
	W-5	540.00	39.80	-	-	594.00	94.00	520.00	67.19
	W-7	642.00	39.80	-	-	697.00	94.00	-	-
	W-8	398.00	39.80	-	-	452.00	94.00	-	-
2024-25 <sup>(2)</sup>	W-2	2,280.00	42.98	2,480.00	2,395.00	2,342.39	105.38	-	-
	W-5	568.00	42.98	-	-	630.00	105.38	548.00	70.38
	W-7	709.00	42.98	-	-	771.00	105.38	-	-
	W-8	430.00	42.98	-	-	492.00	105.38	-	-
2025-26 <sup>(2)</sup>	W-2	2,487.00	46.42	2,687.00	2,602.00	2,555.57	114.52	-	-
	W-5	597.00	46.42	-	-	665.00	114.52	577.00	73.82
	W-7	782.00	46.42	-	-	850.00	114.52	-	-
	W-8	464.00	46.42	-	-	532.00	114.52	-	-
2026-27 <sup>(2)</sup>	W-2	2,714.00	50.13	2,914.00	2,829.00	2,788.13	124.43	-	-
	W-5	628.00	50.13	-	-	703.00	124.43	608.00	77.53
	W-7	862.00	50.13	-	-	936.00	124.43	-	-
	W-8	501.00	50.13	-	-	576.00	124.43	-	-

<sup>(1)</sup> The projected agricultural rates shown for groundwater, surface water and reclaimed water are 10% of the projected Zone W-8 non-agricultural (municipal and industrial) groundwater rates and include certain surcharges for surface water.

<sup>(2)</sup> Such rates are projected and have not been approved by the Board.

Source: Valley Water.

***Historical Water Deliveries and Sources of Water Delivered.*** Valley Water records the volume of water delivered by Valley Water. The following tables present a summary of historical water deliveries by fiscal year and the sources of water supply by calendar year for the five most recent years. The tables below do not include natural groundwater recharge, SFPUC managed water, recycled water produced by Palo Alto, Sunnyvale or South Bay Water Recycling, or San Jose Water Company or Stanford local surface water. Valley Water estimates that natural groundwater recharge between 2017 and 2021 provided an average of approximately 49,000 acre-feet of water per year.

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**HISTORICAL WATER DELIVERIES AND SOURCES OF WATER DELIVERED**  
(In acre-feet)<sup>(1)</sup>

**Deliveries**

<i>Fiscal Year Ending June 30</i>	<i>Municipal &amp; Industrial</i>	<i>Agriculture</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2017	189,574	25,785	215,359	7.48
2018	203,769	27,883	231,652	7.57
2019	189,420	26,688	216,108	(6.71)
2020	205,479	25,457	230,936	6.90
2021	218,880	27,620	246,500	6.31

**Sources**

<i>Calendar Year</i>	<i>Local Surface Water<sup>(2)</sup></i>	<i>Central Valley Project<sup>(3)</sup></i>	<i>SFPUC Intertie<sup>(4)</sup></i>	<i>State Water Project<sup>(3)</sup></i>	<i>Other Imported Water<sup>(5)</sup></i>	<i>Other<sup>(6)</sup></i>	<i>Total</i>
2017 <sup>(7)</sup>	506,100	80,000	960	33,400	2,500	1,900	624,860
2018	36,000	108,800	(80)	59,000	17,000	2,000	222,720
2019	214,200	79,500	420	21,300	8,800	2,000	326,220
2020	57,900 <sup>(8)</sup>	92,900	90	31,700	15,000	2,200	199,790
2021	29,100 <sup>(8)</sup>	87,900	70	39,500	12,400	2,100	171,070

<sup>(1)</sup> Certain amounts reflect adjustments made subsequent to the relevant year.

<sup>(2)</sup> Reservoir inflows plus supplies from storage, which may include flood releases, spills, and flows to the environment that may not be used for water supply within the County.

<sup>(3)</sup> All CVP and SWP contract water is delivered through the South Bay Aqueduct and San Felipe Division in the County.

<sup>(4)</sup> Reflects the net difference between SFPUC water taken less water provided to SFPUC via the intertie.

<sup>(5)</sup> Includes all non-contract water (CVP, SWP, and non-project water transfers and exchanges) delivered through the South Bay Aqueduct and San Felipe Division.

<sup>(6)</sup> Includes recycled water produced by South County Regional Wastewater Authority.

<sup>(7)</sup> Calendar year 2017 was one of the wettest hydrological years on record, which resulted in substantially increased local surface water inflows. Local surface water has been adjusted to reflect updated modeling assumptions. Valley Water estimates that approximately 400,000 acre-feet of supplies was released to the environment or flowed to the San Francisco Bay.

<sup>(8)</sup> Due to the Anderson Dam Seismic Retrofit Project, Anderson Reservoir will be maintained at deadpool and completely drained during the second phase of the project (see the caption "VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive"), resulting in higher environmental flows and less utilization of local water surface supplies.

Source: Valley Water.

Drought conditions affect local surface water runoff as well as CVP and SWP allocations. During drought years, Valley Water offsets certain reductions in CVP and SWP allocations through exchanges, transfers, and other supplemental supplies. See the caption "FACTORS AFFECTING WATER SUPPLIES — California Drought Management.

Differences in water deliveries and sources may vary significantly from one year to the next. Factors such as voluntary and mandatory water use reductions, hydrologic conditions, environmental conditions, new development, operations of the SWP and the CVP and the economy affect water delivery volume. Water source volume is generally affected by hydrology and State water regulations. During years of wet hydrological conditions, Valley Water deliveries may decrease as a result of decreased demand (i.e., for irrigation uses); however, sources of water may increase during such periods as a result of increased surface water runoff. Increased sources during years of wet hydrological conditions may be stored for delivery during years of dry hydrological conditions. The water stored in the groundwater subbasins managed by Valley

Water during years of wet hydrological conditions accounts for a substantial amount of the difference between the volume of deliveries and the volume of sources in years of dry hydrological conditions. See the captions “VALLEY WATER FACILITIES — Groundwater Subbasins” and “SANTA CLARA COUNTY WATER SUPPLY.”

***Projected Water Deliveries and Sources of Water Delivered.*** The following tables present a summary of projected water deliveries by fiscal year and sources of water supply by calendar year for the current and next four years. The tables below do not include natural groundwater recharge, SFPUC managed water, recycled water produced by Palo Alto, Sunnyvale, or South Bay Water Recycling, or San Jose Water Company or Stanford local surface water. Valley Water estimates that natural groundwater recharge will provide an average of approximately 50,000 acre-feet of water per year based on the long-term (2010-2019) average presented in the 2021 Groundwater Management Plan.

## PROJECTED WATER DELIVERIES AND SOURCES OF WATER DELIVERED

(In acre-feet)

### Deliveries

<i><b>Fiscal Year Ending June 30</b></i>	<i><b>Municipal &amp; Industrial</b></i>	<i><b>Agricultural</b></i>	<i><b>Total</b></i>	<i><b>% Increase/ Decrease</b></i>
2022 <sup>(1)</sup>	194,110	27,540	221,660	(10.1)%
2023	164,460	27,840	192,300	(13.2)
2024	177,800	27,930	205,720	7.0
2025	193,180	28,010	221,190	7.5
2026	208,980	28,110	237,090	7.2

### Sources

<i><b>Calendar Year</b></i>	<i><b>Local Surface Water</b></i>	<i><b>Central Valley Project</b></i>	<i><b>State Water Project</b></i>	<i><b>Other<sup>(5)</sup></b></i>	<i><b>Total<sup>(6)</sup></b></i>
2022 <sup>(1)(2)</sup>	8,900	43,900	127,900	2,100	182,800
2023 <sup>(3)</sup>	1,500	49,500	61,700	2,100	114,800
2024 <sup>(4)</sup>	83,700	97,500	65,000	2,100	248,300
2025 <sup>(4)</sup>	83,700	97,500	65,000	2,100	248,300
2026 <sup>(4)</sup>	83,700	97,500	65,000	2,100	248,300

<sup>(1)</sup> Based on unaudited actual amounts.

<sup>(2)</sup> Projected calendar year 2022 local surface water includes projected reservoir inflows less evaporation. Projected CVP and SWP supplies in calendar year 2022 include carryover, transfers, and semitropic takes.

<sup>(3)</sup> Projected calendar year 2023 local surface water, CVP and SWP supplies assume a critically dry year (i.e., 99% exceedance probability).

<sup>(4)</sup> Projected local surface water supplies in calendar years 2024-2026 represent the 50% exceedance probability. Projected CVP and SWP supplies in calendar years 2024-2026 are based on the 50% exceedance probability considering historic deliveries from 1989 to present. The projected CVP and SWP supplies represent forecasted availability; however, certain supplies may be transferred to storage facilities for use during a future year depending on local hydrologic and water demand conditions. Water supplies may also include environmental flows and flows to the San Francisco Bay.

<sup>(5)</sup> Other sources include recycled water produced by South County Regional Wastewater Authority (SCRWA). sources include recycled water produced by South County Regional Wastewater Authority (SCRWA). Projected data for calendar years 2023-2026 is a five-year average of calendar years 2017-2021.

<sup>(6)</sup> Projected deliveries in calendar years 2022-23 through 2025-26 assume a new normal water use projection of approximately 230,000 acre-feet per year.

Source: Valley Water.

As described above under the caption “—*Historical Water Deliveries and Sources of Water Delivered*,” the water stored in the groundwater subbasins managed by Valley Water during years of wet



hydrological conditions accounts for a substantial amount of the difference between the volume of deliveries and the volume of sources in years of dry hydrological conditions.

**Historical Sales Revenues.** The following table shows Valley Water’s historical water sales revenues for the last five fiscal years for which audited financial statements are available.

#### HISTORICAL SALES REVENUES

<i><b>Fiscal Year Ending June 30</b></i>	<i><b>Groundwater</b></i>	<i><b>Treated Water</b></i>	<i><b>Surface &amp; Recycled Water</b></i>	<i><b>Total</b></i>	<i><b>% Increase/ (Decrease)</b></i>
2017	\$67,936,832	\$122,212,497	\$ 747,007	\$190,896,336	26.22%
2018	97,482,517	132,476,810	1,040,878	231,000,205	21.01
2019 <sup>(1)</sup>	81,922,689	143,998,219	1,757,563	227,678,471	(1.44)
2020	112,560,000	152,621,750	1,713,000	266,894,750	17.22
2021	132,111,494	154,912,013	2,747,092	289,770,599	8.57

<sup>(1)</sup> Decrease in groundwater sales revenues in fiscal year 2018-19, a result of above average precipitation in 2019.  
Source: Valley Water.

**Projected Sales Revenues.** The following table shows the annual water sales revenues projected by Valley Water for Fiscal Year 2021-22 (based on unaudited actual amounts) and the following four fiscal years. The projections reflect an assumption by Valley Water staff that the water charges will be increased for each fiscal year from 2023-24 through 2025-26 through the rate setting process described under the caption “—Primary Sources of Revenues” and the projected deliveries under the caption “—*Projected Water Deliveries and Sources of Water Delivered*” above. Such increases would be required to be approved by the Board and there can be no assurance that such increases will be implemented as currently projected.

#### PROJECTED SALES REVENUES

<i><b>Fiscal Year Ending June 30</b></i>	<i><b>Groundwater</b></i>	<i><b>Treated Water</b></i>	<i><b>Surface &amp; Recycled Water</b></i>	<i><b>Total</b></i>	<i><b>% Increase/ (Decrease)</b></i>
2022 <sup>(1)</sup>	\$126,312,000	\$145,366,000	\$2,764,000	\$274,422,000	(5.3)%
2023	122,002,000	139,746,000	3,207,000	264,955,000	(3.4)
2024 <sup>(2)</sup>	152,379,000	171,022,000	3,625,000	327,026,000	23.4
2025 <sup>(2)</sup>	188,804,000	211,636,000	4,104,000	404,544,000	23.7
2026 <sup>(2)</sup>	222,062,000	248,465,000	4,453,000	474,980,000	17.4

<sup>(1)</sup> Based on unaudited actual amounts.

<sup>(2)</sup> Increases reflect the effect of the forecasted rate increases in the 2022 PAWS Report, however, no assurances can be made that the Board will adopt rate increases consistent with the 2022 PAWS Report for future Fiscal Years. See the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Water Charge Setting Process*.”

Source: Valley Water.

**Valley Water Revenue Derived from Property Taxes.** 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 currently expects that existing reserves and the statutory authority to raise water rates may offset any potential future property tax revenue losses. In addition, 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 1% 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.

The table below sets forth the total amount of revenue received by Valley Water from Valley Water’s share of the one-percent *ad valorem* property taxes levied in the County in each of the last five audited fiscal years.

#### **VALLEY WATER SHARE OF 1% PROPERTY TAX LEVY**

<i><b>Fiscal Year Ended June 30</b></i>	<i><b>District Share of 1% Levy</b></i>	<i><b>% Increase/ (Decrease)</b></i>
2017	\$88,907,774	10.04%
2018	94,491,000	6.28
2019	107,844,781	14.13
2020	110,700,000	2.65
2021	117,300,000	5.96

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Source: Valley Water.

Valley Water determines the allocation of the one-percent *ad valorem* property tax to the Water Utility System, the Watershed and Stream Stewardship Fund and the Safe, Clean Water Program 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 Watershed and Stream Stewardship Fund. The 1% property tax allocated to the Watershed and Stream Stewardship Fund 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 is undertaking its Safe, Clean Water Program pursuant to the voter approval described below, which consists of projects to restore habitat, maintain healthy creek and bay ecosystems, improve water quality, reduce flood risks, and provide open space and recreational opportunities. On November 3, 2020, voters in the County approved Measure S by the required two-thirds majority, which continues a special parcel tax to fund the Safe, Clean Water Program, unless repealed by the Board of Directors or by voters. On May 11, 2021, the Board of Directors adopted Resolution No. 21-34 pursuant to which the Board of Directors covenanted to allocate to the Safe, Clean Water Program, amounts of Valley Water’s share of the County-wide 1% property tax in an amount sufficient, together with other revenues of the Safe, Clean Water Program (which consists primarily of the special parcel tax authorized by Measure S), to repay principal of and interest on the obligations of the Safe, Clean Water Program. Once an amount of 1% property tax moneys is allocated to the Safe, Clean Water Program by Valley Water, such moneys are revenues of the Safe, Clean Water Program and are pledged to the payment of principal of and interest on the obligations of the Safe, Clean Water Program in accordance with Resolution No. 21-34 and the terms of such obligations.

In the event revenues of the Safe, Clean Water Program (which consists primarily of the special parcel tax authorized by Measure S) are insufficient to pay obligations of the Safe, Clean Water Program, the amount of the 1% property tax available to be allocated to the Water Utility System and the Watershed and Stream Stewardship Fund would be reduced, and the allocation of the 1% property tax as shown in the table below could materially change in future years.

In Fiscal Year 2020-21, Valley Water allocated approximately \$8.9 million (approximately 7.6%) to the Water Utility System. Based on unaudited actual amounts, for Fiscal Year 2021-22, Valley Water estimates that it has received \$127.3 million of one-percent ad valorem property tax, of which approximately \$9.1 million (or approximately 7.1%) has been allocated to the Water Utility System. Valley Water budgeted an allocation of approximately \$9.4 (approximately 7.5%) of one-percent ad valorem property tax to the Water Utility System for Fiscal Year 2022-23. The table below sets forth the total amount of revenue received by Valley Water from Valley Water's share of the 1% *ad valorem* property taxes levied in the County for the last five fiscal years for which audited financial statements are available, as well as Valley Water's allocation of such property taxes.

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

<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
Safe, Clean Water Program	-	-	-	-	-
Total:	\$ 88,907,772	\$ 94,490,063	\$ 107,844,781	\$ 110,626,026	\$ 117,309,251

<sup>(1)</sup> 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.

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 2022 Bonds, the Installment Payments and other Bonds and Contracts, and are not included in the amounts shown above.

**SANTA CLARA COUNTY WATER SUPPLY**

Valley Water derives its water supply from four main sources: (i) local natural recharge to the underlying groundwater subbasins, (ii) local surface water runoff that enters Valley Water reservoirs, (iii) water imported by Valley Water through SWP facilities, and (iv) water imported by Valley Water through CVP facilities. Valley Water also sells a small (relative to overall sales) amount of recycled water from the South County Regional Wastewater Authority's Wastewater Treatment and Reclamation Facility (SCRWA Reclamation Facility), and delivers purified water from the Silicon Valley Advanced Water Purification Center ("SVAWPC") to the South Bay Water Recycling program, operated by San Jose. See the caption "VALLEY WATER FACILITIES—Water Treatment and Water Purification—*Silicon Valley Advanced Water Purification Center.*"

Valley Water receives revenue from the sale of treated water produced by its three water treatment plants, revenue from untreated surface water sales, a small amount of revenue from recycled water at the SCRWA Reclamation Facility, and revenue from a groundwater production charge. Some of the water retailers within Valley Water also receive water supplies from the SFPUC. Also, San Jose Water Company owns and operates two small surface water reservoirs, Williams and Elsmar, and two small water treatment plants, within the County. Valley Water does not currently receive revenue from the sale of water from SFPUC, Williams and Elsmar Reservoir, and recycled water facilities other than the SCRWA Reclamation Facility. However, all the sources of supply contribute to water supply reliability in the County and, therefore, are considered together in this discussion.

## Summary Table of the County of Santa Clara's Water Supply

Based on a ten-year average for 2012-2021, approximately 39% of the County's water supply comes from local sources. Such sources are heavily dependent upon rainfall and runoff. The remaining approximately 61% comes through purchases from CVP and SWP (46%), as well as from the SFPUC (15%). The following table summarizes the County's sources of its water supply for the last five calendar years. As shown in the table below, the amounts from each source of supply varies from year to year, which variations can be significant depending on, among other factors, hydrological conditions.

### SANTA CLARA COUNTY WATER SUPPLY (ACRE-FEET)<sup>(1)</sup>

<i>Calendar Year</i>	<i>SWP</i>	<i>CVP</i>	<i>Other Imported Water</i>	<i>SFPUC</i>	<i>Recycled Water</i>	<i>Local Surface Water</i>	<i>Natural Groundwater Recharge</i>	<i>Total</i>
2017	33,400	80,000	2,500	47,000	17,000	508,000	56,000	743,900
2018	59,000	108,800	17,000	46,000	18,000	44,200	43,000	336,000
2019	21,300	79,500	8,800	48,000	17,000	230,500	57,000	462,100
2020	31,700	92,900	15,000	49,000	17,000	61,600	40,000	307,200
2021	39,500	87,900	12,400	47,000	17,000	29,900	48,000	281,700

<sup>(1)</sup> Certain amounts reflect adjustments made subsequent to the relevant calendar year. Calendar year 2017 was one of the wettest hydrological years on record, which resulted in substantially increased local surface water inflows. Valley Water estimates that approximately 400,000 acre-feet of Valley Water supplies was released to the environment or flowed to the San Francisco Bay.

Note: The sources of water supply listed in this table include sources that are not directly managed by Valley Water, such as SFPUC and natural groundwater recharge. These non-Valley Water supplies contribute to the County's water supply and are important for overall water supply reliability in Valley Water's service area.

Source: Valley Water.

## Local Supplies

The County's local water supplies fall into two major components: (1) the major surface tributary drainage area yields; and (2) the natural groundwater basin recharge. These two components, when combined, represent the total local supply available to the County.

The availability of local surface water and natural groundwater recharge depends upon local rainfall. An analysis of 148 years (1874-2021) of rainfall data from two rainfall gauges in central San Jose shows that the average (or mean) annual rainfall is approximately 14.2 inches. An analysis of the last 10 years (2012-2021) of rainfall data from the National Weather Service's rainfall gauge (Station 86) shows that the average (or mean) annual rainfall is approximately 12.1 inches. This period includes a drought which occurred between 2012 and 2016 and the drought conditions in 2020 and 2021. Station 86, located at the Norman Y. Mineta San Jose International Airport (the "San Jose International Airport") since 2007 but previously co-located with Station 31, has been in use since 1874 and is currently operated by the City of San Jose in cooperation with the National Weather Service. Another rainfall gauge that is owned by the City of San Jose but maintained by Valley Water has been located at Station 31 at the northwest corner of North San Pedro Street and West Mission Street (currently the City of San Jose's main police complex) since 1992 after having been originally installed nearby at the San Jose International Airport in 1986. There is variability in rainfall, with many years of above normal rainfall and many years of below normal rainfall. Valley Water stores water from wetter years for use during drier years.

## **Surface Water**

Local surface water refers to reservoir inflow. During years of especially high rainfall, not all surface flows can be captured in the reservoirs or put to beneficial use. In these years, there can be considerable local surface flows to the San Francisco Bay and Monterey Bay.

Valley Water operates ten surface water reservoirs, with a total capacity of about 166,000 acre-feet, which generally provide seasonal storage for downstream releases to percolation facilities and for treatment at the water treatment plants. Historically, Anderson Reservoir, the largest of Valley Water's reservoirs, provided carryover storage from one year to the next. As a result of the FERC Directive (as defined below), Valley Water is required to lower the elevation at Anderson Reservoir to 488 feet and will be further lowered during the construction phase of the ADSR Project (as defined below). Such elevations are based on and relative to the North American Vertical Datum, a standard point of reference, and 488 feet equates to approximately 3,050 acre-feet of volume for Anderson Reservoir. In addition, the Board directed staff in 2017 to operate Coyote Reservoir according to the 40% inflow exceedance rule curve, which has significantly impacted the ability of Coyote Reservoir to carryover storage. Groundwater storage is also available in the County's two primary groundwater subbasins and is used for both seasonal and carryover storage. See the caption "VALLEY WATER FACILITIES—Local Reservoirs."

The total amount of surface water flowing into the County does not necessarily represent local water supply yield. The yield of the major tributary drainage area is defined as that portion of the historical surface water that can, on a long-term basis, be put to beneficial use through surface diversions and/or groundwater recharge, considering the available storage, recharge, and conveyance capacities of the distribution facilities. The remaining water is released to San Francisco Bay or Monterey Bay. Based on 2015 through 2019 data, between 4,000 acre-feet and 418,000 acre-feet of water per year was released to the bays. The average release was about 118,000 acre-feet per year. Calendar year 2017 was one of the wettest hydrological years on record, which resulted in substantially increased local surface water inflows.

## **Groundwater Recharge**

Recharge to the groundwater subbasins consists of natural groundwater recharge and managed recharge with local and imported surface water. Natural groundwater recharge includes recharge from rainfall, net leakages from pipelines, seepage from the surrounding hills, seepage into and out of the basin, and net irrigation return flows to the groundwater subbasins. Managed recharge is controlled recharge that occurs due to Valley Water releases in specific streams, in off-stream recharge pond facilities, and in one in-stream recharge pond facility. Valley Water uses local water conserved in surface water reservoirs and imported water from both the SWP and CVP for managed recharge.

## **Imported Supplies**

Although the residents of the County recognized the decreasing groundwater supplies and the threat of land surface subsidence in the 1920's, the need for supplemental imported water supplies became more apparent during the 1940's when an increasing population and a series of locally dry years combined to dramatically increase groundwater pumping.

To meet this growing water need, the City and County of San Francisco first started delivering water in 1956 to municipalities in the northern area of Valley Water. The SFPUC water supply continues to provide approximately 15 percent of the imported water supply in the County; however, Valley Water does not receive revenue for the SFPUC water supply.

Valley Water started importing SWP water in 1965 and CVP water in 1987. The SWP water and CVP water are either treated in Valley Water's water treatment plants or recharged in the groundwater subbasins. The recharge of SWP water contributed to Valley Water's success in halting permanent land surface

subsidence in the northern Santa Clara Subbasin due to groundwater overdraft by about 1970. Because Valley Water recharges and manages the groundwater subbasins, Valley Water collects a groundwater production charge when groundwater is pumped from the zones receiving benefit from Valley Water groundwater management activities. Treated water wholesaled by Valley Water reduces the demand for groundwater, which also serves to prevent further land surface subsidence and ensure groundwater sustainability.

## **State Water Project**

In 1961, Valley Water contracted with the California Department of Water Resources (“DWR”) for a new water supply from the State Water Project (the “SWP Contract”) up to a maximum of 100,000 acre-feet annually. SWP water deliveries began in 1965 and are typically transported to Valley Water service area via the South Bay Aqueduct. This imported supply normally provides water for groundwater recharge and for treatment at two Valley Water water treatment plants, the Rinconada and Penitencia Water Treatment Plants (“WTPs”), but can also be used to supply the Santa Teresa WTP. The original term of the SWP Contract was effective through the project repayment period, or for 75 years (2035), whichever was longer. In certain years, Valley Water can receive additional SWP water consisting of temporary flood flow in the Delta, or it can receive non-SWP water deliveries, neither of which count against the maximum annual amount under the SWP Contract. As of December 31, 2021, Valley Water had received delivery of approximately 3,815,000 acre feet of water through the SWP Contract. Based on a March 18, 2022 announcement by DWR, Valley Water’s current SWP allocation under its SWP Contract for 2022 is 5 percent of its maximum annual contract amount. The allocation for 2022 is subject to revision by DWR throughout the year. For the first time, in 2022 DWR allowed SWP contractors to request and receive human health and safety (“HH&S”) water supplies. Valley Water requested and received approximately 39,000 acre-feet of HH&S water from DWR in 2022. See the caption “WATER UTILITY SYSTEM — Primary Sources of Revenues — *Historical Water Deliveries and Sources of Water Delivered.*”

The SWP Contract requires Valley Water to reimburse the State for capital costs (including interest thereon) and minimum operating, maintenance, power and replacement costs of the SWP transportation and conservation facilities. A property tax is levied by Valley Water to pay the cost of this obligation. Such property taxes are not pledged to the payment of the 2022 Bonds or the Installment Payments and such costs are not Maintenance and Operation Costs of the Water Utility System. The State re-estimates Valley Water’s total commitment for reimbursement of such costs annually.

DWR and the SWP contractors held a series of 23 public negotiating sessions between May 2013 and June 2014 relating to the renewal of the State Water Project contracts. Such negotiating sessions resulted in an “Agreement in Principle” to amend the existing State Water Project contracts to extend them through December 31, 2085, to make certain changes relating to the billing process under such contracts, and to analyze the proposed extensions through the preparation of an environmental impact report under the California Environmental Quality Act (“CEQA”). The notice of preparation of the environmental impact report relating to the proposed extension was issued on September 12, 2014. As required under State law, the Joint Legislative Budget Committee held a hearing on the contract renewal on September 11, 2018. On November 13, 2018, DWR certified the final environmental impact report, which concluded that the proposed extensions would not result in any physical environmental impacts. On December 12, 2018, Valley Water’s Board determined that DWR’s final environmental impact report is adequate for Valley Water’s use to authorize the execution of the proposed contract renewal.

In December 2018, DWR filed an action to validate the proposed extension of the SWP contracts, including Valley Water’s SWP Contract. Several environmental groups and counties and districts filed answers or separate actions opposing DWR’s approval, asserting that the extension approval violated CEQA, the Public Trust Doctrine, and the Delta Reform Act. As described under the caption “FACTORS AFFECTING WATER SUPPLIES — Other Bay-Delta/Imported Water Litigation — *DWR SWP Contract Long-Term Extension Validation Action,*” trial court granted judgment in favor of DWR and supporting SWP contractors on all causes of action. Several environmental groups and agencies filed notices of appeal. Any

potential adverse impact of appeals on Valley Water's SWP supplies cannot be determined at this time. As of May 2022, 22 of the 29 SWP contractors, including Valley Water, have executed the amendment, exceeding the DWR established threshold needed for it to be implemented. Considering the favorable outcome at trial, DWR is considering moving forward with implementation of the amendments with individual SWP contractors. Unless the contract extension amendment is implemented, the amortization period for any future DWR bonds issued for the State Water Project will end in 2035.

DWR faces various challenges in the continued supply of imported water to Valley Water and other member agencies. A description of the challenges DWR faces in continuing to supply imported water as well as a variety of other operating information with respect to DWR is included in detail under the caption "STATE WATER PROJECT WATER SUPPLY" in DWR'S Official Statement dated September 13, 2022, relating to its Central Valley Project Water System Revenue Bonds Series BF ("DWR's Water Supply Disclosure"). Valley Water incorporates DWR's Water Supply Disclosure by specific reference in this Official Statement. DWR's Water Supply Disclosure is the disclosure of DWR and, accordingly, Valley Water does not make any representations as to the accuracy or completeness of DWR's Water Supply Disclosure or as to the absence of material adverse changes in DWR's Water Supply Disclosure after the date hereof.

The ability for DWR to convey SWP supply to Valley Water also depends on the reliability of the South Bay Aqueduct as a water conveyance system. The Santa Clara Pipeline section of the South Bay Aqueduct conveys water to Valley Water's service area and has experienced several leaks in the past 10 years. DWR intends to improve reliability of the pipeline, and is currently conducting studies to determine full scope and costs of future pipeline repairs. These studies are expected to be completed in early 2023, with design and permitting activities beginning in 2024.

DWR has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated for the benefit of owners of certain outstanding obligations to file with certain information repositories annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act ("Rule 15c2-12") and annual audited financial statements (the "DWR Information"). This information is to be filed by DWR with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <https://emma.msrb.org/>. DWR disclosure documents and annual reports should be reviewed for information pertaining to water supply matters. DWR has not entered into any contractual commitment with Valley Water, the Trustee, or the Owners of the 2022 Bonds and the 2022C Certificates to provide DWR Information to Valley Water or the Owners of the 2022 Bonds and the 2022C Certificates. Valley Water has not incorporated by reference the information filed by DWR described above and neither Valley Water nor the Underwriters assume any responsibility for the accuracy of DWR Information.

DWR HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO DWR. DWR IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH DWR INFORMATION, FOR THE BENEFIT OF VALLEY WATER OR THE OWNERS OF THE 2022 BONDS OR THE 2022C CERTIFICATES UNDER RULE 15c2-12.

See the caption "FACTORS AFFECTING WATER SUPPLIES" for further information with respect to the SWP water deliveries.

### **Central Valley Project**

On June 7, 1977, Valley Water entered into a contract (the "CVP Contract") with USBR for water service from the San Felipe Division of the CVP. The CVP contract provides for both agricultural and



municipal and industrial (“M&I”) water deliveries to Valley Water up to a total contract amount of 152,500 acre-feet per year.

On April 1, 2022, USBR announced updated allocations for 2022, subject to revision by the USBR. For CVP contractors south of the Bay-Delta, including Valley Water, the allocations were 0% percent of contracted amounts for agricultural water and Public Health and Safety (“PHS”) allocations of M&I water. Subsequently, Valley Water requested such an allocation from the CVP, and on May 18, 2022, USBR conditionally approved a PHS allocation of 39,000 acre-feet for 2022. See the caption “WATER UTILITY SYSTEM — Primary Sources of Revenues — *Historical Water Deliveries and Sources of Water Delivered.*” In certain years, Valley Water can receive additional CVP water consisting of temporary flood flow in the Delta which does not count against the contract amount. Valley Water’s CVP supplies provide surface water to the Santa Teresa WTP, Rinconada WTP, surface water customers, local reservoirs for storage, groundwater recharge, and can also be used to supply the Penitencia WTP. The CVP Contract specified initial water rates for agricultural and M&I water service and provides for periodic adjustment of the respective water rates in accordance with prevailing CVP water rate policies commencing in the years 1993 for the in-basin M&I rate component, 1996 for the agricultural O&M rate component and 2001 for the full agricultural water rate. The methodology of CVP water rate setting has historically recovered current year operating costs, and over 50 years, the applicable construction costs.

Valley Water’s initial CVP water rates were determined based upon a November 1974 CVP water rate policy and estimated construction costs of the San Felipe Division. The actual construction costs of the San Felipe Division were significantly higher than the estimates used in the initial rate calculation, and changes in the Federal Reclamation Law during the 1980’s have led to the development of new CVP water rate policies. A new agricultural water rate policy was adopted in 1988 and the M&I water rate policy was adopted in 2020.

The CVP Contract established a fixed rate for repayment of San Felipe Division facilities during the first 20 years of water deliveries (1987 through 2006) in recognition of Valley Water’s need to expand its local infrastructure to accept CVP water. The fixed rate provided for partial repayment of annual capital interest expense, and the cumulative shortfall was being tracked by the USBR as an alleged “operation and maintenance deficit,” even though Valley Water self-funds and performs San Felipe Division operation and maintenance. Valley Water contested the USBR’s accounting for project costs, and a settlement was achieved in March 2005. The settlement reduced Valley Water’s costs for CVP water by approximately \$5,000,000 per year.

In 2007 Valley Water amended the CVP Contract to comply with the 1992 Central Valley Project Improvement Act, amongst other things. The 2007 Amendment further clarifies Valley Water’s role as the Operating Non-Federal Entity and provides for a fixed repayment schedule for the outstanding capital construction costs of the San Felipe Division facilities.

The first water from the CVP was delivered in June 1987. In preparation for this source of supply, Valley Water completed construction of raw water pipelines from Coyote Pumping Plant to Calero Reservoir and across south San Jose to deliver CVP water to Santa Teresa WTP, Guadalupe recharge facilities, Vasona Pumping Plant and Rinconada WTP. The 100 MGD Santa Teresa WTP was completed in 1989 to treat CVP and local reservoir water and serve the increasing water needs of the County.

Under the provisions of the Water Infrastructure Improvements for the Nation Act (“WIIN Act”), CVP contractors, including Valley Water, are eligible to convert the CVP Contract from a water service contract to a repayment contract. In 2021, under the provisions of the WIIN Act, Valley Water converted its CVP Contract from a water service contract to a repayment contract for allocated construction costs, with respect to Valley Water’s share of CVP “in-basin” facilities only. Valley Water’s outstanding obligation for the capital construction costs of the San Felipe Division, or “out-of-basin facilities” were not included in the WIIN Act conversion. The costs of the “out-of-basin facilities” continue to be repaid according to the amortized schedule negotiated in the 2007 Amendment described above. The current annual payments for the

“out-of-basin facilities” costs are approximately \$15.5 million and the final payment is due in 2036. In connection with the conversion, Valley Water paid a lump sum payment in the amount of \$13,191,551.

Pursuant to a contract with Mercy Springs Water District, Valley Water and Westlands Water District are assigned a portion of Mercy Springs Water District’s contracted CVP water allocation. Pursuant to the WIIN Act, Valley Water and Westlands Water District have executed a conversion contract with respect to the assignment of the Mercy Springs Water District CVP water.

See the caption “—Other Bay-Delta/Imported Water Litigation” for further information with respect to litigation relating to conversion of water service contracts to repayment contracts under the WIIN Act. See the caption “FACTORS AFFECTING WATER SUPPLIES” for further information with respect to CVP water deliveries.

## VALLEY WATER FACILITIES

### Local Reservoirs

**General.** Valley Water owns, operates, and maintains a County-wide water conservation and distribution system to convey water for recharge and treatment. Included are 10 local surface water reservoirs, which conserve winter runoff for either managed recharge of the groundwater subbasins or treatment at Valley Water’s three water treatment plants. Water from the Anderson/Coyote and the Almaden/Calero Reservoir systems can be delivered to the water treatment plants.

The following table lists the significant features of Valley Water’s reservoirs:

### SIGNIFICANT FEATURES OF VALLEY WATER RESERVOIRS

<i>Reservoir</i>	<i>Capacity (acre-feet)</i>	<i>DSOD Restricted Capacity (acre-feet)</i>	<i>Year Completed</i>	<i>Surface Area at Capacity (acres)</i>	<i>Approximate Dam Height (feet)</i>
Almaden	1,555	1,443	1935	57	108
Anderson**	89,278	3,050	1950	1,271	240
Calero	9,738	4,414	1935	349	98
Chesbro*	7,967	7,967	1955	270	95
Coyote	22,541	11,843	1936	635	138
Guadalupe	3,320	2,134	1935	74	129
Lexington*	18,534	18,534	1952	412	195
Stevens Creek*	3,056	3,056	1935	92	129
Uvas*	9,688	9,688	1957	288	105
Vasona*	463	463	1935	53	30
<b>Total</b>	<b>166,140</b>	<b>62,592</b>		<b>3,501</b>	

Sources: Area-capacity surveys were performed in 2016 for Anderson, Calero, Coyote, and Stevens Creek reservoirs. Chesbro and Uvas reservoirs were surveyed in 2017. Lexington and Vasona reservoirs were surveyed in 2018. Almaden and Guadalupe reservoirs were surveyed in 2019. Capacities and surface areas above reflect most current survey results.

\*Indicates no Division of Safety of Dams restriction is applicable to reservoir.

\*\* Pursuant to the FERC Directive, Anderson Reservoir has been lowered to 488 feet or lower. See the caption “—Anderson Dam Seismic Retrofit Project and FERC Directive” and “—Anderson Reservoir Drawdown Impacts on Water Supply Reliability” below.

Valley Water monitors, collects, and analyzes seepage and vertical and horizontal movement data monthly and reports the information to the DWR Division of Safety of Dams (“DSOD”). DSOD has an annual dam inspection program. In addition, Valley Water performs inspections of the entire Water Utility System

every other month from a helicopter. Valley Water also implements a comprehensive asset management program to track the condition of its facilities. Using this robust asset management system and the visual and data monitoring programs, Valley Water determines and performs the maintenance or improvements needed at each dam.

Dam safety operating restrictions have been placed on Almaden, Anderson, Calero, Coyote, and Guadalupe reservoirs and have resulted in loss of about two-thirds of the total surface storage capacity. See the caption “CAPITAL IMPROVEMENT PROGRAM” for a discussion of a potential acquisition and expansion of the Pacheco Reservoir, a surface water reservoir located outside of the County.

### **Anderson Dam Seismic Retrofit Project and FERC Directive**

A seismic study conducted in 2011 showed that a large earthquake along the Calaveras fault or the Coyote Creek fault could cause significant damage to Anderson Dam. Since that time, Valley Water has been operating Anderson Dam and Anderson Reservoir at elevations approved by the DSOD. In 2012, Valley Water initiated the Anderson Dam Seismic Retrofit Project (the “ADSR Project”), which initially consisted of replacing the outlet pipe, increasing the wall height of the concrete spillway and increasing the height of the dam’s crest. In 2017, after a series of storm events caused severe damage at Oroville Dam in the County of Butte, the DSOD revised its criteria for spillway design, which revision required that Valley Water remove and replace the spillway at Anderson Dam. In October 2019, Valley Water submitted certain results of studies during the design phase of the ADSR Project to the Federal Energy Regulatory Commission (“FERC”), which indicated that Anderson Dam was at greater risk of damage from a seismic event than prior studies had shown. A large seismic event along the Calaveras fault or the Coyote Creek fault could lead to dam failure and uncontrolled release into the surrounding communities.

On February 20, 2020, FERC issued a directive (the “FERC Directive”) requiring Valley Water to immediately lower the elevation of Anderson Reservoir to 565 feet, and to further lower the reservoir to 488 feet starting on October 1, 2020. Valley Water has lowered the elevation of Anderson Reservoir at or below 488 feet in compliance with the FERC Directive. Such elevations are based on and relative to the North American Vertical Datum, a standard point of reference, and 488 feet equates to approximately 3,050 acre-feet of volume for Anderson Reservoir.

The ADSR Project is currently planned to be constructed in two stages. The first stage entails the construction of a diversion tunnel with a low-level outlet. Construction of the first stage commenced in February 2021 and is expected to be completed in three years. The second stage involves construction of a high-level outlet, reconstruction of the spillway and the dam embankment. The second stage is expected to commence after completion of the first stage and is expected to take approximately seven years to complete (approximately Fiscal Year 2031-32). The foregoing schedule is subject to Valley Water’s ability to obtain the necessary permits, complete the necessary environmental review and finalize agreements with consultants and contractors for the project.

The ADSR Project is currently estimated to cost approximately \$1.2 billion. The current estimate is substantially greater than the prior estimate of approximately \$576 million as a result of a design change during investigations during the design phase. Instead of seismically stabilizing the dam by additional materials, as initially envisioned, the current design would entail removal of the existing dam and replacing it with a new dam. In addition, the current spillway is planned to be fully replaced, instead of undergoing spot repairs, as initially planned. Valley Water expects to fund approximately \$68 million of such costs from the parcel tax revenue of the Safe, Clean Water Program and the balance from revenues of the Water Utility System. With respect to the portion of the ADSR Project costs allocated to the Water Utility System, Valley Water expects to fund approximately 40% of such costs from current revenues and/or reserves and 60% from the proceeds of additional Bonds and Contracts. If executed and delivered, Valley Water may also fund such costs from loans under the Water Utility WIFIA Master Agreement. See the caption “CAPITAL

IMPROVEMENT PROGRAM” for a description of Valley Water’s current financing plan with respect to the ADSR Project.

As described herein, Valley Water has a diverse water supply and storage portfolio. Valley Water does not expect the FERC Directive or the loss of storage capacity at Anderson Reservoir during the construction of the ADSR Project to have a material adverse effect on its ability to deliver water. See the captions “SANTA CLARA COUNTY WATER SUPPLY” and “FACTORS AFFECTING WATER SUPPLIES.” As described under the caption “CAPITAL IMPROVEMENT PROGRAM,” Valley Water is undertaking and participating in additional water storage projects.

### **Anderson Reservoir Drawdown Impacts on Water Supply Reliability**

Anderson Reservoir is a key component of Valley Water’s annual water supply portfolio which provides a local water supply and operational flexibility. In addition to providing a local water supply, the large capacity of Anderson Reservoir stores water for emergencies. Anderson Reservoir also provides Valley Water with the operational flexibility to carry water over from one year to the next to help guard against the impacts of dry years and to address water quality issues in San Luis Reservoir.

Anderson Reservoir is part of a complex system physically connected to Coyote Reservoir and Valley Water’s raw water distribution system. The distribution system conveys imported water supplies and local surface water supplies, including Anderson Reservoir supplies, to recharge groundwater in both the Santa Clara and Llagas subbasins. The Coyote Valley and southern Santa Clara Plain are particularly dependent on recharge releases from the Anderson system via Coyote Creek and the Coyote Percolation Pond. Along with imported water, Anderson Reservoir supplies Valley Water’s surface water treatment plants that provide treated water throughout North County.

As described above under the caption “—Anderson Dam Seismic Retrofit Project and FERC Directive,” Anderson Reservoir was drawn down to 488 feet or lower in compliance with the FERC Directive. After the initial drawdown, rainfall-runoff could raise the storage temporarily in future winter seasons; however, Valley Water expects to make every effort to lower the reservoir storage to deadpool level as quickly and safely as possible in compliance with the FERC Directive. The deadpool level is the volume of water in Anderson Reservoir that cannot be drained by gravity through the existing outlet works. The current deadpool volume is 3,050 acre-feet. For the next 10 years, during construction of two stages of the ADSR Project, the loss of storage capacity at Anderson Reservoir will significantly reduce water supply benefits from Anderson Reservoir, except for occasional groundwater recharge during winter instream flows and during drawdown of the reservoir to deadpool level. The impact to Valley Water’s overall water supply will depend on future operational conditions, which will benefit from the mitigation measures that Valley Water has initiated.

### **Mitigation Measures to Lessen the Impacts of a Dewatered Anderson Reservoir**

Valley Water has proposed many Avoidance and Minimization Measures (“AMMs”) to lessen the impacts of the inability to store water in Anderson Reservoir for approximately 10 years. This includes continued releases of imported water downstream of Anderson Reservoir for the purposes of groundwater recharge. Valley Water is building a Cross Valley Pipeline Extension to bring imported water to Coyote Creek downstream of Ogier Ponds, while maintaining a cold water management zone upstream of Ogier Ponds for fisheries. The Cross Valley Pipeline Extension is expected to enable Valley Water to maintain groundwater recharge operations in the creek and the Coyote Percolation Pond to benefit the Coyote Valley and the Santa Teresa area of south San Jose. Construction on the Cross Valley Pipeline Extension began in January 2022 and is expected to be complete in April 2023.

Valley Water is preparing plans to replace the flashboard dam at the Coyote Percolation Pond with a rubber bladder dam by 2024 that can be inflated and deflated in less than an hour. The Anderson Dam Tunnel, once constructed, will allow a rapid drawdown of the reservoir. Large flows from the dam outlets (up to 2,500

cubic-feet per second) would overtop the existing flashboard dam. To avoid this risk, the dam would be removed earlier in the winter. This would result in the loss of the ability to perform managed groundwater recharge in the Coyote Percolation Pond for up to six months per year and could potentially impact Valley Water's ability to exercise its water rights. However, by replacing the flashboard dam with a bladder dam, Valley Water would maintain existing managed groundwater recharge throughout the year. The bladder dam would be lowered during heavy storms and then brought back up after storm events.

The above AMMs are incorporated into Valley Water's capital improvement program for Fiscal Years 2022-23 through 2026-27.

## **Groundwater Subbasins**

Valley Water depends upon the local groundwater subbasins for natural water storage, conveyance, and treatment and they are an integral part of Valley Water's conjunctive water management system. Valley Water manages the groundwater subbasins for both water supply and water quality.

Two major groundwater subbasins underlie the County: Santa Clara Subbasin and Llagas Subbasin. Valley Water further delineates the Santa Clara Subbasin into two management areas: Santa Clara Plain and Coyote Valley. These subbasins and their operational storage capacities are described below. There are very small portions of two other subbasins within Santa Clara County: the San Mateo Plain Subbasin in the northwest and the North San Benito Subbasin in the southeast. See the captions "FACTORS AFFECTING WATER SUPPLIES—Water Banking" and "POTENTIAL INVESTMENT CONSIDERATIONS—Risks Related to Water Utility System Facilities and Operation—*Sustainable Groundwater Management Act*."

### **Santa Clara Subbasin – Santa Clara Plain**

Santa Clara Plain, the northern portion of Santa Clara Subbasin, extends from the northern boundary of the County at the San Francisco Bay to approximately Metcalf Road in the south. The Santa Clara Subbasin is bounded on the west by the Santa Cruz Mountains and on the east by the Diablo Range. The Santa Clara Plain portion of the Santa Clara Subbasin covers a surface area of approximately 280 square miles. The northern and central area of the Santa Clara Plain is underlain with a laterally extensive aquitard comprised of low-permeability sediments, resulting in confined aquifer conditions. The southern area and eastern and western edges comprise the unconfined area or recharge area where higher-permeability gravel and sand sediments are more predominant. Valley Water's managed recharge of local and imported surface water occurs in various off-stream and in-stream facilities within the recharge area. DWR's 1955 Bulletin Number 7 estimated 1,900,000 acre-feet of storage capacity in the Santa Clara Subbasin, including Coyote Valley. However, permanent subsidence may resume if groundwater elevations drop below subsidence threshold elevations for an extended period of time. As a result, Valley Water estimates that the Santa Clara Plain has an operational storage capacity of approximately 350,000 acre-feet. The operational groundwater storage estimate does not reflect the total amount of available supply in the basin, which is substantially greater. The operational storage reflects current knowledge and modeling of the volume that can be withdrawn before increased risk of surface subsidence resuming or other negative consequences to portions of the basin, such as seawater intrusion and high groundwater level nuisance that impact structures located below ground.

### **Santa Clara Subbasin – Coyote Valley**

The Coyote Valley, the southern portion of Santa Clara Subbasin, extends from approximately Metcalf Road in the north to Cochrane Road in the south. The Coyote Valley portion of the Santa Clara Subbasin covers approximately 17 square miles. Groundwater in the Coyote Valley is generally unconfined, with no laterally extensive layers of clays or silts. Valley Water conducts in-stream managed recharge within the Coyote Valley. The estimated operational storage capacity for the Coyote Valley is between 23,000 and 33,000 acre-feet.

## Llagas Subbasin

The Llagas Subbasin extends from near Cochrane Road in the north to the Pajaro River at the southern border of the County. This subbasin covers approximately 88 square miles, and is bounded by the Santa Cruz Mountains to the west and the Diablo Range to the east. Laterally-extensive clay and silt layers are present in the central and southern portion of the subbasin, resulting in confined aquifer conditions. Valley Water's managed groundwater recharge activities occur in various off-stream and in-stream facilities in the northern unconfined area, or recharge area, of this subbasin. Bulletin Number 7 by DWR estimates the total storage volume at 510,000 acre-feet of water. Valley Water estimates that the operational storage capacity is between 152,000 and 165,000 acre-feet of water.

## Managed Recharge Facilities

Valley Water owns and operates seven managed aquifer recharge systems. Within these systems, Valley Water supplies recharge ponds and supplements natural flow in existing stream channels to recharge local and imported surface water into the groundwater subbasins. In 2021, it was estimated that Valley Water replenished the groundwater subbasins with 67,000 acre-feet of managed recharge. The amount recharged in each year varies depending on hydrological conditions and the availability of surface water for recharge. As described in Valley Water's 2021 Groundwater Management Plan, Valley Water's average managed recharged was 88,500 acre-feet per year between calendar years 2010 and 2019. Significant features of these managed recharge systems appear in the following table.

### MANAGED RECHARGE SYSTEMS

<i>Recharge System</i>	<i>Number of Ponds*</i>	<i>Pond Surface Area (in acres)**</i>	<i>Miles of Stream***</i>	<i>Average Annual Recharge Quantity (acre-feet per year)****</i>
Westside	2	3	28	8,000
Los Gatos	29	73	11	22,000
Guadalupe	21	82	17	16,000
Penitencia	24	22	2	4,000
Coyote	1	41	14	25,000
Upper Llagas	22	29	9	10,000
Lower Llagas	<u>3</u>	<u>36</u>	<u>9</u>	<u>12,000</u>
<b>Total</b>	<b>102</b>	<b>286</b>	<b>90</b>	<b>97,000</b>

\* The number of total ponds includes 6 ponds that are operated but not owned by Valley Water.

\*\* Approximate pond water surface area based on ArcGIS layer.

\*\*\* Approximate miles of stream based on ArcGIS Instream Recharge Layer.

\*\*\*\* Average Annual Recharge Quantity is based generally on recharge averaged over calendar years 2015 through 2019. Calendar year 2015 was an exceptionally dry year with limited surface water available for recharge.

## Raw Water Conveyance System

Valley Water uses several major pipelines to transport imported and locally conserved water to various locations for treatment and groundwater recharge. This conveyance system first meets the demands of critical stream flows and water treatment plants and then delivers the remaining water to recharge systems on an ability to convey basis. The major components of this conveyance system consist of the Central Pipeline, the Rinconada Force Main, the Almaden Valley Pipeline, the Calero Pipeline, and the Cross Valley Pipeline. Another facility, the Stevens Creek Pipeline, tees off of the Rinconada Force Main and conveys water to west side recharge facilities. Valley Water also operates and maintains the San Felipe Division of the CVP which delivers imported water into the County. The San Felipe Division conveys water from the San Luis Reservoir through six miles of tunnels, two pumping plants, and 29 miles of pipelines.

Valley Water also owns and operates the Vasona Pumping Plant, with a total power capacity of 1,200 horsepower, which is located at the juncture of the Central Pipeline, the Rinconada Force Main, and the Almaden Valley Pipeline. The Vasona Pumping Plant can boost the water pressure in any of these three pipes. Valley Water also operates two pumping plants on the San Felipe Project: the Pacheco Pumping Plant and Coyote Pumping Plant, with a combined capacity of 36,000 horsepower. In addition, Valley Water owns the Anderson hydro-electric station with two turbine-generator units licensed through the Federal Energy Regulatory Commission capable of producing 450 kilowatts each. The power generated is sold to Pacific Gas and Electric Company pursuant to contract.

The table below sets forth each of the pipelines described above, its diameter and the year it was completed.

#### **RAW WATER PIPELINES**

<i>Line</i>	<i>Diameter (in inches)</i>	<i>Year Completed<sup>(1)</sup></i>
Central Pipeline	66	1964
Rinconada Force Main	72	1966
Stevens Creek Pipeline	30-36	1966, 1968
Almaden Valley Pipeline	72-78	1965, 1980-1981
Calero Pipeline	78	1989
Cross Valley Pipeline	78	1979, 1982-1984
San Felipe Division	96-120	1982-1984

<sup>(1)</sup> Where multiple years are shown, such years reflect the timeframes for completion of construction of various phases of a pipeline.

Source: Valley Water.

#### **Water Treatment and Water Purification**

**General.** Valley Water owns and operates three drinking water treatment plants: Santa Teresa WTP, Penitencia WTP, and Rinconada WTP. The design capacities of the three drinking water treatment plants are 100 MGD, 40 MGD, and 80 MGD, respectively.

Valley Water's treated water system provides flexibility if one water treatment plant is shut down. Penitencia and Santa Teresa WTPs are both connected to East Pipeline. Santa Teresa WTP was designed to be capable of delivering treated water to the retail customers of both treatment plants. The water retailers receiving water from Santa Teresa WTP are able to use Penitencia water, the SFPUC water through Valley Water-SFPUC joint intertie and/or groundwater if Santa Teresa WTP is shut down. The water retailers served by Rinconada WTP can use groundwater or SFPUC water to replace Rinconada water during low flow season if the treatment plant is shut down. In general, the major water retailers within the County can acquire either SFPUC water or groundwater to replace Valley Water treated water if necessary.

In 1995, the State governor signed Assembly Bill 733 into law, which requires fluoridation of any public water system with at least 10,000 customers if sufficient funds to cover capital and any associated costs necessary to install such a system were made available. Local health officials advocated for large-scale fluoridation to be applied to maximize the public health benefits and minimize the cost of treatment at municipal water supplies. Fluoridation at Valley Water's three drinking water treatment plants was identified as the most cost-effective means of providing fluoride to Santa Clara Valley. In November 2011, the Board adopted a policy to add fluoride to Valley Water's water treatment plants. A project to provide fluoridation facilities at both Santa Teresa WTP and Penitencia WTP began construction in May 2016 and was completed in July of 2017. As a result, the fluoridation systems at Santa Teresa WTP and at Penitencia WTP are now on-

line. Rinconada WTP is expected to begin fluoridating with the anticipated completion of the Rinconada Water Treatment Plant Reliability Improvement Project in 2029.

***Santa Teresa Water Treatment Plant.*** First operated in 1989, Santa Teresa WTP is the largest of Valley Water’s three treatment plants with the ability to treat and deliver up to 100 MGD. The plant is primarily supplied by imported water from the San Luis Reservoir, a key component of the federal CVP. In addition, the plant is also fed from Valley Water’s local supplies at Anderson and Calero reservoirs. See the caption “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive.”

The Santa Teresa WTP is a conventional treatment plant utilizing coagulation, flocculation, sedimentation, filtration, and disinfection. In spring of 2006, Valley Water completed significant upgrades to the Santa Teresa WTP which were highlighted by the addition of ozone to the treatment process. Ozone is a strong disinfectant that creates less disinfection byproducts than chlorine. Disinfection byproducts at high levels can be a health concern. In December 2016, the fluoridation system at Santa Teresa WTP was commissioned and Santa Teresa WTP became the first of the three Valley Water’s treatment plants to provide fluoridated water to customers. Drinking water from the plant serves most of the southern portion of the City of San Jose (Almaden Valley, Blossom Valley, Santa Teresa), supplying water to both residential and commercial users.

***Penitencia Water Treatment Plant.*** First operated in 1974, the Penitencia WTP has the ability to treat and deliver up to 40 MGD. The South Bay Aqueduct, owned by DWR, provides most of the “raw” water to the Penitencia WTP. Water from the Sacramento-San Joaquin Delta is pumped into the California Aqueduct and then into the South Bay Aqueduct in Tracy. The Penitencia WTP is also capable of receiving local reservoir water or federal water, if necessary.

The Penitencia WTP is a conventional treatment plant utilizing coagulation, flocculation, sedimentation, filtration, and disinfection. In the summer of 2006, Valley Water completed significant upgrades to the Penitencia WTP which were highlighted by the addition of ozone to the treatment process. Between October 2016 and July 2017, Penitencia WTP was shut down for eight and a half months to allow parallel constructions of four major capital improvement projects, including Penitencia Delivery Main / Penitencia Force Main Seismic Retrofit Project, Clearwell Roof Replacement Project, Operations Building Seismic Retrofit Project, and the Fluoridation Project. In July 2017, the fluoridation system at Penitencia WTP was brought online after the completion of all four capital projects, and Penitencia WTP started to provide fluoridated water to customers. Drinking water from this plant typically serves an area of the northeastern portion of the County in the City of San Jose, and to approximately 270,000 residential and commercial users in San Jose and Milpitas.

***Rinconada Water Treatment Plant.*** First operated in 1968, the Rinconada WTP is the oldest of the three surface water treatment plants in the Valley Water system. As the second largest of Valley Water’s treatment plants, the Rinconada WTP can treat and deliver up to 80 MGD. The Rinconada WTP draws water from the South Bay Aqueduct and from the San Luis Reservoir. The plant can also be supplied from Valley Water’s local Anderson and Calero reservoirs. See the caption “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive.”

Significant upgrades to the Rinconada WTP’s coagulation, flocculation, and sedimentation processes, from upflow clarifiers to conventional basins, were completed in 2020. Valley Water is currently continuing the upgrades at the Rinconada WTP to a 100 MGD plant with ozone disinfection, new filters, new residuals handling facility, as well as the fluoridation system. The Rinconada WTP is also expected to provide fluoridated water to the customers by the completion of such upgrade.

Drinking water from Rinconada WTP serves both residential and commercial users in the west valley including the cities of Los Gatos, Santa Clara, Campbell, Sunnyvale, Cupertino, Mountain View, Los Altos, and Los Altos Hills.



***Silicon Valley Advanced Water Purification Center.*** The Silicon Valley Advanced Water Purification Center is owned and operated by Valley Water. Commissioned in March 2014, the SVAWPC has the ability to deliver up to eight MGD of purified water. The SVAWPC is an advanced treatment facility that utilizes microfiltration, reverse osmosis and ultra-violet light disinfection processes that purify secondary treated wastewater to near-distilled quality water. This purified water is delivered to the South Bay Water Recycling program operated by the City of San Jose and blended with tertiary treated recycled water for use by customers in San Jose, Milpitas and Santa Clara for irrigation and industrial uses that offset potable water supplies.

Valley Water and the City of San Jose entered into a ground lease and property use agreement (the “Ground Lease”) with respect to the City of San Jose-owned site on which the SVAWPC is located. In addition, Valley Water and the City of San Jose have entered into an integration agreement (the “Integration Agreement”) with respect to the operation of the SVAWPC. Valley Water and the City of San Jose each have the annual option to terminate the Integration Agreement on or after June 30, 2020 in accordance with its terms. The Ground Lease provides that if the Integration Agreement is terminated, the Ground Lease will simultaneously terminate and upon such termination, Valley Water would be required to surrender the facilities of the SVAWPC to the City of San Jose. Valley Water and the City of San Jose have not had any formal negotiations with respect to such termination provisions. See the caption “CAPITAL IMPROVEMENT PROGRAM.”

### **Treated Water Storage and Distribution System**

Treated water is stored in a clearwell at each of the three treatment plants and one reservoir at Rinconada WTP and then distributed to Valley Water’s retail customers by nine treated water pipelines. The total storage capacity is 30,000,000 gallons.

The following table depicts Valley Water’s water treatment facilities and treated water storage facilities and distribution systems:

#### **WATER TREATMENT AND STORAGE FACILITIES AND DISTRIBUTION SYSTEM**

<b><i>Treatment Plant</i></b>	<b><i>Storage Facility</i></b>	<b><i>Distribution System</i></b>
Rinconada Water Treatment Plant	Rinconada Clearwell Rinconada Reservoir	West Pipeline Santa Clara Distributary Sunnyvale Distributary Mountain View Distributary Campbell Distributary
Penitencia Water Treatment Plant	Penitencia Clearwell	East Pipeline Milpitas Pipeline
Santa Teresa Water Treatment Plant	Santa Teresa Clearwell	East Pipeline Snell Pipeline Graystone Pipeline

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Source: Valley Water.

### **Seismic Considerations**

Beginning in the late 1970’s, Valley Water conducted a series of studies that focused on evaluating the seismic performance of major facilities of Valley Water. The studies provided Valley Water with a detailed analysis of the predicted seismic performance of Valley Water dams. As a result of these studies, a seismic

retrofit was completed in 1985 at Stevens Creek Dam to enable it to have acceptable predicted seismic performance, and a reservoir operation restriction was implemented at Guadalupe Dam. All the other dams were determined to have acceptable performance without modifications. Other studies resulted in seismic retrofitting programs at Penitencia and Rinconada WTPs. These programs targeted the need to define necessary non-structural or minor structural improvements. The required improvements have been completed.

Additional studies completed in 1993 and 1994 defined the faults and fault systems most likely to generate destructive earthquakes, and the level of movement expected at Valley Water's three water treatment plants from a major earthquake occurring on any of the nearby active faults. The San Andreas, Hayward, and Calaveras faults are the most likely sources of strong seismic activities. Other faults are also known to have a potential for earthquakes.

Beginning in the late 2000's, Valley Water embarked on another series of studies to re-evaluate the seismic performance of major Valley Water dams in accordance with modern seismic design criteria. These studies are performed in cooperation with and reviewed by the DSOD. The seismic stability evaluations and results for the following dams have been completed to date:

#### **Summary of Recent Seismic Stability Evaluations of Valley Water Dams**

<i><b>Dam</b></i>	<i><b>Year Study Completed</b></i>	<i><b>Result Summary</b></i>
Anderson	2011	Seismic retrofit of dam is required. Interim operating restriction of 45 ft. from crest of dam (32% storage capacity lost) implemented pending seismic retrofit project. (This voluntary restriction was subsequently increased to approximately 55 ft. from the crest of dam (42% storage capacity lost) in 2017).  Pursuant to the FERC Directive, Anderson Reservoir was lowered to 488 feet. See the caption “—Anderson Dam Seismic Retrofit Project and FERC Directive” above.
Almaden	2012	Embankment dam meets modern seismic design criteria. However, seismic retrofit of intake structure, spillway improvements, and dam raise are required. Interim operating restriction of 10 ft from crest of dam (7% storage capacity lost) implemented pending capital improvements.
Calero	2012	Seismic retrofit of dam is required. Interim operating restriction of 25 ft. from crest of dam (54% storage capacity lost) implemented pending seismic retrofit project.
Guadalupe	2012	Seismic retrofit of dam is required. Interim operating restriction of 25 ft. from crest of dam (35% storage capacity lost) implemented pending seismic retrofit project.
Lenihan	2013	Embankment dam meets modern seismic design criteria. No restrictions necessary.
Stevens Creek	2013	Embankment dam meets modern seismic design criteria. No restrictions necessary.

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Source: Valley Water.

The seismic evaluations of Chesbro, Coyote, and Uvas Dams commenced in 2015 and are currently ongoing. Valley Water estimates that the earliest such evaluations will be completed is in 2024. Valley Water's Water Utility Dam Safety and Capital Delivery Division is currently working on the seismic retrofit of Calero, and Guadalupe Dams; and on the capital improvements for Almaden Dam. See the caption "—Anderson Dam Seismic Retrofit Project and FERC Directive" above. Valley Water facilities have been and continue to be designed in accordance with applicable standards to withstand the effects of earthquakes with acceptable damage levels. Seismic upgrading has been implemented as noted above. Seismic loads are taken into account in the design of all facilities. Damage to Valley Water facilities in historic earthquakes has been modest (there has been damage to pipelines, water treatment plants, and dams) with no resulting injury or loss of life.

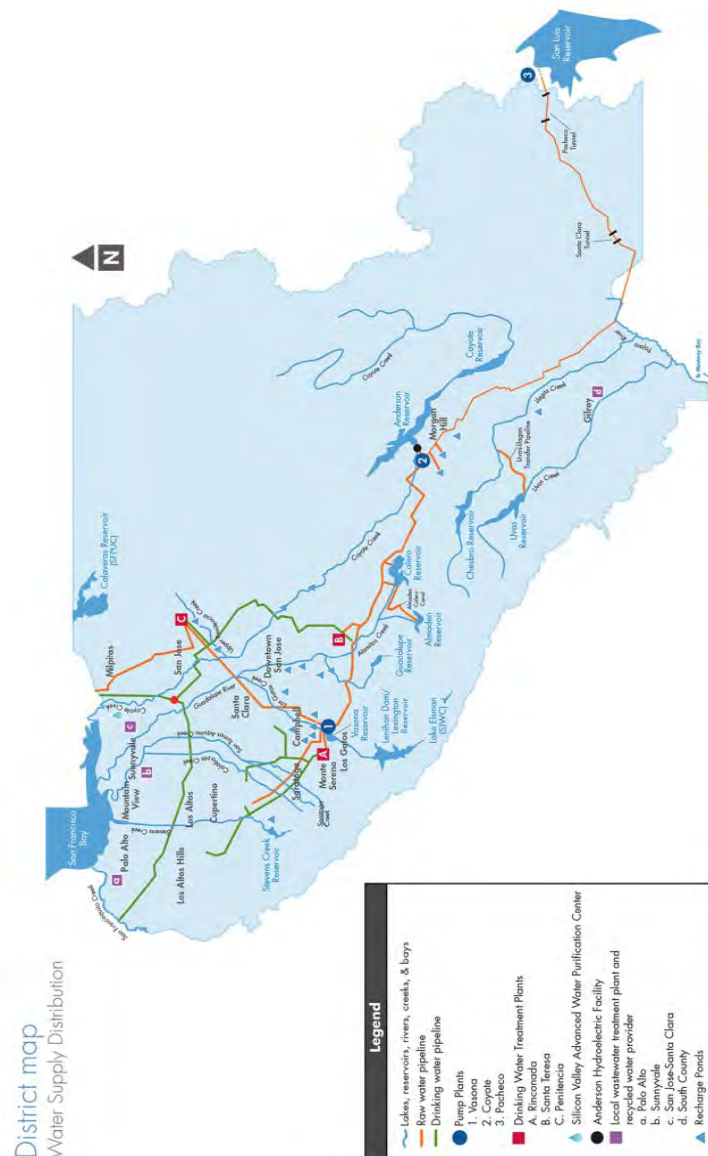
Earthquake effects on dams, pipelines and other water facilities are expected to vary depending upon the nature of the facility and the magnitude of the seismic forces (which depend upon a number of factors, including the energy released, proximity to the epicenter, duration of strong shaking, etc). In the design of new facilities, care is taken to avoid active faults, liquefaction areas and landslide terrain when feasible. Under some earthquake scenarios, significant damage is predicted for Valley Water raw and treated water pipelines. A project was completed in December 2007 to obtain adequate spare pipe which will reduce outage periods from seismic damage to pipelines. Studies are in progress to further evaluate ways of mitigating the damage and minimizing loss of water and impacts to level of service. Independent studies indicate that some Valley Water facilities might be subject to damage from fault displacement or moderate earthquakes on faults previously thought to be low-risk. Valley Water conducts periodic engineering studies, inspections and maintenance of Valley Water facilities, including Valley Water dams, which informs Valley Water's future planning and design work.

Valley Water has established a program for inspecting its dams, and activating its Emergency Operations Center ("EOC"), immediately following a major (5.0 or greater on the Richter scale) earthquake occurring within 20 miles of Valley Water dams. The program provides for the self-deployment of trained Valley Water personnel to specific sites, the inspection and recording of any damage at those sites and the reporting of the status back to the EOC.

### **Water Distribution System**

The following map illustrates Valley Water's water distribution system components that are utilized to serve the water demands of the County. In general, Valley Water's distribution system, in conjunction with the SFPUC, can deliver the total projected water needs of the County.

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## Water Usage

Valley Water receives revenue from the sales of treated water, non-potable surface water and recycled water, and from a groundwater production charge. The following charts list: treated water and groundwater usage in acre-feet, receipts from water retail customers, and total usage of non-agricultural groundwater, agricultural groundwater, treated water, surface water, and recycled water. Water production refers to the total quantity of water pumped from the groundwater benefit zones or delivered through pipelines to water retailers and individual water users.

Valley Water's treated water and groundwater usage by water retailers and other accounts for the two most recent Fiscal Years for which such information is available is listed below.

**TREATED WATER AND GROUNDWATER USAGE  
(ACRE-FEET)<sup>(1)</sup>**

	<i>Fiscal Year 2019-20</i>			<i>Fiscal Year 2020-21</i>		
	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>
<b>WATER RETAILERS</b>						
San Jose Water Company	45,781	62,531	108,312	54,625	62,797	117,423
Santa Clara, City of	10,474	4,147	14,621	10,474	4,061	14,535
San Jose, City of	978	11,699	12,677	832	12,230	13,062
California Water Service	2,768	9,890	12,659	3,397	9,619	13,016
Great Oaks Water Co.	10,841	--	10,841	11,274	--	11,274
Sunnyvale, City of	94	8,915	9,008	81	9,300	9,381
Gilroy, City of	8,058	--	8,058	8,459	--	8,459
Morgan Hill, City of	7,398	--	7,398	7,301	--	7,301
Milpitas, City of	--	2,816	2,816	--	3,504	3,504
Cupertino, City of	169	2,374	2,543	243	2,421	2,664
Mountain View City of	259	1,063	1,323	133	1,042	1,174
Subtotals Water Retailers	86,821	103,436	190,257	96,819	104,975	201,794
Other Groundwater Customers	<u>37,696</u>	<u>--</u>	<u>37,696</u>	<u>40,675</u>	<u>--</u>	<u>40,675</u>
Total	124,517	103,436	227,953	137,494	104,975	242,469

<sup>(1)</sup> Certain water usage reflects adjustments made subsequent to the relevant Fiscal Year.  
Source: Valley Water.

**GROUNDWATER, TREATED WATER, SURFACE WATER  
AND RECYCLED WATER USAGE<sup>(1)</sup>  
(ACRE-FEET)**

<i>Fiscal Year Ended June 30</i>	<i>Groundwater</i>		<i>Treated Water</i>	<i>Surface Water</i>	<i>Recycled Water</i>	<i>Total</i>
	<i>Agricultural</i>	<i>Non-Agricultural</i>				
2017	24,971	83,457	104,586	1,426	919	215,359
2018	26,868	98,235	103,903	2,788	880	232,674
2019	25,627	83,667	103,673	1,961	1,099	216,026
2020	24,464	100,053	103,436	2,155	1,138	231,246
2021	26,192	111,302	104,975	2,520	1,510	246,499

<sup>(1)</sup> Certain water usage reflects adjustments made subsequent to the relevant Fiscal Year.  
Source: Valley Water.

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**VALLEY WATER RECEIPTS FROM WATER AGENCIES AND COMPANIES  
FOR TREATED WATER AND GROUNDWATER  
(DOLLARS)**

	<i>Fiscal Year 2019-20</i>			<i>Fiscal Year 2020-21</i>		
	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>
<b>WATER RETAILERS</b>						
San Jose Water Company	\$ 62,871,218	\$ 92,171,298	\$ 155,042,516	\$ 74,956,634	\$ 92,563,456	\$ 167,520,090
Santa Clara, City of	14,391,867	6,112,088	20,503,955	14,390,259	5,986,268	20,376,527
San Jose, City of	1,075,728	17,245,048	18,320,776	959,769	18,027,049	18,986,818
California Water Service	3,803,864	14,735,285	18,539,149	4,667,011	14,307,841	18,974,852
Sunnyvale, City of	128,483	13,140,209	13,268,692	111,129	13,758,247	13,869,376
Great Oaks Water Co	10,551,159	--	10,551,159	10,573,486	--	10,573,486
Milpitas, City of	--	4,150,990	4,150,990	--	5,165,338	5,165,338
Gilroy, City of	3,876,009	--	3,876,009	3,950,577	--	3,950,577
Cupertino, City of	232,082	3,499,305	3,731,387	333,497	3,568,598	3,902,095
Morgan Hill, City of	3,558,539	--	3,558,539	3,439,679	--	3,439,679
Mountain View, City of	356,429	1,567,525	1,923,954	182,618	1,535,215	1,717,833
Subtotals Water Retailers	\$ 100,845,377	\$ 152,621,750	\$ 253,467,127	\$ 113,564,661	\$ 154,912,013	\$ 268,476,674
Other Groundwater Customers	11,714,623	--	11,714,623	18,546,833	--	18,546,833
Total	\$ 112,560,000	\$ 152,621,750	\$ 265,181,750	\$ 132,111,494	\$ 154,912,013	\$ 287,023,507

Source: Valley Water.

**San Jose Water Company.** San Jose Water Company is the largest water retailer served by Valley Water and currently provides water service to over 1,000,000 customers. San Jose Water Company is a wholly-owned subsidiary of SJW Group, a public traded company. For the fiscal year ended June 30, 2021, Valley Water received approximately \$167.0 million in charges for treated water and groundwater from San Jose Water Company consisting of approximately 62.6% of the water sales revenues of Valley Water's Water Enterprise.

The principal business of the San Jose Water Company consists of the production, purchase, storage, purification, distribution and retail sale of water. The San Jose Water Company provides water service to customers in portions of the cities of Cupertino and San Jose and the cities of Campbell, Monte Sereno, and Saratoga, the Town of Los Gatos, and adjacent unincorporated territory, all in the County.

On October 9, 2019, SJW Group and Connecticut Water Service, Inc. ("CTWS"), a publicly traded company that, through its subsidiaries, serves water and wastewater customers in Connecticut and Maine, announced the close of their merger. As a result of the merger, CTWS now operates as a wholly-owned subsidiary of SJW Group.

None of San Jose Water Company, SJW Group or any of SJW Group's subsidiaries is an obligor with respect to the 2022 Bonds or the 2022C Certificates. The 2022 Bonds and the Installment Payments securing the 2022C Certificates are obligations of Valley Water payable from Valley Water's Net Water Utility System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS." References made herein to San Jose Water Company and SJW Group are for informational purposes only. Valley Water makes no representations as to the accuracy or the adequacy of any of the filings of SJW Group with the Securities Exchange Commission (the "Commission") described below. The filings described below are strictly those of SJW Group and not of Valley Water and such filings are not incorporated by reference herein.

SJW Group is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Commission. The Annual Report on Form 10-K (the "Form 10-K") for the year ended December 31, 2021, has been filed by SJW Group with the Commission. The Form 10-K and other annual and periodic reports of the SJW Group (including financial

information) may be inspected and copied at the public reference facilities of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 and the Securities Exchange Commission's regional offices.

***Water Retailer Delinquencies.*** No retail water purveyor has defaulted on any payments to Valley Water during the last five Fiscal Years. Notwithstanding the current economic environment and the effects of federal, State, and local responses to the COVID-19 pandemic, Valley Water has not had any retail water purveyor become delinquent in any payments due to Valley Water. See the caption "INVESTMENT CONSIDERATIONS—COVID-19 Pandemic."

## **FACTORS AFFECTING WATER SUPPLIES**

### **General**

Valley Water has access to several sources of water, both imported and local, which provides flexibility in managing its water supplies to meet the needs of the County. Under normal water conditions, Valley Water imports about half of its water supply under contracts with the California SWP and the federal CVP, and obtains the other half from local surface water and groundwater resources. Some water retailers in the County may also import water from the SFPUC's Regional Water System, have their own local surface water supplies, and/or can deliver recycled water. To address factors which may impact these water supplies, Valley Water has undertaken several planning efforts focused on identifying strategies to safeguard the reliability and sustainability of County and State-wide water resources on which Valley Water relies, assessing risks from climate change, economic and regulatory uncertainties, environmental and social conflicts, and other considerations.

Valley Water completed its 2020 Urban Water Management Plan ("UWMP") on June 9, 2021, pursuant to California Water Code Sections 10610 through 10657 (the "Urban Water Management Planning Act"). The Urban Water Management Planning Act requires urban water suppliers such as Valley Water to review, update and adopt an UWMP every five years. Valley Water's current UWMP was prepared in coordination with water retailers (majority of such water retailers also must prepare their own UWMPs), the County, and local cities and towns. Valley Water's 2020 UWMP updated water demand projections based upon increases in population and job growth to 2040 as projected by the Association of Bay Area Governments and presented existing and future water supply that can be utilized to meet future demands. The plan also included Valley Water's Water Shortage Contingency Plan, which addresses dry year objectives and operations and outlines response actions to water shortages caused by droughts and/or other emergency situations. Completion of UWMP updates allows Valley Water to remain eligible for state water bank assistance and for state grant funding. The next UWMP update is scheduled for development and completion by July 2026, per state requirement.

The 2020 UWMP concluded that Valley Water must make significant investments to maintain and safeguard existing water supplies, infrastructure, and programs to ensure a reliable water supply into the future, consistent with Valley Water's Water Supply Master Plan 2040 (the "Master Plan") recommendations. Approved by the Board in November 2019, the Master Plan recommends a three-prong strategy to ensure a reliable water supply through 2040: 1) secure existing supplies and infrastructure; 2) expand water conservation and reuse; and 3) optimize the use of existing supplies and infrastructure to increase operational flexibility. The development of the Master Plan involved evaluating various combinations of water supply projects and programs to achieve long-term water supply reliability targets. The preliminary 100-year lifecycle cost projections for the water supply projects and programs considered in the Master Plan ranges from less than \$100 million to over \$1 billion and are over \$2.3 billion in the aggregate. As part of the on-going master planning process to address future uncertainties with demands, supplies, and proposed projects, the Master Plan established an annual Monitoring and Assessment Program ("MAP") to evaluate and report to the Board new information and updates on projects to help inform the annual water rate-setting process, Capital Improvement Program (CIP), and budget processes. The update gives the Board an opportunity to adjust the Master Plan in response to changing conditions. The Board approved an updated long-term water supply

reliability level of service goal on January 14, 2019. The goal is to develop supplies to meet at least 100 percent of average annual water demand during non-drought years and at least 80 percent of average annual water demand in drought years. The projects identified in the Master Plan, along with the baseline supplies and infrastructure, are projected to meet the water supply reliability level of service goals, even though there are small supply shortages in demand year 2030. The Master Plan provides that such small shortages, if they materialize, will be managed by short-term water purchases rather than additional capital projects. The objectives and projects developed in the Master Plan are incorporated into the Capital Improvement Program. See the caption “CAPITAL IMPROVEMENT PROGRAM.”

## **California Water Policy Framework and Developments**

***Bay-Delta Water Quality Control Plan.*** Valley Water holds contracts with the USBR and DWR, respectively, for water service from the CVP and the SWP. Valley Water’s water supply under its contracts with the SWP and CVP is imported through the Bay-Delta. The Bay-Delta is the largest estuary on the west coast and supports more than 750 species of plants and wildlife. Water diverted and re-diverted from the Bay-Delta also provides water supply to more than two-thirds of the population in the state and to agricultural users in the Central Valley and the San Felipe Division of the CVP. However, decades of competing demands have taken a toll on the Bay-Delta. Regulatory actions to protect threatened or endangered fisheries have reduced the reliability of Bay-Delta water supplies. During dry periods, water quality can be degraded, making it difficult and expensive to meet drinking water standards. In addition, the vulnerability of Delta levees to seismic and flooding failures threatens both the infrastructure and the quality of California’s water supply.

The State Water Resources Control Board (“SWRCB”) Order 90-5 establishes water right requirements on the USBR’s operations of Keswick Dam, Shasta Dam, the Spring Creek Power Plant and the Trinity River Division. Such requirements relate to temperature control in the Upper Sacramento River for the protection of fishery resources and require monitoring and reporting to evaluate compliance. The National Marine Fisheries Service (“NMFS”) also imposes requirements on USBR’s operations related to temperature control in the Upper Sacramento River through terms and conditions contained in the 2019 biological opinion and incidental take statement for long-term operations of the CVP and SWP. These regulations have the potential to reduce available CVP exports; however, it is unlikely that exports would be reduced beyond levels that were permitted between 2009 and 2019 under prior 2008 and 2009 biological opinions.

The SWRCB is responsible for developing and modifying the Bay-Delta Water Quality Control Plan (“Bay-Delta Plan”), which establishes water quality control measures needed to provide reasonable protection of all beneficial uses of water in the Bay-Delta watershed. The SWRCB implements the Bay-Delta Plan through water rights proceedings or regulations and administers water rights in the Bay-Delta watershed.

The SWRCB is in the process of developing and implementing updates to the Bay-Delta Plan including establishing flow objectives for priority tributaries to the Bay-Delta to protect beneficial uses in the Bay-Delta watershed. These updates are occurring in phases. Phase 1 of the updates involve developing flow objectives for the Lower San Joaquin River and its major salmon bearing tributaries and updating the southern Delta salinity objectives included in the Bay-Delta Plan. Phase 2 involves other comprehensive changes to the Bay-Delta Plan to protect beneficial uses not addressed in Phase 1 (e.g., Delta outflows, Sacramento River and other major tributary flows, export limits, reverse flows). Phase 3 is expected to involve changes to water rights and/or other measures to implement changes to the Bay-Delta Plan from Phases 1 and 2.

On October 19, 2016, the SWRCB staff released a working draft Scientific Basis Report (“SBR”) for fisheries and flows in the Sacramento River and Bay-Delta. The draft SBR identifies the science that will be relied on in considering potential changes to the Bay-Delta Plan to enhance flows in and out of the Sacramento River basin and within the Bay-Delta to protect fish and wildlife. The SBR was finalized in October 2017 and analyzes possible effects of modified requirements for fish and wildlife protection on other beneficial uses of water, including alternatives and economic impacts.



In July 2018 the SWRCB released a Framework for the Sacramento/Delta Update to the Bay-Delta Plan (the “Phase 2 Framework”) that described changes SWRCB staff intended to propose through a formal proposal and supporting environmental document. The proposed changes include unimpaired flow requirements for the Sacramento River and its salmon-bearing tributaries that range between 45 and 65 percent, with a starting point of 55 percent, a new narrative cold water habitat objective, and new objectives for fall Delta outflows and interior Delta flows. A decision on the Phase 2 Framework is not expected to be made until SWRCB staff has completed its draft staff report and the Substitute Environmental Document, and the public has been provided an opportunity to comment thereon.

On December 12, 2018, the SWRCB adopted new water quality objectives for the San Francisco Bay/Sacramento - San Joaquin Delta Estuary Water Quality Control Plan (“Bay-Delta WQCP”), which addressed water quality objectives on the Lower San Joaquin River, its tributaries, and the southern Delta (the “Phase 1 Amendments”). The new objectives increase flow on the San Joaquin River and its tributaries to a range of 30 to 50 percent of the unimpaired flow levels, with a starting point of 40 percent of unimpaired flow from February through June. The SWRCB has defined unimpaired flow as the water production of a river basin, unaltered by upstream diversions, storage, or by export or import of water to or from other watersheds. These new objectives are not expected to be implemented until the SWRCB assigns responsibilities either through water rights proceedings during Phase 3 or issues new regulations. In July 2022, the SWRCB issued a Notice of Preparation under CEQA for issuing new regulations to implement the Phase 1 Amendments to the Bay-Delta WQCP. If implemented, the Phase 1 Amendments could result in a significant reduction of imported water supplies delivered by SFPUC to areas within the County, which could result in increased groundwater pumping to offset the loss.

***Voluntary Agreements Process.*** During the December 2018 hearing to consider adoption of the Phase 1 Amendments, the Directors of the DWR and the California Department of Fish and Wildlife (“CDFW”) presented a framework for a Voluntary Agreement among DWR, CDFW, water users in the San Joaquin and Sacramento watersheds, SWP and CVP contractors, and members of the conservation community that would provide more modest additional flows for fish and wildlife combined with commitments to contribute substantial funding for structural habitat improvements and scientific investigations. At the hearing the SWRCB directed its staff to provide appropriate technical and regulatory information to assist the California Natural Resources Agency in completing a Voluntary Agreement as a potential alternative for a future Bay-Delta Plan update.

In February 2020, the Secretaries of the California Environmental Protection Agency and Natural Resources Agency, along with the SWRCB presented a framework for Voluntary Agreements that expanded upon previous water user commitments of river flows, habitat restoration and funding. This State framework package described what the State team believed would be legally and scientifically adequate to serve as an alternative to the regulatory approach proposed by the State Water Board in the Phase 1 Amendments to the Bay-Delta WQCP, establishing a proposed 40% unimpaired flow requirement on all San Joaquin tributaries.

On March 29, 2022, the State of California and several large water agencies announced agreement in principle on a term sheet to implement Voluntary Agreements (“VAs”) as an alternative means to achieving the Bay-Delta WQCP’s goals and objectives. If the term sheet is implemented, the VAs would increase total outflow from the Bay-Delta to the ocean in three out of five water year types (dry, below normal and above normal) by approximately 750,000 to 825,000 acre-feet, while also providing funding for more than 45,000 acres in habitat improvements over an eight-year term. Required water agency financial contributions are a combination of lump sum commitments and a water user fee that ranges from \$1 per acre-foot to \$10 per acre-foot depending on the location of the diversions. A portion of the per acre-foot fees will go into a water resources fund to purchase water for environmental flows and a portion will fund science and habitat restoration. South-of Delta SWP and CVP contractors, including Valley Water, will contribute \$10 per acre-foot (\$7 per acre-foot will fund the purchase of water for environmental purposes and \$3 per acre-foot will fund scientific research and habitat restoration). Under the VA term sheet, SWP and CVP contractors will agree to share equally in a reduction in water exported south of the Delta in three out of five water year types –

by 125,000 acre-feet in dry and below normal years (62,500 each) and 175,000 acre-feet reduction in above normal years (87,500 each). There will be no reductions in critical or wet years. In addition, SWP contractors will make an additional 30,000 acre-feet of water available for purchase to support environmental flows in dry, below normal, and above normal water years through the new water resources fund.

If implemented, the VAs will result in a reduction in the amount of CVP and SWP water supplies received by Valley Water; however, this reduction in supplies is less than what would result if the SWRCB implemented the Phase 2 Framework unimpaired flow approach to the Sacramento River and North Delta watersheds. Based solely on the proposed \$10 per acre-foot charge, the cost to Valley Water under the VAs term sheet is approximately \$1.5 million per year. Current estimates of Valley Water's share of export reductions is between 2,000 – 4,200 acre-feet per year, on average, depending on how the CVP share is allocated between agricultural and municipal and industrial water service contractors. The single-year worst case scenario impact is estimated to be 13,200 acre-feet. In addition, given the magnitude of water being made available from north of Delta water users in the VAs proposal, implementation of the VAs could significantly reduce the amount of available transfer and exchange supplies available on the open market, reducing Valley Water's ability to purchase supplemental water.

***Delta Conveyance (Tunnel) Project.*** On July 25, 2012, Governor Edmund G. Brown and Secretary of the Interior Ken Salazar announced key proposed elements to advance the Bay Delta Conservation Plan ("BDCP") planning process, including north Bay-Delta water diversion facilities with a total capacity of 9,000 cubic-feet per second ("cfs"), two tunnels sized to minimize energy use during operations and a "decision tree" process for unresolved operation criteria such as fall and spring outflows. The Draft BDCP and associated Draft Environmental Impact Report/Environmental Impact Statement ("EIR/EIS") were completed on December 13, 2013. Preliminary cost estimates for the BDCP were approximately \$25.0 billion.

In 2015, the State separated the focus of the BDCP into two efforts: the California EcoRestore Project ("EcoRestore") and the California Water Fix project ("California Water Fix"). The EcoRestore aimed to accelerate and implement a comprehensive suite of habitat restoration actions to support the long-term health of the Bay-Delta's native fish and wildlife. The California Water Fix project included construction of the two tunnel diversion facilities described above. The final Environmental Impact Report/Environmental Impact Statement ("FEIR/EIS") for the California Water Fix project was released in late December 2016. DWR subsequently certified the FEIR/EIS and issued a Notice of Determination approving the California Water Fix project. No record of decision under the National Environmental Policy Act ("NEPA") was issued by USBR with respect to the California Water Fix project.

On May 8, 2018, the Board of Directors authorized Valley Water to be a member of the Delta Conveyance Design and Construction Joint Powers Authority ("DCA"). The DCA was originally formed for the purpose of implementing the design and construction of California Water Fix and currently is participating in the implementation of the Delta Conveyance Project, discussed below. The Board of Directors also authorized Valley Water's participation in the Delta Conveyance Finance Authority (the "Financing JPA") on July 6, 2018. Valley Water has joined the DCA and the Financing JPA.

In February 2019, Governor Gavin Newsom announced his support for a revised Bay-Delta Plan which includes one tunnel as opposed to two tunnels with respect to the diversion facilities and revised the name of the project from California Water Fix to the "Delta Conveyance Project" ("DCP"). In response to such announcement, DWR issued a project memorandum which rescinded the Notice of Determination approving the California Water Fix project and all other DWR approvals related to the Water Fix project based on such Notice of Determination.

Since July 24, 2019, SWP contractors and DWR have been engaged in negotiations to amend the SWP contract for inclusion of the DCP. The amendment is intended to determine how costs of the DCP would be shared among SWP contractors. If Valley Water executes the amendment and the DCP is constructed, Valley Water would be obligated to pay for its share of capital construction costs and future operations and

maintenance costs. On September 24, 2019, Valley Water's Board of Directors declared its support for the development of a single tunnel DCP and approved guiding principles for Valley Water's involvement in the DCP.

On April 30, 2020 the SWP contractors and DWR agreed upon a draft Final Agreement in Principle memorializing terms to include the DCP in the SWP contract. Subsequently, several SWP contractors signaled that they are not supportive of the DCP as currently envisioned, and do not plan on executing the amendments. Valley Water cannot make any predictions with respect to the approvals necessary for the DCP to proceed or the timing thereof.

On August 6, 2020, DWR adopted certain resolutions to authorize the issuance of bonds to finance costs of DCP environmental review, planning, design and, if such DCP is approved, the costs of acquisition and construction thereof. The same day, DWR filed a complaint in Sacramento County Superior Court seeking to validate DWR's authority to issue the bonds. Several answers have been filed in the validation action, as well as at least two related cases alleging that DWR violated CEQA by adopting the bond resolutions before completing environmental review of the DCP. DWR and several project opponents filed cross-motions for summary judgment on the CEQA affirmative defenses and related CEQA lawsuit, and in December 2021, the trial court granted DWR's motions and denied opponents' motions, eliminating the CEQA affirmative defenses. This litigation, however, is still in its early phases.

In August, 2020, the DCA provided a preliminary cost estimate for the DCP of approximately \$15.9 billion (in 2020 dollars). The DCA noted that such estimate has been developed at an early stage in the project and will be revised over time. Valley Water cannot predict at this time what additional financial commitments to the DCP will be made. On August 20, 2020, the U.S. Army Corps of Engineers, as the lead agency for the DCP under NEPA, issued a notice of intent for the development of the environmental impact statement for the DCP.

In November 2020, Valley Water's Board approved preliminary environmental review, planning, and design funding for the DCP in an amount up to approximately \$4 million for calendar years 2021 and 2022. In 2022, Valley Water's Board approved funding of up to \$6.97 million in DCP planning costs for calendar years 2023 and 2024. Valley Water expects that the DCP will require additional planning costs after 2024. In addition, additional funding for the DCP may be requested of Valley Water beginning in Fiscal Year 2024-25 and certain of such additional funding has been considered in Valley Water's financial planning. Valley Water has paid administrative fees to the Financing JPA with respect to the periods ended on June 30, 2021 and ending on June 30, 2022, respectively, and expects to pay an administrative fee in Fiscal Year 2022-23. The amounts of administrative fees that Valley Water has paid to DCP have not been material.

In July 2022, DWR released its draft EIR for the DCP. The new conveyance facilities being reviewed would include a single 6,000 cfs tunnel to convey water from new intakes on the Sacramento River to an expanded Bethany Reservoir (south of the Harvey O. Banks Pumping Plant) or to the existing Clifton Court Forebay in the south Sacramento-San Joaquin Delta. The public comment period ends on October 27, 2022, although this date may be extended.

***Oroville Spillway Repair Costs.*** In response to heavy rains, in February 2017, the concrete emergency spillway to the SWP's largest dam, Oroville Reservoir, broke apart, necessitating repair. DWR's cost estimate for the Oroville Spillways Emergency Recovery Project is currently \$1.1 billion, but no determination has been made as to the amount for which SWP contractors will ultimately be responsible. The Federal Emergency Management Agency's ("FEMA") Public Assistance program allows for the reimbursement of up to 75 percent of eligible costs for federally declared disasters. As a result, DWR has issued debt for 25 percent of total project costs, resulting in an annual increase of about \$635,000 to Valley Water's Statement of Charges. To date, FEMA has reimbursed DWR for approximately 50 percent of total project costs and DWR is considering appeal of this decision. If DWR is not successful in obtaining further

reimbursement from FEMA and instead issues debt to be repaid by SWP contractors, Valley Water's share of project costs could increase by an additional \$635,000 per year.

***Proposed SWP HH&S Water Repayment Obligation.*** Valley Water's CVP and SWP supplies are highly variable. In severe drought years, USBR and DWR may allocate almost no water to their respective contractors. For example, in calendar year 2022, DWR allocated SWP contractors 5% of their contract supplies (Valley Water received 5,000 acre-feet), and USBR allocated CVP contractors 0% of their contract supplies for agricultural water. However, in accordance with USBR's long-standing "M&I Water Shortage Policy," USBR allowed M&I contractors to request and receive PHS water supplies. For the first time, in 2022 DWR allowed SWP contractors to request and receive analogous HH&S water supplies. Valley Water requested and received approximately 39,000 acre-feet of PHS and HH&S water from each of USBR and DWR in 2022.

USBR does not require a CVP contractor that receives PHS water to repay it at a later date. However, as set forth in its March 28, 2022 draft guidelines ("Draft Guidelines for SWP Allocation for Human Health and Safety Need Pursuant to Article 18a of Water Supply Contracts"), DWR intends to require SWP contractors that receive HH&S water to "repay" all such water back within five years from their future year "Table A" allocations. If the guidelines are enacted as currently written and severe drought conditions continue, Valley Water's future SWP water supplies could be materially impacted. See the captions "SANTA CLARA COUNTY WATER SUPPLY—State Water Project and"—Central Valley Project" for further information with respect to CVP and SWP water deliveries.

### **Environmental Litigation Related to Imported Water**

***Endangered Species Act Litigation.*** Valley Water's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA") and the California Endangered Species Act ("CESA"). The listing of winter-run Chinook salmon in 1989 and delta smelt in 1993 resulted in pumping restrictions imposed on the state and federal water projects to protect these species. These pumping restrictions resulted in reduced deliveries from the SWP and CVP, compounding the shortages created by the on-going drought at the time. In 1993, the United States EPA also proposed to implement water quality standards for the Bay-Delta that would impose severe restrictions on the operation of the SWP and CVP. These circumstances led to the Bay-Delta Accord in 1994, in which the State and federal governments, along with urban, agricultural and environmental interests, agreed to an interim set of ESA protection measures coupled with water supply certainty. The Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Reform Act and Bay-Delta Plan, and the proposed DCP (discussed above) to develop a long-term solution for conflicts in the Bay-Delta. However, as described below under the captions "—2019 Revised Federal Biological Opinions Litigation" and "—California Incidental Take Permit Litigation (CDWR Water Operations Cases)" there has been significant recent litigation concerning ESA and CESA issues and water moving through the Bay-Delta for export to contractors.

***2019 Revised Federal Biological Opinions Litigation.*** In October of 2019 the NMFS and United States Fish and Wildlife Service ("FWS") issued revised biological opinions ("BiOps") for the long-term coordinated operations of the CVP and the SWP, replacing prior BiOps issued in 2008 and 2009. Several lawsuits were filed against the United States shortly thereafter, including one by the State (*California Natural Resources Agency, et al. v. Ross*). These lawsuits were consolidated in the United States District Court for the Eastern District of California and allege violations of the Administrative Procedure Act ("APA"), the ESA, and the NEPA. Shortly after the Biden Administration took office, counsel for the United States requested to stay such litigation to allow the new administration to conduct a comprehensive review of joint project operations and the ESA and other issues.

On October 1, 2021, the United States formally re-initiated ESA consultations on joint project operations – a commitment to develop new BiOps – and the United States and the State filed a proposed "joint

interim operations plan” (“IOP”) for the CVP and SWP for water year 2022 (which ended on September 30, 2022), in which the United States agreed to operate the CVP in accordance with the State’s stricter CESA Incidental Take Permit (“ITP”), discussed below. The ITP contains Bay-Delta export restrictions not contained in the 2019 BiOps. On September 30, 2022, the State and United States filed a proposed court order to approve an IOP to stay the litigation through December 31, 2023.

The parties are seeking entry of another, similar IOP and stay of litigation for water year 2023. Valley Water anticipates that the United States will, after ESA consultation and NEPA review (expected to last through late 2024) replace or further revise its 2019 BiOps, potentially adding more export restrictions.

***California Incidental Take Permit Litigation (CDWR Water Operations Cases).*** Under CESA, DWR is required to obtain an ITP to minimize, avoid and mitigate impacts to threatened or endangered species as a result of SWP operations, including the Delta Smelt and other fish species. In past years, DWR obtained coverage for SWP operations under CESA by securing a “consistency determination” from CDFW based on federal BiOps issued by the NMFS and FWS. In 2018, as federal agencies were working to update their BiOps, President Trump issued a Presidential Memorandum to accelerate their completion. In February 2019, DWR and CDFW announced that they would pursue a separate State permit to ensure the SWP’s compliance with the CESA.

In March 2020, DWR issued its final EIR for the long-term operation of the SWP, and shortly thereafter the CDFW issued an ITP for the long-term operation of the SWP. The ITP and final EIR is expected to significantly limit exports in wetter years as compared to what is allowed under the 2019 revised BiOps, with potential reductions of up to 400,000 acre-feet in April and May.

Several lawsuits were filed in different superior courts against the State by SWP and CVP contractors as well as environmental groups. These lawsuits have been coordinated in Sacramento Superior Court. Water contractors allege, among other things, that the State violated CEQA or CESA by changing the project description after the draft EIR and certifying a new alternative project without adequate disclosure or public comment, and by failing to use the best available science and requiring unnecessary and unjustified avoidance and mitigation measures. Conversely, environmental groups allege that the final EIR and ITP violate the Delta Reform Act and CEQA and do not go far enough in protecting threatened fish species. The EIR and ITP apply only to SWP operations, not CVP operations. Valley Water cannot determine at this time whether the EIR and ITP will result in less SWP water being delivered to contractors than had been delivered in the 11 years following the 2008 and 2009 federal BiOps. There has not yet been any briefing on the merits in this coordinated proceeding. Also, due to progress with the VAs (discussed above), certain parties may settle or voluntarily dismiss their lawsuits.

## **Other Bay-Delta/Imported Water Litigation**

***Bay-Delta Water Quality Control Plan Phase 1 Amendments Litigation.*** As described above, in late 2018, the SWRCB released the Phase 1 Amendments to the Bay Delta WQCP. Among other things, the Phase 1 Amendments require an adaptive 30% – 50% unimpaired flow requirement on all major tributaries to the San Joaquin River, including the Tuolumne River, from which the SFPUC Hetch-Hetchy system obtains its water supplies. Approximately 24 entities, including Valley Water, filed suit against the SWRCB in 13 lawsuits concerning the Phase 1 Amendments. The unimpaired flow requirement could reduce imported SFPUC supplies in the County, causing increased groundwater pumping. However, Valley Water voluntarily dismissed its lawsuit against on September 1, 2020.

These lawsuits have been consolidated in Sacramento Superior Court. Several public agency plaintiffs allege that the flow requirements are arbitrary and capricious, not based on the best available science, or are too restrictive of, or alter, water rights. Environmental group plaintiffs allege that the requirements are not protective enough of fish. The Phase 1 Amendments as well as potential Phase 2 amendments could reduce the supply of imported water available to Valley Water, SFPUC, the East Bay Municipal Utility

District, and other SWP and CVP water contractors. The court has recently set forth a briefing schedule in this action, but briefing on the merits has not yet commenced.

***DWR SWP Contract Long-Term Extension Validation Action.*** DWR filed a validation action in Sacramento County Superior Court in 2018 to validate the legality of its approval of long-term extensions of all SWP contracts, including Valley Water’s SWP Contract. Several environmental groups and counties and districts filed answers or separate actions opposing DWR’s approval, asserting that the extension approval violated CEQA, the Public Trust Doctrine, and the Delta Reform Act. The trial court granted judgment in favor of DWR and supporting SWP contractors on all causes of action. Several environmental groups and agencies filed notices of appeal; the Court of Appeal has not yet scheduled briefing.

***WIIN Act Conversion Litigation.*** On May 20, 2020, the Center for Biological Diversity, Restore the Delta, and the Planning and Conservation League filed a complaint against USBR, David Bernhardt, in his official capacity as Secretary of the Interior, and the United States Department of the Interior for declaratory and injunctive relief regarding USBR’s execution of WIIN Act repayment contracts with 14 CVP contractors, including Valley Water. On August 13, 2020, the Hoopa Valley Tribe filed a related complaint and these cases were consolidated in the U.S. District Court for the Eastern District of California. Plaintiffs allege that USBR, by executing the 14 repayment contracts, violated NEPA, the Administrative Procedures Act, and the Endangered Species Act and seek an order and judgment restraining USBR from entering into any other repayment contracts. No monetary damages are sought. After plaintiffs were ordered to join the CVP contractors whose contracts are being challenged, including Valley Water, plaintiffs did so and filed a motion for summary judgment. USBR and the CVP contractor defendants in turn filed a cross-motion for summary judgment. This case was then reassigned to a new judge. As of the date of this Official Statement, the parties are awaiting notification of a court hearing or ruling on these motions.

***AquAlliance et al. v. USBR et al. (Long-Term Water Transfers EIS/EIR Litigation).*** Valley Water purchases transfer water supplies on the open market when needed, including in 2021 and 2022. Most imported water supplies are purchased from water rights holders located north of the Bay-Delta. The San Luis Delta Mendota Water Authority (“SLDMWA”), on behalf of participating member agencies, including Valley Water, and USBR funded development of a “Long-Term North to South Water Transfers” combined EIS and EIR under NEPA and CEQA, for single and multi-years transfers of water through the Bay-Delta from many north of Delta potential sellers to several south of Delta water agencies, including Valley Water. The EIS/EIR includes robust mitigation and monitoring measures for such transfers and allows such transfers to be conveyed through CVP or SWP facilities. In this action, environmental groups allege that this (revised) EIS/EIR violates NEPA and CEQA. Both plaintiffs and defendants USBR and SLDMWA have filed cross-motions for summary judgment. The plaintiffs also filed a related lawsuit in late 2021 challenging the SLDMWA’s Addendum to the EIS/EIR for transfers made during the extended transfer window (i.e., through November 30 as opposed to October 31). The related action is currently stayed by stipulation. An adverse judgment could result in greater difficulty make it more costly for Valley Water to obtain transfer water supplies.

***Oroville Spillway Litigation.*** In response to record rainfall in early 2017, DWR’s Oroville Dam filled and excess water ran down its spillway (as designed). The spillway, however, failed and caused water and debris to be released, uncontrolled, into the Feather River. The District Attorney of Butte County (People of State of CA v. DWR) and several businesses and individuals filed suit for inverse condemnation or environmental damage resulting from the spillway failure. These cases were consolidated in Sacramento Superior Court.

The Butte County District Attorney sought \$51 billion in damages (\$25k per day penalty plus \$10 per pound of spillway and materials discharged into the Feather River) under Cal. Fish & Game Code § 5650. Although Article 13(b) of the SWP contract provides that SWP contractors are not liable for DWR’s operation or maintenance of SWP structures or facilities before their turnouts, DWR maintains that ultimately, regardless of legal liability, all costs of the SWP system must be borne by SWP contractors rather than the general public,

and thus DWR may bill contractors or raise SWP costs to recover expenditures related to this litigation (i.e. cost of litigation, settlements, damages awards/verdicts). In 2021 the district court granted DWR's motion for summary judgment against the Butte County District Attorney on the ground that the State may not be held liable under Fish & Game Code § 5650. The Butte County District Attorney has appealed this ruling and judgment and appellate briefing has not yet commenced.

DWR tried a small group of private party inverse condemnation actions involving the Oroville Spillway failure in a bench trial, and DWR has apparently reached tentative settlement agreements in most or all of these inverse condemnation cases, resolving them for a total estimated amount between \$20 - 30 million. DWR may pass this cost along to SWP contractors through higher rates or charges.

*Valley Water cannot predict the outcome of the cases described above. However, Valley Water believes that any new decision or order by a State or federal court related to one or more of the above-described cases would not have a material impact on Valley Water's ability to pay debt service on the 2022 Bonds or make the Installment Payments.*

### **Allocation of Water Deficiencies**

Valley Water's SWP maximum annual contract amount of 100,000 acre-feet is entirely for municipal and industrial (M&I) use. The SWP Contract provides that water shortages will be shared equally among all SWP contractors based on relative contract amounts. These rules were established pursuant to a comprehensive set of contract amendments in 1994 (known collectively as the Monterey Amendment) that also gave contractors the right to establish groundwater banking and exchanges to meet dry year reliability needs. Valley Water subsequently purchased rights to 350,000 acre-feet of groundwater banking capacity in a program operated by Semitropic Water Storage District in Kern County to enhance its dry-year water supply reliability.

Valley Water's maximum annual CVP Contract amount of 152,500 acre-feet is currently allocated to both irrigation and M&I use, with an irrigation contract amount of 33,100 acre-feet and M&I allocations based on historic use. The contract provides flexibility to convert the entire amount to M&I use in future years. In 1994, USBR developed a M&I water shortage policy that gives M&I use a higher degree of protection than agricultural use in drought periods. USBR had implemented this policy as an Interim Policy since 1994. In November 2015, USBR finalized the policy and signed a Record of Decision, supported by the CVP Municipal and Industrial Water Shortage Policy Final Environmental Impact Statement, specifying how USBR intends to allocate M&I water supplies during shortages. The policy generally provides a minimum of 75% of historic use to M&I contractors during times of shortage, with "historic use" calculated from average CVP water deliveries during the last three years of normal water deliveries, adjusted for growth. Based on the rules and adjustment mechanisms in such policy and negotiations between Valley Water and USBR, USBR set Valley Water's historic use at 130,000 acre-feet. In 1997, Valley Water entered into a 25-year renewable contract with USBR and agricultural contractors in the SLDMWA to further establish the reliability of its CVP M&I supplies (the "Water Reallocation Agreement"). Valley Water does not expect to renew the Water Reallocation Agreement upon its scheduled expiration in 2022.

### **Water Banking**

In May 1996, the Board took the first step in implementing the banking strategy when it approved an agreement with Semitropic Water Storage District to store 45,000 acre-feet of SWP water. In 1997, the Board approved a long-term agreement with Semitropic Water Storage District. Under the terms of this agreement, the total banking capacity available to Valley Water until January 1, 2006 was 350,000 acre-feet. By that date, Valley Water had to decide its permanent level of investment in Semitropic and make any capital payment necessary to reach that level. On December 6, 2005, the Board approved moving forward with the remaining investment to secure said 350,000 acre-feet of storage capacity in the Semitropic Groundwater Banking

Program. Staff completed the required contract amendment and made all necessary capital payments by January 1, 2006.

Over the past 25 years, Valley Water has stored about 595,000 acre-feet of water in Semitropic Groundwater Banking Program and withdrawn about 235,000 acre-feet of supply. As of August 31, 2022, Valley Water had approximately 278,495 acre-feet in storage. In the event of a major disruption in the Delta, failure of the Delta pumping plants or drought conditions, delivery of water from the Semitropic Groundwater Banking Program to Valley Water would be significantly affected along with other imported water deliveries from Valley Water's SWP and CVP contracts. Because the Semitropic Groundwater Banking Program is located in Kern County downstream of Valley Water, banked water must be returned by exchange with SWP water from the Delta. In critically dry years or in the event of a Delta disruption, there may be insufficient SWP supplies to facilitate withdrawal of supplies from the bank. To date, all of Valley Water's withdrawal requests have been accommodated, but the risk to future withdrawals remains, especially in dry and critically dry years. To the extent that SWP water may be conveyed through or is stored in the San Luis Reservoir and is available, deliveries from the Semitropic Groundwater Banking Program could be accomplished through the San Felipe Division.

In compliance with the State Sustainable Groundwater Management Act (the "SGMA"), Semitropic Water Storage District formed a groundwater sustainability agency (the "Semitropic GSA"). The Semitropic GSA is coordinated at the sub-basin level by the Kern Groundwater Authority (the "KGA"), which includes other neighboring groundwater sustainability agencies. The Semitropic GSA, under the KGA basin-wide effort, submitted an amended groundwater sustainability plan (the "GSP") to DWR in July 2022, which is currently under DWR's technical review. While Valley Water does not currently expect that SGMA or the activities of the Semitropic GSA or the KGA resulting therefrom will have a material adverse effect on Valley Water's ability to pay principal and interest on the 2022 Bonds or the Installment Payments, Valley Water is monitoring the Semitropic GSA's and the KGA's activities with respect to SGMA. Valley Water cannot predict what effect, if any, Semitropic GSA or KGA activities with respect to the SGMA will ultimately have on the water currently stored, or water which may be stored or withdrawn in the future, by Valley Water in the Semitropic Groundwater Banking Program. See the caption "POTENTIAL INVESTMENT CONSIDERATIONS—Risks Related to Water Utility System Facilities and Operation—*Sustainable Groundwater Management Act*."

Semitropic Water Storage District has reported elevated concentrations of 1,2,3 trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Staff is seeking additional information to better understand potential implications. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies.

### **Valley Water's Local Water Right Permit and Licenses**

In July of 1996, the Guadalupe Coyote Resources Conservation District ("GCRCD") filed a complaint with the SWRCB alleging that Valley Water violated California Fish and Game Code Sections 5901, 5935, and 5937, the common law public trust doctrine, the Porter-Cologne Water Quality Control Act, and California Water Code Section 100. GCRCD alleges that Valley Water's water supply operations impact Steelhead Trout, Chinook Salmon and other natural resources in or near the Coyote and Stevens Creeks, and the Guadalupe River and their respective tributaries. The complaint seeks to amend 14 of Valley Water's then-17 local appropriative water right licenses (Valley Water has since acquired three additional water right licenses unrelated to those subject to the GCRCD complaint) and an appropriative water right permit to establish flow schedules sufficient for the protection of fish and wildlife resources and the development and implementation of a restoration plan.

In 1997, Valley Water commenced settlement negotiations with GCRCD as well as with NMFS, U.S. Fish and Wildlife Service, CDFW, and other interested non-governmental non-profit organizations in an effort



to resolve GCRCD's complaint (collectively referred to as the "Settlement Parties"). Settlement negotiations occurred through a process established by Valley Water called the Fisheries and Aquatic Habitat Collaborative Effort ("FAHCE"). On May 27, 2003, a conditional settlement was initiated by the Settlement Parties, which set forth a pathway to resolve the water rights complaint. This settlement agreement, entitled, *Settlement Agreement Regarding Water Rights of the Santa Clara Valley Water District on Coyote, Guadalupe, and Stevens Creeks* ("FAHCE Settlement Agreement") committed Valley Water to carrying out certain conditions precedent including completing an environmental review and obtaining state and federal regulatory approvals of certain Valley Water reservoir reoperations measures, scientific studies, and restoration measures (collectively referred to as the "FAHCE Restoration Program"), and amending Valley Water's challenged water rights and permit in substantial conformity to the FAHCE Settlement Agreement. Once the conditions precedent are completed, the FAHCE Settlement Agreement obligates Valley Water to carry out the FAHCE Restoration Program. Although Valley Water is not required to implement the FAHCE Restoration Program until the conditions precedent are completed, Valley Water has implemented a number of the restoration measures for the protection of fish and wildlife resources with the expectation of receiving credit towards its restoration requirements under the FAHCE Settlement Agreement.

To date, the conditions precedent have not been completed. Since 2003, Valley Water actively pursued completion of the condition precedent of obtaining federal incidental take coverage of Steelhead Trout from NMFS under the ESA through a Habitat Conservation Plan. Since 2015, because of past and likely ongoing protracted negotiations with NMFS, Valley Water prioritized addressing State regulatory requirements. Valley Water is developing Fish Habitat Restoration Plans and the associated environmental documents in support of Valley Water's water rights change petitions before the SWRCB. Once these State regulatory requirements are addressed, Valley Water will implement the FAHCE Restoration Program, while pursuing federal incidental take coverage of Steelhead Trout either through Section 7 or Section 10 of the federal Endangered Species Act.

Under the terms of the FAHCE Settlement Agreement, Valley Water conditionally agreed to undertake restoration measures at a cost not to exceed \$42 million for each of three consecutive 10-year phases (for a total of \$126 million over the three 10-year phases). Costs for activities to complete the conditions precedent, including environmental review and permitting, do not count against this cap. Actual costs for the restoration measures over these 30 years could exceed \$126 million if the projects are expanded to accomplish additional Valley Water goals. Beyond the end of the third phase, Valley Water is obligated to continue the benefits obtained from the restoration measures for as long as Valley Water is diverting water under its appropriative water right licenses and permit. The first phase will begin after completion of all conditions precedent and execution of the FAHCE Settlement Agreement by all Settlement Parties. Valley Water's financial forecasts integrate these cost estimates and Valley Water expects to pay for the costs of the FAHCE Restoration Program and the FAHCE Settlement Agreement through rates and charges of its Water Utility System. Rate projections in the 2022 PAWS Report include planned funding of costs over the next 10 years for implementation of the FAHCE Restoration Program and the FAHCE Settlement Agreement, including \$42 million for phase one restoration measures. Although the FAHCE Settlement Agreement limits Valley Water's contribution to the FAHCE Restoration Program at \$126 million, Valley Water may be required to expend additional amounts to satisfy state and federal regulatory requirements that may be imposed in the future to operate and maintain Valley Water's water utility facilities in the Coyote and Stevens Creeks, and Guadalupe River watersheds.

Anderson Dam is located within the Coyote Creek Watershed and the ADSR project is to address seismic safety deficiencies, a top priority capital project for Valley Water. The Federal Energy Regulatory Commission, the federal lead agency, identified the need to address post-operations that would accommodate releases for Steelhead Trout in the permitting process. Valley Water has been evaluating different reservoir operation scenarios for Anderson Reservoir as a part of the FAHCE program. For the measures contained in FAHCE for both Guadalupe and Stevens Creek watersheds, Valley Water is working to clarify the path forward.

At the end of 2018, Valley Water merged the FAHCE measures for Coyote Creek Watershed with the ADSR project to expedite the construction of the project to protect public health and safety. The Coyote Creek Watershed FAHCE measures are intended to be the avoidance, minimization and mitigation measures that account for the operational impacts of Anderson Reservoir after the ADSR project construction is completed. As a result of the merger of the Coyote Creek FAHCE measures into the ADSR project, the costs of implementing the Coyote Creek Watershed FAHCE measures are likely to become a part of Anderson Dam operations. See the caption “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive.” Any potential increases in the costs related to the FAHCE program will be integrated into Valley Water’s financial forecasts and will be paid from any eligible Valley Water funding sources including but not limited to the rates and charges of its Water Utility System.

On June 9, 2020, GCRCD informed Valley Water that it has decided to withdraw from the FAHCE Settlement Agreement. As a result of its withdrawal, GCRCD is no longer obligated to dismiss its water rights complaint, which has been suspended and not acted upon by the SWRCB since 2003. GCRCD could seek to reopen its complaint and pursue a ruling for increased in-stream uses of Valley Water’s local water rights for aquatic fisheries, which would lead to decreased water supply availability, and increased cost for protecting local water rights. Defending against a water rights challenge can be expected to result in increased litigation costs that are expected to be paid from rates and charges of the Water Utility System.

### **California Drought Management**

***Governor’s Executive Orders.*** Hydrological conditions in California can vary widely, both in location and from year to year. The water years 2020 and 2021 combined ranked as the two driest years in California’s statewide precipitation record. (A water year begins on October 1 and ends on the following September 30.) Beginning in April 2021, Governor Newsom issued a series of drought emergency proclamations affecting various counties throughout the State, culminating in an October 19, 2021 proclamation declaring a drought state of emergency to be in effect statewide and directing local water suppliers to implement water shortage contingency plans at a level appropriate to local conditions. On March 28, 2022, Governor Newsom issued an executive order directing the SWRCB to consider adopting regulations by May 25, 2022 that require urban water suppliers with water shortage contingency plans to implement, at a minimum, shortage response actions for a shortage level of up to 20 percent (a “Level 2” shortage). On May 24, 2022, in response to the executive order, the SWRCB adopted a new emergency water conservation regulation. The new regulation bans irrigating turf at commercial, industrial, and institutional properties, such as grass in front of or next to large industrial or commercial buildings. The ban does not include watering turf that is used for recreation or other community purposes, water used on residential lawns, or water used to maintain trees. The regulation also requires all urban water suppliers to implement conservation actions under Level 2 of their water shortage contingency.

***Valley Water Drought Response Actions and Impact.*** Valley Water projects that it will be able to meet existing demands for at least the next three years, provided retailers continue to achieve high levels of water savings. Valley Water’s Board called for a 15% water use reduction target in June 2021 as compared to calendar year 2019 usage, and has approved a program to enforce restrictions on outdoor watering, which went into effect in June 2022. To promote a drought-resilient water supply portfolio, Valley Water is expanding its water conservation efforts such as outreach to the community and customers, operating the Water Waste Inspector program, providing water conservation rebates and technical assistance, and working with local agencies and retailers on ordinance development. Valley Water will continue augmenting local supplies by using water from the Semitropic Groundwater Banking Program, purchasing supplemental water supplies as needed, and increasing water reuse. Valley Water also completed its Water Supply Master Plan in November 2019, which identifies the programs and projects that are needed to further ensure a reliable water supply. See the caption “FACTORS AFFECTING WATER SUPPLIES—General” for more information.

Valley Water continues to review and balance water use and conservation targets with financial planning. Valley Water is obligated under the Parity Master Resolution to set rates and charges which are

reasonably expected to provide Net Water Utility System Revenues at least to 1.25 times the sum of all Debt Service due in each Fiscal Year as more particularly described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS —Rate Covenant.” Valley Water’s projections set forth under the caption “WATER UTILITY SYSTEM —Primary Sources of Revenues —Projected Water Deliveries and Sources of Water Delivered” include unaudited actual Fiscal Year 2021-22 and projected Fiscal Year 2022-23 water deliveries that reflect conservation gains made and assumed towards the Board’s 15% water use reduction target, with projections for Fiscal Years 2023-24 to 2025-26 that are based on growth assumptions included in the UWMP.

## **WATER QUALITY**

### **Groundwater**

Groundwater in the County is generally of high quality, except for elevated nitrate, which primarily affects domestic water supply wells in the southern portion of the County (Coyote Valley and Llagas Subbasin). Per- and poly-fluoroalkyl substances (“PFAS”), a group of contaminants not currently regulated with maximum contaminant levels, have been detected in certain groundwater wells as described below. Water retailers within the County that use groundwater as a source distribute it directly to their end user customers. Retailers typically do not have to treat pumped groundwater, other than disinfection. The retailers are responsible for monitoring and reporting the quality of water they serve.

Valley Water implements numerous programs to protect groundwater quality. Each year, Valley Water analyzes water quality data from approximately 300 wells (sampled by water retailers and Valley Water) to assess current conditions, evaluate trends, and identify any action needed to protect groundwater quality. Elevated nitrate concentrations in domestic wells in the southern portion of the County resulting from rural and agricultural land use pose an ongoing groundwater protection challenge. Valley Water continues to implement various efforts to monitor nitrate occurrence, reduce consumer exposure to nitrate in drinking water, and reduce nitrate concentrations in groundwater. Valley Water also conducts outreach on groundwater protection through workshops and meetings with well users, groundwater fact sheets, and website information. Valley Water’s well construction and destruction programs help ensure wells and other deep excavations are constructed, maintained, and destroyed such that they will not cause groundwater contamination.

Valley Water also engages in policy and project review with land use agencies on activities that may affect groundwater quality. Similarly, Valley Water also provides technical input to regulatory agencies, such as the Regional Water Quality Control Boards, the Department of Toxic Substances Control, and the EPA for certain cleanup sites and the development of standards for groundwater protection. Valley Water is continuing to support the Central Coast Regional Board’s efforts to regulate perchlorate cleanup in the Llagas Subbasin. Cleanup is progressing well, with fewer than ten domestic wells requiring replacement water as of December 2021. In addition, Valley Water is working closely with the Central Coast Regional Board, to ensure that the long-term corrective action plan meets the community’s interests for water supply and groundwater cleanup.

On November 22, 2016, the Board adopted the 2016 Groundwater Management Plan to comply with SGMA. This plan documents Valley Water goals, strategies, programs, and performance metrics to continue to sustainably manage local groundwater resources and ensure their long-term sustainability. The plan was submitted to DWR as an Alternative to a Groundwater Sustainability Plan for both the Santa Clara and Llagas Subbasins and was approved by DWR in July 2019. In November 2021, the Board adopted the 2021 Groundwater Management Plan, which was the first required periodic update to the 2016 Groundwater Management Plan required under SGMA. As required by SGMA, the first five-year update was submitted to DWR before January 1, 2022.

**Ground Water Rule.** The EPA promulgated the final Ground Water Rule (“GWR”) in October 2006 to reduce the risk of exposure to fecal contamination that may be present in public water systems that use groundwater sources. The rule establishes a risk-targeted strategy to identify groundwater systems that are at

high risk for fecal contamination. The GWR also specifies when corrective action (which may include disinfection) is required to protect consumers who receive water from groundwater systems from bacteria and viruses. Valley Water is subject to the GWR when the Campbell Wellfield (“CWF”) is used as a drinking water supply and in compliance with the source water monitoring requirements. This rule also applies to the West Pipeline retailers that receive water from the CWF. However, Valley Water maintains the CWF for emergency backup and has never delivered water from the three wells at the wellfield.

***Per- and Poly-Fluoroalkyl Substances (PFAS).*** State and federal agencies continue to move toward increased public notification and the regulation of several PFAS in drinking water. In 2019, the SWRCB set notification levels at 6.5 parts per trillion (“ppt”) for PFOS and 5.1 ppt for PFOA. If exceeded, water providers must notify their governing bodies, and the SWRCB recommends they inform customers. In early 2020, the SWRCB also set the response levels at 10 ppt for PFOA and 40 ppt for PFOS. If exceeded, water providers are required to either take the water source out of service, provide treatment, or notify customers in writing. On March 5, 2021, the SWRCB issued a notification level and response level of 0.5 parts per billion (“ppb”) and 5 ppb, respectively for perfluorobutane sulfonic acid (“PFBS”).

In July 2021, OEHHA released proposed Public Health Goals (“PHGs”) for PFOA (0.007 ppt) and PFOS (1 ppt). PHGs are based exclusively on public health considerations and, when finalized, will be considered by the SWRCB in setting drinking water regulatory standards for PFOA and PFOS, with draft standards expected in 2023. In July 2022, the SWRCB issued proposed notification and response levels of 2 and 20 ppt, respectively, for perfluorohexane sulfonic acid (“PFHxS”).

In June 2022 the USEPA issued interim Health Advisory Levels (“HALS”) for PFOA (0.004 ppt) and PFOS (0.02 ppt) and final HALs for PFBS (2,000 ppt) and GenX (10 ppt). HALs consider lifetime exposure to all sources, including drinking water, and are not regulatory or enforceable. The interim HALs for PFOA and PFOS are below the levels that can be detected by current analytical methods. Public water systems are required to test for various PFAS between 2023 and 2025 under the Unregulated Contaminant Monitoring Rule Round 5. The USEPA expects to release draft drinking water standards for PFOA and PFOS by early 2023.

In March 2019, the SWRCB began ordering testing of PFAS at wells throughout the State located near airports, landfills, or known detections of PFOA or PFOS. The SWRCB continues to implement a phased approach to testing water systems near these and other potential sources to better understand the occurrence of PFAS. Assembly Bill 756, signed by the California Governor in 2019, authorizes the SWRCB to more broadly order water systems to monitor for PFAS and report their detections.

Valley Water testing of the CWF as part of the SWRCB orders, indicates the presence of low levels of PFAS. Valley Water detected PFOA and PFOS in two of the three water supply wells owned for emergency backup supply. PFBS was also detected at one of the wells. No water from these wells has been delivered to water retailers (or consumers), and the levels of PFOA, PFOS, and PFBS detected are below the notification levels set by the SWRCB.

Valley Water has conducted voluntary PFAS testing in monitoring wells in limited areas near recycled water irrigation sites since PFAS are often found in wastewater. This includes prior testing at one site in the Santa Clara Subbasin and ongoing testing at multiple sites in the Llagas Subbasin. At the Santa Clara Subbasin site, PFOA and PFOS were sporadically detected above notification levels in shallow monitoring wells. In the Llagas Subbasin sites, PFOA and PFOS are consistently detected above notification levels in some monitoring wells. These wells are not used for drinking water supply. PFBS has not been detected above the current SWRCB notification level in monitoring wells near recycled water irrigation sites.

To assess the occurrence of PFAS beyond the limited areas tested through ongoing monitoring, in February 2020, Valley Water voluntarily sampled PFOA, PFOS and certain other PFAS at 55 monitoring wells throughout the County. Three monitoring wells (not used for drinking water) had PFOA and/or PFOS present

above the SWRCB notification levels, but these regional results and other available data indicate that PFOA and PFOS are not widely present above current SWRCB notification levels. PFBS was not detected above the current SWRCB notification level in these regional samples collected in February 2020.

Several local water retailers have conducted PFAS testing in water supply wells. San Jose Water Company detected PFOS above the notification level in eight of their 83 active water supply wells. San Jose Water Company notified affected customers and discontinued the use of these wells out of an abundance of caution. Two additional wells that were out of service were also placed on standby due to the presence of PFOS above the SWRCB notification level. No water supply wells in the County have had PFAS detections above the response level, which requires taking the source out of service, treatment, or notification.]

While one retailer has voluntarily taken some wells out of service, Valley Water does not believe at this time that the response level for PFOA, PFOS, or PFBS implemented by the Division of Drinking Water will result in a material reduction in pumping of groundwater within Valley Water's service area. Valley Water cannot, however, predict the extent of the impact to groundwater pumping within Valley Water's service area as a result of the response levels. Valley Water also cannot predict what the draft drinking water standards to be proposed by the SWRCB or USEPA will be. If they are lower than current notification levels, there could be a significant impact to water retailers using groundwater.

While it does not appear that either the SWRCB or USEPA have near-term plans to regulate PFHxS in drinking water, this contaminant could be especially challenging for water agencies throughout the State. Based on SWRCB data, 95% of State-wide water sources had detections of PFHxS above the SWRCB proposed notification level. PFHxS has been detected above the proposed notification level in both monitoring wells (15 of 55 wells tested in 2020) and water retailer wells. Valley Water is not aware of any local water retailer wells with PFHxS above the proposed response level, which would require action to be taken. Valley Water continues to closely track and engage in regulatory and technical developments related to PFAS, and to work with local water retailers and other agencies to understand the occurrence, extent, and potential source of PFAS in local groundwater.

## **Surface Water**

Valley Water relies heavily on imported surface water from the SWP, which is operated by DWR, and the CVP, operated by USBR. Additionally, Valley Water stores local surface water supplies in its own reservoirs. Valley Water participates in statewide activities aimed at reducing contamination of imported supplies and implements programs to protect local supplies. Surveys of these supplies are conducted every five years, in accordance with state regulations, to ensure they are suitable drinking water sources.

Valley Water's imported supplies from the SWP and the CVP are occasionally low in quality because of elevated levels of bromide and organic content. Since both the SWP and the CVP water is pumped out of the Bay-Delta Estuary, the quality of those supplies is affected by tidal influences, natural organic materials of the peat soil in the Delta and discharge from agricultural and urban runoff. Constituents such as bromide and organics are of concern to Valley Water because they are disinfection by-product precursors.

Increased water temperatures because of climate change can cause harmful algal blooms ("HABs") to occur within Valley Water's imported and local supplies, particularly in the late summer and fall. Some of the algal blooms may release cyanotoxins that can be harmful to humans and animals. HABs can also lead to taste and odor issues. Two of the most common compounds responsible for tastes and odors are geosmin and 2-methylisoborneol, which result in earthy and musty taste and odor. Even though these compounds are harmless, the human senses of taste and smell are extremely sensitive to them and can detect them in the water at concentrations as low as four parts per trillion. Valley Water and state government agencies are working together to control or reduce the impact of algal blooms to water quality.

Increased water temperatures could also provide favorable conditions for invasive species like quagga and zebra mussels to establish themselves, which can pose a significant threat to existing infrastructure and water supply, and result in enormous economic costs. To protect against invasive species, Valley Water has a Mussel Prevention Plan which covers extensive mussel monitoring in Valley Water's reservoirs, as well as a Vessel Inspection Program in partnership with Santa Clara County Parks and Recreation Department.

## **Treated Water**

Valley Water produces treated water that meets or exceeds all current requirements of the Safe Drinking Water Act and California drinking water regulations.

Over time, the EPA has enacted, and California has subsequently adopted, new drinking water regulations affecting the treatment of surface waters. These key regulations are the Interim Enhanced Surface Water Treatment Rule ("IESWTR"), the Long Term 1 and Long Term 2 Surface Water Treatment Rules ("LT1" and "LT2"), and the Stage 1 and Stage 2 Disinfectant/Disinfection By-Products Rules (DDBPR). The regulations were enacted in segments with the IESWTR and the DDBPR (Stage 1) going into effect by 2001 and the LT2 and DDBPR (Stage 2) becoming effective in January of 2006. In order to assure compliance with these regulations Valley Water developed major capital improvement projects for its treatment plants. The projects are referred to as the Treated Water Improvement Project Stage 1 ("TWIP1") and the Treated Water Improvement Project Stage 2 ("TWIP2"), and correspond to the grouping of the four regulations. The TWIP1 was implemented at all three of Valley Water's drinking water treatment plants and was completed in 2002. The TWIP2 was implemented at two treatment plants and was completed in 2006. The third plant (Rinconada WTP) is incorporating upgrades of the TWIP2 into a larger project known as the Reliability Improvement Project ("RIP") that is targeted for completion in 2029.

Valley Water's three water treatment plants: Santa Teresa WTP, Rinconada WTP, and Penitencia WTP, provide high-quality treated water to the residences and businesses in the County. Two of the treatment plants, Santa Teresa WTP and Penitencia WTP utilize a conventional treatment process of flocculation, sedimentation, filtration, and disinfection to provide high-quality water. As part of TWIP2, these two treatment plants added advanced treatment technologies, including ozone as the primary disinfectant. The improvements ensure that Valley Water continues producing high-quality drinking water that meets recent and future more stringent drinking water standards. Valley Water brought ozone systems on-line at Santa Teresa WTP in January 2006 and at Penitencia WTP in July 2006. Construction of the comparable RIP project broke ground in July 2015 at the Rinconada WTP, Valley Water's oldest treatment facility.

The Filter Backwash Recycling Rule ("FBRR") was published in June, 2001. The goal of this rule, in conjunction with the goals set forth in the Division of Drinking Water's ("DDW") 1995 Cryptosporidium Action Plan ("CAP"), is to improve public health protection by assessing and changing, where needed, recycle practices for improved contaminant control, particularly microbial contaminants. This rule applies to public water systems that use surface water or groundwater under the direct influence of surface water. The FBRR requires that recycle streams be returned to the point of primary coagulant addition. In 2003 Valley Water notified the DDW regarding the recycle practices at Valley Water's three WTPs. The Valley Water meets all the treatment technique and record keeping requirements of the FBRR. All Valley Water's WTPs use conventional filtration and recycle filter backwash water and decant water from the solids dewatering process to the plant headworks.

Under TWIP2, additional improvements were made to minimize the occurrence of Cryptosporidium at the Santa Teresa WTP, including construction of filter-to-waste, washwater clarification and equalization facilities. The Rinconada WTP Residuals Management Processes, implemented between October 2014 and October 2016, included installation of two gravity thickeners and centrifuges. Additional improvements to the residuals management are underway to resolve operational challenges. The Penitencia WTP's residuals management project design started in 2021 and construction is anticipated to be completed by 2029.

In 2016, Valley Water started adjusting the fluoride level of drinking water to prevent tooth decay. The Santa Teresa WTP and Penitencia WTP began fluoridation on December 2016 and on July 2017, respectively. The Rinconada WTP is slated to begin fluoridating in 2029.

To assure the microbiological quality of the water in the Valley Water's transmission system, Valley Water maintains a chloramine residual in the West Pipeline and the East Pipeline. Valley Water's laboratory executes a sampling plan which exceeds the requirements of the revised Total Coliform Rule.

Valley Water's Corrosion Control Program ensures compliance with the Lead and Copper Rule. To assess the occurrence of PFAS at the WTPs, in November 2020, Valley Water initiated four quarters of voluntary PFAS sampling of raw and treated water at Valley Water's three water treatment plants. After four quarters, only Perfluoro hexanoic acid ("PFHxA") was detected in the treated water at low levels at the treatment plants. PFHxA does not have a notification level, response level or PHG established by the SWRCB. PFOA, PFOS, PFBS, and GenX have been non-detect in all raw and treated water samples for all four quarters. All results of this voluntary sampling effort have been reported to the Division of Drinking Water.

### **CAPITAL IMPROVEMENT PROGRAM**

The report on the capital improvement program for Fiscal Years 2022-23 through 2026-27 was approved by the Board in May 2022. Valley Water currently expects to undertake approximately \$6.12 billion of improvements to the Water Utility System from Fiscal Years 2022-23 through 2026-27. Valley Water expects to fund approximately 60% of such costs from additional debt issuance and the balance from other non-financing sources. Certain of the capital improvement projects included in the capital improvement program for Fiscal Years 2022-23 through 2026-27 are described below. 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 is currently developing one water storage project (the Pacheco Reservoir expansion) and is considering participating in two water storage projects being developed by other public agencies (the Sites Reservoir Project and the Los Vaqueros Reservoir expansion).

Valley Water has undertaken steps to develop an expansion of the Pacheco Reservoir (the "Pacheco Reservoir Expansion Project") to be owned and operated by Valley Water. The Pacheco Reservoir Expansion Project is planned to expand storage capacity of the existing reservoir (currently owned by the Pacheco Pass Water District) on the north fork of Pacheco Creek from approximately 6,000 acre-feet to approximately 140,000 acre-feet. The Pacheco Reservoir Expansion Project is expected to be a partnership among Valley Water, the Pacheco Pass Water District, the San Benito County Water District and other potential partners. The currently estimated cost of the Pacheco Reservoir Expansion Project is approximately \$2.5 billion. Valley Water's Maximum Conditional Eligibility Determination of up to \$484.5 million and early funding amount of \$24.4 million were determined by the California Water Commission on July 24, 2018. In February 2021, the Maximum Conditional Eligibility Determination was increased to \$496.7 million to reflect an inflation adjustment of 1%. Valley Water expects such funds to be available to fund a portion of the cost of the Pacheco Reservoir Expansion Project, subject to the terms and conditions of Proposition 1 (which authorized the State to issue general obligation bonds to fund certain water supply and storage infrastructure projects).

During the construction phase of the Pacheco Reservoir Expansion Project, Valley Water expects to utilize proceeds of the Commercial Paper Certificates, Revolving Certificates and other obligations issued from time to time to fund the cost of the Pacheco Reservoir Expansion Project. Valley Water may repay such short-term/interim financing from a combination of proceeds of Bonds and/or other obligations. If executed and delivered, Valley Water may also repay such amounts from loans under the Water Utility WIFIA Master Agreement.

The draft Environmental Impact Report for the Pacheco Reservoir Expansion Project was released in November 2021 and the public comment period closed on February 15, 2022. Valley Water currently estimates that the final Environmental Impact Report for the Pacheco Reservoir Expansion Project could be complete in early 2024. However, ongoing discussions with both State and federal regulatory agencies to address their comments on the proposed project may result in additional time needed to finalize the Environmental Impact Report and thus could extend the current schedule projections.

The Pacheco Reservoir Expansion Project has been included as an alternative within the San Luis Reservoir Low Point Improvement Project (“SLLPIP”) led by USBR. The SLLPIP Draft Feasibility Report released on April 8, 2019, determined that the Pacheco Reservoir Expansion Project alternative provided the highest National Economic Development score within the SLLPIP. This determination established a nexus for potential partial federal funding opportunity for the Pacheco Reservoir Expansion Project through the WIIN Act. The SLLPIP Final Feasibility Report was completed in late 2020 and submitted for federal review accompanied by the draft SLLPIP environmental impact statement/environmental impact report, but the project did not receive a determination for congressional authorization due to some concerns raised by USBR’s policy analysis group. Federal approval of finalized versions of the foregoing reports will be required for potential WIIN Act funding. Valley Water and USBR have been working together on a revised feasibility report which will include updated project information expected to be completed by mid-2023. A supplemental environmental impact statement addressing the comments received on the draft will need to accompany the feasibility report for submittal to Congress for potential funding. Additional environmental work will need to be undertaken with respect to the Pacheco Reservoir Expansion Project to comply with State and federal environmental laws. Valley Water cannot predict the timing or outcome of such activities.

In June 2022, a group called the “Stop the Pacheco Dam Project Coalition” filed a petition for writ of mandate in Santa Clara County Superior Court to invalidate Valley Water’s approval of geological investigative work for the Pacheco Reservoir Expansion Project based on a categorical exemption from CEQA. See the caption “GENERAL LITIGATION—Litigation Relating to the Pacheco Reservoir Expansion Project.” No stop work or similar order has been issued by the court. Valley Water currently does not expect such litigation to materially adversely affect Valley Water’s ability to proceed with the Pacheco Reservoir Expansion Project.

In September 2022, the Stop the Pacheco Dam Project Coalition sent a letter to the United States EPA asking the EPA to deny WIFIA funding for the Pacheco Reservoir Expansion Project. In the letter to the EPA, the Stop the Pacheco Dam Project Coalition states that, among other matters, Valley Water provided inaccurate information to the EPA with respect to the Pacheco Reservoir Expansion Project including incorrect information regarding project feasibility and timing, misleading information about water quantity and quality of the project, exaggerated benefits to affected fish species and unfounded claims regarding minimization of greenhouse gases. In addition, the Pacheco Dam Project Coalition states in the letter to the EPA that Valley Water is improperly circumventing NEPA and has failed to obtain a NEPA lead agency.

In a separate letter sent to the California Water Commission in July 2022, the Stop the Pacheco Dam Project Coalition states that the Pacheco Reservoir Expansion Project does not meet the public funding requirements under the State’s Proposition 1 program, which authorized funding for water storage projects and is administered by the California Water Commission. The Stop the Pacheco Dam Project Coalition claims that new cost and project information included in Valley Water’s WIFIA application means that the Pacheco Reservoir Expansion Project does not meet the economic or financial feasibility requirements under the California Water Code, the California Water Commission’s regulations or the requirements of the Proposition 1 program.

Valley Water has analyzed the assertions in the foregoing letters and believe that the claims made therein are without merit. Valley Water can make no assurances that the Stop the Pacheco Dam Project Coalition or other parties will not take further actions to adversely affect Valley Water’s ability to proceed with the Pacheco Reservoir Expansion Project.



The Sites Reservoir Project is a proposed reservoir of approximately 1.5 million acre-feet to be located in Colusa County. The Sites Reservoir Project would provide storage and additional water supply that can be used for dry-year benefits. Through Board resolution, Valley Water has provided the Sites Reservoir Project with approximately \$1,947,000 in funding since 2016.

The Los Vaqueros Reservoir Expansion Project is a proposed expansion of the reservoir (owned by Contra Costa Water District) from 160 thousand acre-feet to 275 thousand acre-feet and the improvement of new and existing conveyance infrastructure for moving water into and out of the reservoir. Among the conveyance improvements is the proposed Transfer-Bethany Pipeline, which connects the Los Vaqueros Reservoir to the California Aqueduct. The Transfer-Bethany Pipeline may provide Valley Water access to surplus Delta supplies and operational flexibility in moving CVP and SWP supplies into the County. The total capital cost of the Los Vaqueros Reservoir Expansion Project is currently estimated to be approximately \$1.02 billion (in 2021 dollars). In 2021, the Los Vaqueros Reservoir Joint Powers Authority (the “Los Vaqueros JPA”) was formed for the purpose of designing, constructing, operating and administering the Los Vaqueros Reservoir Expansion Project. Valley Water is a member of the Los Vaqueros JPA. JPA members are currently funding the project under a Multi-Party Agreement that was originally signed in 2019. Each year, members amend the agreement by extending it for one calendar year. Under the Multi-Party Agreement, each member shares in the project costs equally, with exception to Grasslands Water District and Contra Costa Water District. Contra Costa is overseeing the project and providing considerable in-kind contributions while Grasslands Water District is participating because they will receive the required community benefit the project will provide to the Delta refuges. Valley Water expects that the Los Vaqueros JPA will submit a letter of interest to apply for a WIFIA loan to fund a portion of the cost of the Los Vaqueros Reservoir Expansion Project. If invited to apply for a WIFIA loan, Valley Water expects that the Los Vaqueros JPA will submit an application in the first quarter of 2023.

Valley Water is currently evaluating options for participating in Los Vaqueros Reservoir Expansion Project storage, conveyance (i.e., Transfer-Bethany pipeline), or both. If Valley Water participates in the Los Vaqueros Reservoir Expansion project, then Valley Water would be a member of the joint exercise of powers authority that would oversee the Los Vaqueros Reservoir Expansion project. Through Board resolution, Valley Water has provided the Los Vaqueros Expansion project with approximately \$2.2 million in funding since 2016.

All three of the water storage projects described above have received approval by the California Water Commission to receive significant State of California financial support. Valley Water can make no assurances that any of proposed water storage projects will be completed and cannot project at this time the ultimate financing plan for the costs of such projects.

Valley Water has completed approximately 60% of the design phase for the ADSR Project, which currently has an estimated cost of approximately \$1.0 billion. See the caption “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive.” Valley Water has completed approximately 90% of the design phase for the Coyote Percolation Dam Replacement project, a FERC Directive project and a sub-project of the ADSR Project, to replace the flashboard dam at the Coyote Percolation Pond with a rubber bladder dam that can be inflated and deflated in less than an hour. The current estimate cost for the Coyote Percolation Dam Replacement is \$13.9 million.

Valley Water plans to release the draft environmental impact report for the ADSR Project for public review in the spring of 2023. Submittal of federal and State natural resource agency permit applications are expected to follow in the summer of 2023. Environmental information from the draft environmental impact report is expected to be used by FERC, the federal lead agency, to complete the NEPA environmental review process. Valley Water is working with FERC, the United States Army Corps of Engineers, and the United States EPA to ensure NEPA coordination among federal agencies engaged with the project. The final environmental impact report, appropriate NEPA documentation, and natural resource agency permitting is targeted for completion by late 2024 and planned to coincide with completion of the Anderson Dam Tunnel.

Valley Water currently expects to fund the costs of the ADSR Project from proceeds of the Commercial Paper Certificates, Revolving Certificates and obligations issued from time to time (including the 2022C Certificates). Valley Water may repay such short-term/interim financing from a combination of proceeds of Bonds and/or other obligations. If executed and delivered, Valley Water may also repay such amounts from loans under the Water Utility WIFIA Master Agreement.

In October 2022, the EPA extended an invitation to Valley Water to apply for an additional loan under the authority of the Water Infrastructure Finance and Innovation Act (the “Anderson WIFIA Loan”) to fund a portion of the costs of the ADSR Project. Valley Water expects to negotiate with the EPA to structure the Anderson WIFIA Loan on similar terms to the Water Utility WIFIA Master Agreement that is currently being negotiated as described under the caption “DEBT STRUCTURE OF VALLEY WATER — Proposed WIFIA Loan.”

With regards to investments to expand its water supply portfolio, Valley Water has developed a Countywide Water Reuse Master Plan in collaboration with recycled water producers, wholesalers, retailers, and other interested stakeholders that evaluates and recommends potable and non-potable reuse projects that are projected to produce up to 24,000 acre-feet per year of purified water for potable reuse by 2028 consistent with the Master Plan. The Countywide Water Reuse Master Plan was accepted by the Board in June 2021. This effort is consistent with Valley Water’s earlier response to prior droughts which was to evaluate the production of purified water for potable water reuse to expand the County’s water supply (the “Purified Water Program”).

On June 16, 2020, the Board reaffirmed its intention to engage in a public-private-partnership (“P3”) project delivery method for the Purified Water Program through a request for qualification process. Request for qualifications for the P3 partner were due in July 2021. In November 2021, Valley Water released a short list of four firms who are invited to submit a proposal for the project based on the initial responses for request for qualifications. The due date for the proposals has not yet been determined. Discussions with regional wastewater and water agencies on the attainability and economics of treated wastewater and desalinated water, and resulting decisions to be made by the Board, will ultimately determine the scope and costs of the Purified Water Program and could significantly impact the level of necessary funding in the future. Valley Water is currently reviewing the estimated costs of the Purified Water Program for potential increases resulting from inflation and other factors, which costs increases could be material. Any estimated costs increases 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.

On December 10, 2019, Valley Water’s Board of Directors approved a 76 year agreement with the cities of Palo Alto and Mountain View (the “Water Reuse Program Agreement”) to secure a minimum of 9 MGD of wastewater effluent through an effluent transfer option. Under the Water Reuse Program Agreement, Valley Water will pay \$200,000 per year for the option to receive the wastewater effluent until June 1, 2033 or the point in time when Valley Water begins to receive the wastewater effluent, whichever occurs first. If Valley Water exercises its option, 9 MGD of effluent would be delivered to a regional purification facility to be constructed and owned by Valley Water. The purified water, which would be a locally-controlled drought resilient supply, could be used for either indirect potable reuse (e.g. recharge local groundwater basins) or direct potable reuse (raw water or treated water augmentation, subject to future regulatory requirements). If Valley Water exercises the option, Valley Water would pay \$1 million per year for the effluent plus an inflation escalator for the 76-year term of the agreement. Valley Water has not made a decision as to whether it will exercise the option to receive wastewater effluent under the Water Reuse Program Agreement. In addition to the foregoing option, under the Water Reuse Program Agreement, Valley Water will contribute \$16 million to be used to fund either: (1) a portion of the costs of a local salt removal facility in the City Palo Alto to provide higher quality of recycled water for irrigation and cooling towers or (2) in the event that the cities of Palo Alto and Mountain View decide not to construct the local plant within 13 years of the effective date of the agreement, to fund other recycled water or water supply projects.

State and federal agencies are undertaking certain planning and review efforts for the Delta Conveyance project. Valley Water has currently committed to fund certain costs associated with the Delta Conveyance project. See the caption “FACTORS AFFECTING WATER SUPPLIES— California Water Policy Framework and Developments.”

## **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 and Debt Service Coverage**

The following table summarizes Valley Water's combined revenues and expenses relating to the Water Utility System recorded in Fiscal Year 2016-17 through Fiscal Year 2020-21. Historical results have been derived from the Financial Statements of Valley Water but exclude certain non-cash items and include certain other adjustments as required or permitted by the Parity Master Resolution.

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.

### **Fiscal Year 2020-21 Financial Highlights for the Water Enterprise Fund**

The following provides a summary of the financial position of Valley Water's Water Enterprise fund at the end of Fiscal Year 2020-21:

- Net position of the Water Enterprise fund at the end of Fiscal Year 2020-21 was approximately \$996.7 million, an increase of approximately \$27.7 million from Fiscal Year 2019-20.
- Operating revenues increased by approximately \$22.7 million or 8.5% from Fiscal Year 2019-20, due to a higher volume of groundwater pumped.
- Operating expenses increased by approximately \$6.1 million or 3.4% from Fiscal Year 2019-20. A \$28.2 million increase in the cost of water sold was offset by \$16.4 million and \$4.7 million drop in operating and capital project expenses, respectively. Lower pension and Other Post-Employment Benefits liability accrual was a significant factor in lowering operating project expenses in the current fiscal year.
- Net non-operating revenues were approximately \$7.7 million compared to \$2.6 million in Fiscal Year 2019-20. \$23.0 million in interest and debt service payments offset the revenues from property taxes and operating grants.

For further information with respect to Valley Water's operating results for Fiscal Year 2020-21, see Appendix A "—AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS AND COMPLIANCE

REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021 AND MEMORANDUM OF INTERNAL CONTROL.”

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**SANTA CLARA VALLEY WATER DISTRICT**  
**HISTORICAL OPERATING RESULTS & DEBT SERVICE COVERAGE**  
**FISCAL YEAR ENDING JUNE 30**  
**(Dollars in Thousands)<sup>(1)</sup>**

	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Water Utility System Revenues</b>					
Groundwater Charges	\$67,937	\$97,483	\$81,923	\$112,560	\$132,111
Treated Water Charges	122,212	132,477	143,998	152,622	154,912
Surface and Recycled Water Charges	747	1,041	1,758	1,713	2,747
Property Taxes <sup>(2)</sup>	6,682	7,088	8,124	8,350	8,911
Investment Income <sup>(3)</sup>	979	1,267	8,074	8,838	1,602
Operating Grants/Intergovernmental Services	2,037	4,396	2,754	3,721	4,019
Transfers In <sup>(4)</sup>	4,282	3,252	1,228	1,064	593
Transfers Out <sup>(5)</sup>	(699)	(11,477)	(3,908)	(2,571)	(6,600)
Other <sup>(6)</sup>	<u>3,023</u>	<u>7,173</u>	<u>(1,680)</u>	<u>(1,682)</u>	<u>3,635</u>
Total Revenues	<u>\$207,200</u>	<u>\$242,700</u>	<u>\$242,271</u>	<u>\$284,615</u>	<u>\$301,930</u>
<b>Maintenance and Operation Costs</b>					
Sources of Supply <sup>(7)</sup>	\$63,885	\$76,272	\$57,055	\$64,139	\$78,817
Water Treatment	33,807	37,772	38,854	38,534	47,320
Transmission and Distribution					
Raw Water	13,139	15,197	16,791	13,979	17,226
Treated Water	1,414	1,631	1,735	1,655	2,158
Administration and General <sup>(8)</sup>	<u>17,334</u>	<u>30,078</u>	<u>33,666</u>	<u>28,323</u>	<u>24,948</u>
Total Operating Expenses	<u>\$129,579</u>	<u>\$160,950</u>	<u>\$148,101</u>	<u>\$146,630</u>	<u>\$170,469</u>
<b>Net Water Utility System Revenues</b>	<b>\$77,621</b>	<b>\$81,750</b>	<b>\$94,170</b>	<b>\$137,985</b>	<b>\$131,461</b>
<b>Debt Service on Senior Obligations</b>					
Series 2006 Bonds <sup>(9)</sup>	\$1,777	\$1,781	\$1,778	\$1,778	\$1,781
Series 2007 Installment Payments <sup>(10)</sup>	<u>6,880</u>	<u>2,082</u>	<u>2,514</u>	<u>511</u>	<u>-</u>
Total Senior Debt Service	\$8,657	\$3,863	\$4,292	\$2,289	\$1,781
Transfers to (-)/from (+) Rate Stabilization Fund <sup>(11)</sup>	-	-	-	-	-
Transfers from Special Purpose Funds <sup>(11)</sup>	-	-	-	-	-
<b>Net Water Utility System Revenues Available for Parity Obligations Debt Service</b>	<b>\$68,964</b>	<b>\$77,887</b>	<b>\$89,878</b>	<b>\$135,696</b>	<b>\$129,680</b>
<b>Debt Service on Parity Obligations</b>					
2016 Bonds	\$8,545	\$8,545	\$8,545	\$8,545	\$8,545
2016 Installment Purchase Agreement	3,682	8,332	10,485	10,682	10,689
2017A Bonds	220	4,336	4,356	4,350	4,362
2019AB Bonds	-	-	364	5,496	5,495
2019C Bonds	-	-	-	1,772	2,775
2020AB Bonds	-	-	-	-	20,43
2020 Installment Purchase Agreement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,260</u>
Total Parity Debt Service	<u>\$12,447</u>	<u>\$21,213</u>	<u>\$23,750</u>	<u>\$30,845</u>	<u>\$36,169</u>
<b>Parity Obligations Debt Service Coverage</b>	<b>5.54</b>	<b>3.67</b>	<b>3.78</b>	<b>4.40</b>	<b>3.59</b>
<b>Debt Service on Subordinate Obligations</b>					
Commercial Paper <sup>(12)</sup>	-	358	1,699	325	138
<b>Total Debt Service on Senior, Parity and Subordinate Obligations</b>	<b>\$21,104</b>	<b>\$25,434</b>	<b>\$29,741</b>	<b>\$33,459</b>	<b>\$38,088</b>
<b>Revenues Remaining for Capital Improvements</b>	<b>\$56,517</b>	<b>\$56,316</b>	<b>\$64,429</b>	<b>\$104,526</b>	<b>\$93,373</b>
<b>Senior Debt Service Coverage</b>	<b>8.97</b>	<b>21.16</b>	<b>21.94</b>	<b>60.28</b>	<b>73.81</b>
<b>Senior, Parity and Subordinate Obligations Debt Service Coverage</b>	<b>3.68</b>	<b>3.21</b>	<b>3.17</b>	<b>4.12</b>	<b>3.45</b>

(Footnotes on following page)

- (1) Amounts rounded to nearest thousand.
- (2) Excludes property taxes levied by Valley Water to pay certain State Water Project costs.
- (3) Includes market value adjustments per GASB 31.
- (4) Includes transfers from the General Fund and Watershed Fund for the open space credit provided for agricultural rates and charges. Fiscal Year 2016-17 includes a transfer back in of \$1.68 million from the State Water Project Fund for reserves funded the prior fiscal year.
- (5) Includes transfers to the General Fund to support the drought emergency response project. Fiscal Year 2017-18 includes a transfer of \$11.38 million to the Safe, Clean Water and Natural Flood Protection Program Fund for the Main and Madrone Pipeline Rehabilitation project. Fiscal Year 2018-19 includes transfers out for information technology upgrades. Fiscal Year 2020-21 includes transfers out for information technology upgrades, costs relating to COVID-19 and election costs relating to Measure S.
- (6) Includes well permit fees, rental income, reimbursements relating to the San Felipe Division, homeowners' property tax relief payments from the State, and reversal of market value adjustments recognized under Investment Income.
- (7) Increases in Fiscal Years 2017-18, 2019-20 and 2020-21 are a result of supplemental water purchases. See the caption "WATER UTILITY SYSTEM—Primary Source of Revenues—*Historical Water Deliveries and Sources of Water Delivered.*"
- (8) Includes letter of credit fees and other banking costs and certain adjustments for OPEB costs and accrued compensated absences. Decrease in Fiscal Year 2016-17 is due primarily to reversal of \$7.4 million in prior periods' judgment liability costs that were incurred prior to the reversal of a trial court's judgment (see discussion under the caption "GENERAL LITIGATION—Great Oaks Litigation"). Increase in Fiscal Year 2017-18 is primarily due to higher pension costs and increased salary and benefit costs as a result of negotiated increases that became effective July 2017.
- (9) In June 2022, Valley Water prepaid the outstanding amount of the 2006B Bonds from available reserves.
- (10) In 2019, Valley Water refunded the outstanding amount under the 2007 Installment Purchase Agreement with a portion of the proceeds of the 2019C Bonds.
- (11) The Parity Master Resolution authorized the designation of the Rate Stabilization Fund and Special Purpose Funds. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS — Rate Stabilization Fund" and "— Special Purpose Funds."
- (12) Constitutes interest only on Commercial Paper Certificates.

Source: Valley Water.

The property taxes levied by Valley Water to pay costs under the SWP Contract are not included in Water Utility System Revenues and the SWP Contract costs are not included in Maintenance and Operations Costs.

## Projected Operating Results and Debt Service Coverage

The estimated projected operating results for the Water Utility System 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 Valley Water 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 the rate increases forecasted in the 2022 PAWS Report for Fiscal Years 2023-24 through 2025-26. Such rate increases have not been approved by the Board and Valley Water can make no assurance that such rate increases will be approved. See the caption "WATER UTILITY SYSTEM— Primary Sources of Revenues — *Water Charge Setting Process.*" If such rate increases are not instituted or other adjustments made to Revenues and/or Maintenance and Operation Costs, the projected operating results for Fiscal Years 2023-24 through 2025-26 will vary from those presented below, and such variance could be material.

**SANTA CLARA VALLEY WATER DISTRICT**  
**PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE**  
**FISCAL YEAR ENDING JUNE 30**  
**(Dollars in Thousands)<sup>(1)</sup>**

	2021-22 <sup>(2)</sup>	2022-23 <sup>(2)</sup>	2023-24 <sup>(2)</sup>	2024-25	2025-26
<b>Water Utility System Revenues</b>					
Groundwater Charges <sup>(3)</sup>	\$126,312	\$122,002	\$152,379	\$188,804	\$222,062
Treated Water Charges <sup>(4)</sup>	145,366	139,746	171,022	211,636	248,465
Surface and Recycled Water Charges <sup>(5)</sup>	2,764	3,207	3,625	4,104	4,453
Property Taxes <sup>(6)</sup>	9,653	9,435	9,773	9,898	10,244
Investment Income <sup>(7)</sup>	3,474	2,732	2,732	1,136	1,705
Operating Grants/Intergovernmental Services <sup>(8)</sup>	5,340	3,267	1,340	13,005	13,841
Transfers In <sup>(9)</sup>	1,000	26,061	3,519	3,935	4,402
Transfers Out <sup>(10)</sup>	(1,200)	(1,435)	(4,007)	(1,574)	(1,646)
Other <sup>(11)</sup>	<u>1,566</u>	<u>786</u>	<u>794</u>	<u>803</u>	<u>812</u>
Total Revenues	<u>\$294,275</u>	<u>\$305,801</u>	<u>\$341,177</u>	<u>\$431,747</u>	<u>\$504,338</u>
<b>Maintenance and Operation Costs</b>					
Sources Of Supply <sup>(12)</sup>	\$105,305	\$129,110	\$125,438	\$121,010	\$117,101
Water Treatment <sup>(13)</sup>	45,481	51,861	53,150	54,604	56,491
Transmission And Distribution <sup>(14)</sup>					
Raw Water	17,052	17,751	18,472	20,383	20,769
Treated Water	2,681	3,000	3,272	3,205	3,327
Administration and General <sup>(15)</sup>	<u>32,686</u>	<u>34,720</u>	<u>37,158</u>	<u>32,944</u>	<u>33,492</u>
Total Operating Expenses	<u>\$203,205</u>	<u>\$236,442</u>	<u>\$237,490</u>	<u>\$232,146</u>	<u>\$231,180</u>
Transfers to (-)/from (+) Rate Stabilization Fund <sup>(16)</sup>	\$10,000	\$13,000	\$16,000	\$35,000	--
Transfers from Special Purpose Funds <sup>(17)</sup>	8,000	13,000	3,000	3,000	--
<b>Net Water Utility System Revenues Available for Parity Obligations Debt Service</b>	<b>\$109,070</b>	<b>\$95,359</b>	<b>\$122,687</b>	<b>\$237,601</b>	<b>\$273,158</b>
<b>Debt Service on Parity Obligations</b>					
2016 Bonds	\$8,545	\$8,545	\$8,545	\$8,545	\$8,545
2016 Installment Purchase Agreement	10,687	10,696	10,688	10,691	10,688
2017A Bonds	4,368	4,339	4,376	4,352	4,403
2019AB Bonds	5,497	5,492	5,495	5,488	5,492
2019C Bonds	3,022	3,044	2,992	3,013	2,955
2020AB Bonds	3,239	3,239	3,239	3,239	3,239
2020 Installment Purchase Agreement	8,509	8,511	8,511	8,509	8,509
2022AB Bonds	-	4,345	8,227	8,230	8,231
2022C Certificates <sup>(17)</sup>	-	-	-	-	-
Future Debt Issuances <sup>(18)(19)</sup>	<u>-</u>	<u>-</u>	<u>18,773</u>	<u>35,375</u>	<u>48,667</u>
Total Parity Debt Service	<u>\$43,867</u>	<u>\$48,211</u>	<u>\$70,846</u>	<u>\$87,442</u>	<u>\$100,729</u>
<b>Parity Obligations Debt Service Coverage</b>	<b>2.49</b>	<b>1.98</b>	<b>1.73</b>	<b>2.72</b>	<b>2.71</b>
<b>Debt Service on Subordinate Obligations</b>					
Commercial Paper and Revolving Certificates <sup>(18)(20)</sup>	\$-	\$5,563	\$3,826	\$3,995	\$4,420
<b>Total Debt Service on Parity and Subordinate Obligations<sup>(21)</sup></b>	<b>\$43,867</b>	<b>\$53,774</b>	<b>\$74,672</b>	<b>\$91,437</b>	<b>\$105,149</b>
<b>Revenues Remaining for Capital Improvements</b>	<b>\$65,203</b>	<b>\$41,585</b>	<b>\$48,015</b>	<b>\$146,164</b>	<b>\$168,009</b>
<b>Parity and Subordinate Obligations Debt Service Coverage</b>	<b>2.49</b>	<b>1.77</b>	<b>1.64</b>	<b>2.60</b>	<b>2.60</b>

<sup>(1)</sup> Amounts rounded to nearest thousand.

(Footnotes continued on following page)



(Continued from previous page)

- (2) Fiscal Year 2021-22 is based on unaudited actual results. 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.
- (3) Reflects compound annual growth rate of 22.1% per annum between Fiscal Year 2022-23 and Fiscal Year 2025-26. Assumes the water rates and charges set forth under the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Projected Rates and Charges.*”
- (4) Reflects compound annual growth rate of 21.1% per annum between Fiscal Year 2022-23 and Fiscal Year 2025-26. Assumes the water rates and charges set forth under the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Projected Rates and Charges.*”
- (5) Reflects compound annual growth rate of 11.6% per annum between Fiscal Year 2022-23 and Fiscal Year 2025-26. Assumes the water rates and charges set forth under the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Projected Rates and Charges.*”
- (6) Reflects compound annual growth rate of 2.8% per annum between Fiscal Year 2022-23 and Fiscal Year 2025-26. Does not include State Water Project property tax.
- (7) 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. The projected interest earnings do not include any assumptions for market value adjustments.
- (8) Includes operating grant revenue and reimbursements from local municipalities and agencies, including reimbursements from San Benito County Water District for operations and maintenance projects on the San Felipe Division, and payments from beneficiaries of the Pacheco Reservoir Expansion Project which are projected to escalate beginning in Fiscal Year 2024-25.
- (9) Includes projected transfers in (a) from the Watershed & Stream Stewardship Fund and the General Fund for open space credits provided for agricultural water rates, (b) from the Safe, Clean Water Fund for water conservation measures, and (c) \$25 million from the Watershed Stream & Stewardship Fund in Fiscal Year 2022-23 to stabilize rates.
- (10) Includes transfers out for buildings and grounds improvements at Valley Water's main campus.
- (11) Includes primarily well permit fees, rental income, and homeowners' property tax relief payments from the State.
- (12) Includes projected costs for only the SWP portion of the California Water Fix Project (does not include CVP portion). Projected costs reflecting further participation in the Delta Conveyance project are subject to Board approval. See the caption “FACTORS AFFECTING WATER SUPPLIES—California Water Policy Framework and Developments.” Reflects compound annual growth rate of (3.2)% between Fiscal Year 2022-23 and Fiscal Year 2025-26.
- (13) Reflects compound annual growth rate of 2.9% per annum between Fiscal Year 2022-23 and Fiscal Year 2025-26.
- (14) Reflects compound annual growth rate of 5.4% for raw water and 3.5% for treated water between Fiscal Year 2022-23 and Fiscal Year 2025-26.
- (15) Includes letter of credit fees and other banking costs. See the caption “VALLEY WATER EMPLOYEE RELATIONS” for information with respect to Valley Water's pension and post-employment benefit liabilities and costs.
- (16) The Parity Master Resolution authorized the designation of the Rate Stabilization Fund and Special Purpose Funds. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS — Rate Stabilization Fund” and “— Special Purpose Funds.”
- (17) All or a portion of the interest represented by the 2022C Certificates will be capitalized. Principal with respect to the 2022C Certificates at maturity may be paid from reserves, Bonds, Contracts, notes or other obligations, including loans under the WIFIA Water Utility WIFIA Master Agreement, if executed and delivered.
- (18) Assumes the issuance of new-money short-term (subordinate) and/or long-term debt projected at \$287.0 million in Fiscal Year 2022-23 (which debt includes the 2022C Certificates), \$285.0 million in Fiscal Year 2023-24, \$301.0 million in Fiscal Year 2024-25 and \$306.0 million in Fiscal Year 2025-26, and periodic issuance of long-term (parity) debt to refund the short-term debt.
- (19) Calculated assuming fixed interest rates ranging between 3.3% and 6.0% per annum between Fiscal Years 2022-23 and 2025-26.
- (20) 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.
- (21) Excludes letter of credit fees and other banking costs, which are paid as Maintenance and Operation Costs.

Source: Valley Water.

The property taxes levied by Valley Water to pay costs under the SWP Contract are not included in Water Utility System Revenues and the SWP Contract costs are not included in Maintenance and Operations Costs.

## VALLEY WATER EMPLOYEE RELATIONS

### Bargaining Units

On November 23, 2021, the Board approved new multi-year memorandum of understanding agreements (“MOU’s”) 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 (late June or early July) and then the fourteenth bi-weekly pay period in 2023, 2024 and 2025.

Under the current MOU’s, 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 MOU’s, 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<sup>(1)</sup></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

<sup>(1)</sup> 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 <sup>(1)</sup>	7.00%
Mortality rate table <sup>(2)</sup>	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.

<sup>(1)</sup> Net of pension plan investment and administrative expenses, including inflation.

<sup>(2)</sup> 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 <sup>(1)</sup>	\$ 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	46.0	145.8	(99.7)
Balance at 6/30/2021 <sup>(1)</sup>	\$ 956.7	\$ 800.3	\$ 156.4

<sup>(1)</sup> 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)
<b>Total</b>	<b>\$ 15.2</b>	<b>\$ (74.9)</b>

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)
<b>Total</b>	<b>\$ (59.6)</b>

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

<sup>(1)</sup> 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

<sup>(2)</sup> Net of OPEB plan investment expenses, including inflation.

<sup>(3)</sup> 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:

<b>Total OPEB Liability</b>	<b>June 30, 2021</b>
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
<b>Total OPEB Liability, Ending</b>	<b><u>\$ 177.9</u></b>
 <b>Plan Fiduciary Net Position</b>	
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
<b>Plan Fiduciary Net Position, Ending</b>	<b><u>\$ 118.0</u></b>
 <b>Net OPEB Liability, Ending</b>	<b><u>\$ 59.9</u></b>

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 Senior Master Resolution, the Parity Master Resolution, the 2022 Bonds, the 2022C Certificates, 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 with respect to the Water Utility System that is not described herein, District Counsel does not believe such litigation is material to the finances or operation of the Water Utility System.

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 XIII D 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.

### **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 filed a petition for writ of mandate against Valley Water in the Santa Clara County Superior Court for alleged violations of CEQA 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. See the caption “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive.”

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.

#### **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 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 2022 Bonds and the 2022C Certificates. 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.*

#### **Rate Covenant Not a Guarantee**

The 2022 Bonds and the Installment Payments are payable from Net Water Utility System Revenues of the Water Utility System. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS." Valley Water's ability to pay debt service with respect to the 2022 Bonds and to make the Installment Payments depends on its ability to generate Net Water Utility System Revenues at the levels required by the Parity Master Resolution. Although Valley Water has covenanted in the Parity Master Resolution, to the fullest extent permitted by law, to fix and prescribe rates, fees and charges as more particularly described under the caption "—Rate Covenant" under "SECURITY AND SOURCES OF

PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS,” and expects that sufficient Net Water Utility System Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net Water Utility System Revenues in the amounts required by the Parity Master Resolution. No assurance can be made that revenues of the Water Utility System, estimated or otherwise, will be realized by Valley Water in amounts sufficient to pay debt service on the 2022 Bonds and to make the Installment Payments. Among other matters, the availability of and demand for water, and changes in law and government regulations could adversely affect the amount of revenues realized by Valley Water.

Valley Water staff’s practice in recent years has been to budget for two times debt service coverage on its outstanding obligations. Such practice, however, is not Board policy and could be modified at any time by staff or by the Board. Valley Water has covenanted under the Parity Master Resolution to the fullest extent permitted by law, to fix and prescribe rates, fees and charges to maintain debt service coverage at the levels more particularly described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS AND THE INSTALLMENT PAYMENTS —Rate Covenant.”

### **Water Utility System Expenses**

There can be no assurance that Maintenance and Operation Costs will be consistent with the levels projected by Valley Water in this Official Statement. Changes in technology, increases in the cost of water or other expenses could reduce Net Water Utility System Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant.

Valley Water is currently studying the implementation of significant capital projects which, if undertaken, would significantly increase Maintenance and Operation Costs and debt service after Fiscal Year 2025-26. These projects include participation in the Delta Conveyance project, the Purified Water Program, the Pacheco Reservoir Expansion Project and certain other water storage projects. See the caption “CAPITAL IMPROVEMENT PROGRAM.”

### **Statutory and Regulatory Compliance**

Laws and regulations governing the treatment and delivery of water and the recharge of groundwater basins are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

Valley Water is unaware of any claim against Valley Water for failure to comply with applicable laws and regulations, other than the lawsuits described under the captions “GENERAL LITIGATION—Great Oaks Litigation” and “—Stanford University Claim” above. However, if such a claim were to be filed and be successful, such claim may be payable from assets of Valley Water or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by Valley Water may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on Valley Water. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of Valley Water to generate Net Water Utility System Revenues sufficient to pay debt service with respect to the 2022 Bonds and to make the Installment Payments.

### **Limitations on Revenues**

The ability of Valley Water to generate Net Water Utility System Revenues sufficient to pay principal of and interest on the 2022 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 2022 Bonds and the 2022C Certificates upon the occurrence of an event of default under the Parity 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.

### **COVID-19 Pandemic**

The late 2019 outbreak of the highly transmissible strain of coronavirus (and variants thereof) and the disease it causes (known as COVID-19), has had significant negative impacts throughout the world, including in California. The World Health Organization (the “WHO”) declared the outbreak of COVID-19 to be a pandemic in 2020, and states of emergency were declared in the United States, the State, and numerous counties throughout the State. The purpose behind these declarations was to coordinate and formalize emergency actions across federal, state, and local governmental agencies.

Statewide COVID-19 restrictions have been lifted. Restrictions, however, may be re-imposed in various jurisdictions from time to time as local conditions warrant. The negative effects of the COVID-19 pandemic and its aftermath on global, national and local economies are expected to continue at least for the foreseeable future.

Valley Water cannot predict whether any reinstatement of stay-at-home orders and travel restrictions or other measures meant to suppress increases in COVID-19 cases from time-to-time will occur or the pace at which a full economic recovery will be achieved. Given the remaining uncertainties surrounding the COVID-19 pandemic and its aftermath, there can be no assurances that COVID-19 will not materially adversely impact the financial condition of Valley Water in the future. There are many variables that will continue to contribute to the economic impact of the COVID 19 pandemic and the recovery therefrom, including the extent to which and length of time social distancing measures are in place, the effectiveness of State and federal government relief programs, the emergence of new variants of the coronavirus, and the ultimate effectiveness of vaccinations efforts.

To date, Valley Water does not believe that the impacts of COVID-19 and its aftermath will have a material adverse effect on its ability to pay debt service on the 2022 Bonds and to make the Installment Payments.

### **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.

### **No Obligation to Tax**

The obligation of Valley Water to pay debt service with respect to the 2022 Bonds and to make the Installment Payments, does not constitute an obligation of Valley Water for which Valley Water is obligated to levy or pledge any form of taxation or for which Valley Water has levied or pledged any form of taxation. The obligation of Valley Water to pay debt service with respect to the 2022 Bonds and to make the Installment

Payments, does not constitute a debt or indebtedness of any agency, the State of California or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.

### **Change in Law**

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 2022 Bonds and the 2022C Certificates.

### **Constraints on SWP and CVP Water Deliveries**

Various ongoing factors and new developments with respect to SWP and CVP facilities and operations could have a material impact on Valley Water's imported water sources. Implementation of the 2008 BO and 2009 BO have curtailed the amount of surface water conveyed south of the Delta to water agencies, including Valley Water. The undertaking of the Delta Conveyance project and Valley Water's ultimate level of participation in such project, if any, could have a material impact on the amount of Valley Water's imported water deliveries in the future. In addition, USBR and DWR requested re-initiation of consultation for coordinated long-term operations due to new information learned after multiple years of drought, low populations for listed species and new scientific information. The outcome of such process could have a material impact on Valley Water's imported water supplies. See the caption "FACTORS AFFECTING WATER SUPPLIES." There can be no assurance that CVP allocated by USBR will be maintained at levels described in the table "HISTORICAL WATER DELIVERIES AND SOURCES OF THE WATER DELIVERED."

### **Risks Related to Water Utility System Facilities and Operation**

The operation of the Water Utility System, and the physical condition of the Water Utility System facilities, are subject to a number of risk factors that could adversely affect the reliability of Valley Water to provide water service, or increase the operating expenses of the Water Utility System. Prolonged damage to the Water Utility System facilities could interrupt the ability of Valley Water to realize Net Water Utility System Revenues sufficient to pay principal of and interest on the 2022 Bonds and to make the Installment Payments, or require Valley Water to increase expenditures for repairs significantly enough to adversely impact Valley Water's ability to pay the principal of or interest on the 2022 Bonds and to make the Installment Payments. These factors could include, among others, the following:

***Flooding and Other Natural and Man-Made Disasters.*** Flooding and other natural disasters, including without limitation flooding, seismic events, landslides, and fire, or man-made disasters or accidents could interrupt operation of the Water Utility System, result in liability claims against Valley Water, or otherwise adversely impact the Water Utility System's ability to provide services or collect revenues. See "—Potential Impact of Climate Change." 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 "GENERAL LITIGATION—2017 Flooding in the City of San Jose."

The area encompassed by Valley Water as well as areas from where DWR and USBR provide water to Valley Water, like that in much of California, may be subject to unpredictable seismic activity. Valley Water and such DWR and USBR facilities are located within a regional network of several active and potentially active faults. If there were to be an occurrence of severe seismic activity in Valley Water or affecting such DWR and USBR facilities, there could be an impact on the ability of residents to pay rates and charges for water service, diminishing Net Water Utility System Revenues, which could have an adverse effect on Valley Water's ability to pay the principal of and interest on the 2022 Bonds and to make the Installment Payments.



Valley Water's water storage facilities require the operation and maintenance of a number of dams. The structural integrity of dams can be impacted by seismic events and heavy rainfall. For example, in February 2017, heavy rainfall damaged the main and emergency spillways of the Oroville Dam, which is owned and operated by DWR. Such damage prompted evacuation of certain populations living downstream along the Feather River. Valley Water continues to undertake studies and retrofits of Valley Water dams in accordance with updates to design criteria. Such studies are performed in cooperation with and reviewed by the DSOD. However, no assurances can be made that major seismic and/or heavy rainfall will not damage Valley Water dams, which damage could be significant. Valley Water's dam facilities are not insured. See the captions "VALLEY WATER FACILITIES—Local Reservoirs," "—Seismic Considerations" and "—Anderson Dam Seismic Retrofit Project and FERC Directive."

California is currently experiencing a number of significant wildfires, including in areas near Valley Water's service area. To date, Valley Water's operations have not been materially affected by such wildfires. Approximately 261 Valley Water employees live in areas potentially under evacuation warning or evacuation orders issued by the Department of Forestry and Fire Protection of the State of California or other governmental agencies in response to wildfires. The number of affected employees is subject to change as such orders are revised, which may occur on a daily basis. Valley Water has not experienced any disruptions to operations as a result of such orders to date.

**Labor Actions.** Valley Water has historically maintained a positive relationship with its employees. Nonetheless, a work stoppage or other labor action could limit Valley Water's ability to operate the Water Utility System facilities and adversely impact Water Utility System Revenues.

**Casualty Losses.** Valley Water's risk management program includes both self-insured and insured coverages; however, the program does not provide coverage for every conceivable risk of loss. Damage attributable to seismic events and flooding are excluded. See the caption "VALLEY WATER—Insurance." Valley Water is not required to either insure against or self-insure against every potential risk of loss, and there is a risk that damage or destruction of property and equipment comprising the Water Utility System could occur for which no insurance or self-insurance funds will be available. There can be no assurance that insurance providers will pay claims under any policies promptly, or at all, should a claim be made under such policies in connection with property loss or damage. It is possible that an insurance provider will refuse to pay a claim, especially if it is substantial, and force Valley Water to sue to collect on or settle the insurance claim. Further, there can be no assurances that any insurance proceeds will be sufficient to rebuild or replace any damaged property.

**Safety and Security.** The occurrence of military conflicts and terrorist activities may adversely impact the operations of the Water Utility System or the finances of Valley Water. Valley Water continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that military conflicts or terrorist activities are directed against the Water Utility System or that costs of security measures will not be greater than presently anticipated.

**Power Supply.** Valley Water and/or its retail customers could experience power outages as a result of natural disasters or other events. Pacific Gas & Electric ("PG&E"), which is the electric utility provider in Valley Water's service area, has implemented a Public Safety Power Shutoff Program pursuant to which PG&E would voluntarily turn off power to certain areas during times of heightened fire risk (i.e. gusty winds or dry conditions). To prepare for power outages, Valley Water has built back-up power resources to serve its infrastructure, including permanent and mobile generators. While Valley Water believes that it has the necessary contingency plans in place to continue its operations in the event of a temporary loss of power supply from PG&E, Valley Water can make no assurances that such loss of power would not cause an interruption in Valley Water's operations.

***Sustainable Groundwater Management Act.*** On September 16, 2014, the California Governor signed SGMA into law. SGMA constitutes a Statewide legislative structure for local agencies to manage groundwater with the potential for State intervention if local efforts fail to meet prescribed requirements.

SGMA requirements apply to all basins designated as “high” or “medium” priority basins by DWR. The prioritization is based on factors including population, groundwater reliance, and documented historical or current adverse impacts. SGMA requirements are the same for high and medium priority basins. There are four groundwater subbasins in Santa Clara County. The two large subbasins actively managed by Valley Water (Santa Clara and Llagas) are entirely within the County while the other two subbasins have only have small portions within the County (San Mateo Plain and North San Benito). DWR has designated the Santa Clara and Llagas subbasins as high priority basins, the North San Benito Subbasin as a medium priority basin, and the San Mateo Plain Subbasin as a very low priority basin.

SGMA required groundwater sustainability agencies (“GSAs”) to be formed to manage each high and medium priority groundwater basin by June 30, 2017. A groundwater sustainability plan (“GSP”) had to be submitted to DWR by January 31, 2020 for basins designated as critically over-drafted, or by January 31, 2022 for all other high and medium priority basins. Pursuant to California Water Code section 10733.6, local agencies could submit a prescribed alternative to a groundwater sustainability plan (the “Alternative Plan”), which could include a plan developed under Part 2.75 of Division 6 of the California Water Code or other law authorizing groundwater management, management pursuant to an adjudication action, or an analysis demonstrating that a groundwater basin has operated within its sustainable yield for at least 10 years. Such Alternative Plans were required to be submitted by January 1, 2017 and updated every five years thereafter. As SGMA continues to be implemented, basin priorities and boundaries may change. When periodic basin reprioritizations are finalized by DWR, basins newly subject to SGMA must form GSAs within two years and adopt GSPs within five years (or submit an Alternative Plan within two years).

Valley Water is the exclusive GSA for the Santa Clara and Llagas subbasins, which are entirely within the County. Valley Water submitted an Alternative Plan prepared pursuant to authority granted by the SGMA and the Law to DWR on December 21, 2016. In July 2019, DWR approved the Alternative Plan for both the Santa Clara and Llagas subbasins. Valley Water submitted the first five-year periodic update of the approved Alternative Plan to DWR by January 1, 2022, as required under SGMA.

Valley Water is also the exclusive GSA for the small portions of the North San Benito Subbasin within the County; San Benito County Water District is GSA for the portions in San Benito County. With Valley Water’s support, the San Benito County Water District GSA completed and submitted a GSP (which was also adopted by Valley Water) for the entire North San Benito Subbasin in January 2022, which is currently being reviewed by DWR.

Valley Water does not currently expect the enactment of the SGMA or the implementation of the Alternative Plan/GSP with respect to the Santa Clara, Llagas, or North San Benito groundwater basins described above to have a material adverse effect on Valley Water’s ability to pay principal of and interest on the 2022 Bonds and to make the Installment Payments.

Through the Semitropic Groundwater Banking Program, Valley Water also stores a portion of imported water in a groundwater basin outside of the boundaries of Valley Water in the San Joaquin Valley-Kern County groundwater subbasin, which has been designated by DWR as a high priority basin that is critically over-drafted. For a discussion of the activities of the Semitropic GSA, the KGA and the potential effects of the activities thereof on water currently stored by Valley Water, and water which may be stored by Valley Water in the future, see the caption “FACTORS AFFECTING WATER SUPPLIES—Water Banking.” While Valley Water does not currently expect that enactment of the SGMA or the activities of the Semitropic GSA or the KGA resulting therefrom will have a material adverse effect on Valley Water’s ability to pay principal and interest on the 2022 Bonds and to make the Installment Payments, Valley Water is monitoring the Semitropic GSA’s and the KGA’s activities with respect to SGMA. Valley Water cannot predict what

effect, if any, Semitropic GSA or KGA activities with respect to the SGMA will ultimately have on the water currently stored, or water which may be stored or withdrawn in the future, by Valley Water in the Semitropic Groundwater Banking Program.

## **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.

## **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 21<sup>st</sup> 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, the potential impacts of climate change on the Water Utility System are not expected to have a material adverse effect on Valley Water's ability to pay debt service on the 2022 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 the Water Utility System. 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 2022 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 2022C Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or the 2022 Bonds and the 2022C Certificates 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 2022 Bonds and the 2022C Certificates. 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 2022 Bonds and the 2022C Certificates. Valley Water undertakes no obligation to maintain its current credit ratings on the 2022 Bonds or the 2022C Certificates 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 2022 Bonds or the 2022C Certificates or, if a secondary market exists, that the 2022 Bonds or the 2022C Certificates 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 to the Water Utility System. Due to the foregoing risks described above with respect to the availability of a secondary market for the 2022 Bonds and the 2022C Certificates, 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 2022C Certificates**

Valley Water may pay the principal with respect to the 2022C Certificates on or before maturity from reserves, Bonds, Contracts, notes or other obligations. Valley Water may repay such short-term/interim financing from a combination of proceeds of Bonds and/or other obligations. 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. If executed and delivered, Valley Water may also draw on amounts under the WIFIA Master Agreement to pay the 2022C Certificates on or before maturity.

## **CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES**

### **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 XIII D.** Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership." Article XIII D further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed. The agency must then conduct a public hearing on the proposed fee or charge not less than 45 days from the notice. At the hearing, the agency must consider any protests from anticipated payers, and the proposed fee or charge may not be imposed or increased if written protests against it are filed by a majority of owners of the identified parcels. As a result, if and to the extent that a fee or charge imposed by a local government for water or wastewater service is ultimately determined to be a "fee" or "charge" as defined in Article XIII D, the local government's ability to increase such fee or charge may be limited by a majority protest. Within 45 days of the public hearing, the agency must also hold an election and may not impose a new fee or charge, or increase an existing fee or charge, unless it is approved by a majority of the property owners subject to the fee or charge, or at the option of the agency, two-thirds vote of the electorate in the affected area. Under Article XIII D, however, majority approval by the property owners and the election requirement do not apply to fees or charges for sewer, water or refuse-collection services.

In addition, Article XIII D includes a number of limitations applicable to existing fees and charges including provisions to the effect that: (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Based upon the California Second District Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIII D did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. In a decision rendered in February, 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District* (S105078) upheld a Third District Court of Appeal decision that water connection fees were not property-related fees or charges subject to Article XIII D while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in

*Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court's dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal held in *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal. App. 4th 914 (2005) that an "in lieu" fee which is payable to the City of Fresno's general fund from its water utility and which is included in the city's water rate structure was invalid. In reaching its decision, the court concluded that the city's water rates were "property related" fees, governed by the limitations of Article XIII D. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006 the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. The Court restated the dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing domestic water service through an existing connection were property related fees and charges under Article XIII D.

Valley Water and District counsel do not believe Valley Water's wholesale water rates charged under its contracts with retail agencies are subject to the substantive and procedural requirements of Article XIII D. For a discussion of litigation with respect to the application of Article XIII D to Valley Water's groundwater charges, see the caption "GENERAL LITIGATION — Great Oaks Litigation."

**Article XIII C.** Article XIII C 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 XIII C does not define the terms "local tax," "assignment," "fee" or "charge." On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIII C included rates and fees charged for domestic water use. The Supreme Court noted, however, that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations of the public agency involved in the litigation. Valley Water and its District Counsel do not believe that Article XIII C grants to the voters within the jurisdiction of Valley Water the power to repeal or reduce wholesale rates and charges or groundwater charges in a manner which would be inconsistent with the statutory or contractual obligations of the legislative body of District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2022 Bonds or the 2022C Certificates. Remedies available to beneficial owners of the 2022 Bonds and the 2022C Certificates in the event of a default by Valley Water are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2022 Bonds and the 2022C Certificates 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.

## **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing

orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

If Valley Water groundwater charges are ultimately determined to be charges for property-related services, they will be governed by Article XIID, and Proposition 26 will not apply. If, however, Valley Water's charges are found not to be charges for property-related services, Proposition 26 may limit any groundwater charges found to have been imposed after November 2, 2010. Valley Water believes that it did not "impose" any groundwater charge after November 2, 2010, as such term is used in Proposition 26. Moreover, Valley Water believes that all groundwater charge rates adopted after November 2, 2010, satisfy the substantive limitations of Proposition 26. See the caption "— Proposition 218" above.

### **Future Initiatives**

Articles XIIB, XIIC and XIID 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 2022 Bonds and the Installment Purchase Agreement 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 – TAX EXEMPT OBLIGATIONS**

### **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 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.

## **2022C Certificates**

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 2022C Certificates 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 2022C Certificates constituting interest (and original issue discount) with 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 2022C Certificates constituting interest (and original issue discount) is exempt from State personal income tax.

The excess of the stated prepayment price at maturity of the 2022C Certificates over the issue price of the 2022C Certificates (the first price at which a substantial amount of the 2022C Certificates 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 2022C Certificate Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2022C Certificate Owner will increase the 2022C Certificate Owner's basis in the applicable 2022C Certificate.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Installment Payment with respect to the 2022C Certificates 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 2022C Certificates to assure that the portion of each Installment Payment with respect to the 2022C Certificates 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 2022C Certificates 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 2022C Certificates. Valley Water has covenanted to comply with all such requirements.

The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2022C Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2022C Certificate premium, which must be amortized under Section 171 of the Code; such amortizable 2022C Certificate premium reduces the 2022C Certificate Owner's basis in the applicable 2022C Certificate (and the amount of tax-exempt interest received with respect to the 2022C Certificates), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2022C Certificate premium may result in a 2022C Certificate Owner realizing a taxable gain when a 2022C Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner. Purchasers of the 2022C Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2022C Certificate 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 2022C Certificates will be selected for audit by the IRS. It is also possible that the market value of the 2022A Bonds and the 2022C Certificates Bonds might be affected as a result of such an audit of the 2022A Bonds and the 2022C Certificates (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 2022C Certificates to the extent that it adversely affects the exclusion from gross income of interest on the 2022A Bonds or the portion of each Installment Payment with respect to the 2022C Certificates constituting interest or the market values of the 2022A Bonds and the 2022C Certificates.

It is possible that subsequent to the issuance of the 2022A Bonds and the execution and delivery of the 2022C Certificates 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 2022C Certificates or the market value of the 2022A Bonds and the 2022C Certificates. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the 2022A Bonds and the 2022C Certificates. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2022A Bonds and the 2022C Certificates. No assurance can be given that subsequent to the issuance of the 2022A Bonds and the execution and delivery of the 2022C Certificates such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the 2022A Bonds or 2022C Certificates, 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 2022C Certificates.

Bond Counsel and Special Counsel's opinions with respect to the 2022A Bonds and the 2022C Certificates, 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 Refunding Bond Indenture,

the Installment Purchase Agreement, the Trust Agreement and the Tax Certificate relating to the 2022A Bonds and the 2022C Certificates, 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 2022C Certificates 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 2022C Certificates 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 2022C Certificates and the accrual or receipt of interest on the 2022A Bonds and the 2022C Certificates 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 2022C Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2022A Bonds or the 2022C Certificates.

## **TAX MATTERS – TAXABLE OBLIGATIONS**

### **2022B Bonds**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2022B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code but interest on the 2022B Bonds is exempt from State of California personal income tax.

The federal tax and State of California personal income tax discussion set forth above with respect to the 2022B Bonds is included for general information only and may not be applicable depending upon a 2022B Bond Owner's particular situation. The ownership and disposal of a 2022B Bond and the accrual or receipt of interest with respect to the 2022B Bond may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences.

In the event of a legal defeasance of a 2022B Bond, such bond might be treated as retired and "reissued" for federal tax purposes as of the date of the defeasance, potentially resulting in recognition of taxable gain or loss to the applicable 2022B Bond Owner generally equal to the difference between the amount deemed realized from the deemed redemption and reissuance and the 2022B Bond Owner's adjusted tax basis in such bond.

## **RATINGS**

Valley Water expects that Moody's Investors Service, Inc. ("Moody's") will assign the 2022 Bonds and the 2022C Certificates the rating of "\_\_\_\_" (stable outlook) and that Fitch Ratings, Inc. ("Fitch") will assign the 2022 Bonds and the 2022C Certificates the rating of "\_\_\_\_" (stable outlook). There is no assurance that any credit rating given to the 2022 Bonds and the 2022C Certificates 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 2022 Bonds and the 2022C Certificates. 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 2022 Bonds and the 2022C Certificates to file on EMMA, notices of any ratings changes on the 2022 Bonds and the 2022C Certificates. See the caption “CONTINUING DISCLOSURE UNDERTAKING” below and Appendices G and H, respectively. Notwithstanding such covenant, information relating to ratings changes on the 2022 Bonds and the 2022C Certificates 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 2022 Bonds and the 2022C Certificates are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the 2022 Bonds and the 2022C Certificates after the initial issuance of the 2022 Bonds and delivery of the 2022C Certificates.

### **CONTINUING DISCLOSURE UNDERTAKINGS**

Valley Water has covenanted in Continuing Disclosure Agreements for the benefit of the holders and beneficial owners of the 2022 Bonds and the 2022C Certificates 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 2022 Bonds and the 2022C Certificates are set forth in Appendix F—“FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022 BONDS” and in Appendix G—“FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022C CERTIFICATES,” respectively. These covenants have been made in order to assist the Purchasers 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 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 Purchasers and is available from the Treasury/Debt Officer of Valley Water at 5750 Almaden Expressway, San Jose, California Telephone: (408) 265-2600.

### **UNDERWRITING**

The 2022A Bonds and 2022C Certificates (the “Tax-Exempt Obligations”) were purchased at a competitive sale on \_\_\_\_\_, 2022 by \_\_\_\_\_, (the “Tax-Exempt Obligations Purchaser”). Under the Notice of Sale, the Tax-Exempt Obligations Purchaser has agreed to purchase all, but not less than all, of the 2022A Bonds for an aggregate purchase price of \$\_\_\_\_\_ (representing the principal amount of the 2022A

Bonds, less a purchaser's discount of \$\_\_\_\_\_, plus an original issue premium of \$\_\_\_\_\_) and the 2022C Certificates for an aggregate purchase price of \$\_\_\_\_\_ (representing the principal amount of the 2022C Certificates, less a purchaser's discount of \$\_\_\_\_\_, plus an original issue premium of \$\_\_\_\_\_). The Notice of Sale provides that the Tax-Exempt Obligations Purchaser will purchase all of the Tax-Exempt Obligations if any are purchased, the obligation to make such purchase being subject to certain terms and conditions in the Notice of Sale, the approval of certain legal matters by counsel and certain other conditions.

The 2022B Bonds were purchased at a competitive sale on \_\_\_\_\_, 2022 by \_\_\_\_\_, (the "2022B Bonds Purchaser" and together with the Tax-Exempt Obligations Purchaser, the "Purchasers"). Under the Notice of Sale, the 2022B Bonds Purchaser has agreed to purchase all, but not less than all, of the 2022B Bonds for an aggregate purchase price of \$\_\_\_\_\_ (representing the principal amount of the 2022B Bonds, less a purchaser's discount of \$\_\_\_\_\_). The Notice of Sale provides that the 2022B Bonds Purchaser will purchase all of the 2022B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions in the Notice of Sale, 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 Tax-Exempt Obligations Purchaser and the 2022B Bonds Purchaser, as applicable. The Tax-Exempt Obligations Purchaser and the 2022B Bonds Purchaser may offer and sell the 2022 Bonds and the 2022C Certificates to certain dealers (including dealers depositing 2022 Bonds and 2022C Certificates 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 2022 Bonds and the execution and delivery of the 2022C Certificates. 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 2022 Bonds and the 2022C Certificates 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 2022 Bonds substantially in the form set forth in Appendix D hereto and Special Counsel will render an opinion with respect to the 2022C Certificates substantially in the form set forth in Appendix E hereto. Copies of such opinions will be furnished to the Purchasers at the time of delivery of the 2022 Bonds and the 2022C Certificates, respectively. Certain legal matters will be passed upon for Valley Water and the Corporation by District Counsel to Valley Water, J. Carlos Orellana, Esq. and for the Trustee by its counsel. The payment of the fees of Bond Counsel is contingent upon the issuance of the 2022 Bonds and the payment of the fees of Special Counsel is contingent upon the execution and delivery of the 2022C Certificates. Bond Counsel and Special Counsel express no opinion to the owners of the 2022 Bonds and the 2022C Certificates as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2022 Bonds and the 2022C Certificates and expressly disclaims any duty to advise the Owners of the 2022 Bonds and the 2022C Certificates as to matters related to this Official Statement. From time to time, Stradling Yocca Carlson & Rauth, a Professional Corporation represents the Purchasers on matters unrelated to the 2022 Bonds and the 2022C Certificates.

## 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 2022 Bonds and the 2022C Certificates, information with respect to the book-entry only system relating to the 2022 Bonds and the 2022C Certificates, 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 WITH RESPECT TO PARITY OBLIGATIONS**

*The following is a summary of certain provisions of the Parity Master Resolution, the Refunding Bond 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 WATER UTILITY PARITY SYSTEM MASTER RESOLUTION**

#### **DEFINITIONS**

Unless the context otherwise requires, capitalized terms used under the caption “DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE WATER UTILITY PARITY SYSTEM MASTER RESOLUTION” will have the meanings defined below. Unless the context otherwise requires, all capitalized terms used below and not defined below will have the meanings ascribed thereto in the Water Utility Parity System Master Resolution.

Authorized Officer. The term “Authorized Officer” means (i) the Chief Executive Officer/General Manager of the District or, if there is no officer designated as the Chief Executive Officer/General Manager, the highest ranking officer of the District (excluding members of the Board of Directors of the District), (ii) the Chief Administrative Officer of the District, or (iii) the Chief Financial Officer of the District.

Average Annual Debt Service. “Average Annual Debt Service” means the average of (a) the interest payable on all Bonds, Contracts or Senior Obligations, as applicable, for all Fiscal Years, assuming all Bonds, Contracts or Senior Obligations, as applicable, are retired as scheduled (including by reason of sinking fund payment redemption), and (b) the principal amount of the Bonds, Contracts or Senior Obligations scheduled to be paid for all Fiscal Years (including any sinking fund payment redemptions due), including the Fiscal Year in which the calculation is made.

Bonds. “Bonds” means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, which are secured by a pledge of and lien on the Water Utility System Revenues in accordance with the Water Utility Parity System Master Resolution and are payable from Net Water Utility System Revenues in accordance with the Water Utility Parity System Master Resolution.

Business Day. “Business Day” means any day other than a Saturday, Sunday or legal holiday or a day on which banking institutions are authorized or required by law to be closed in the State of New York, or in the State of California for commercial banking purposes.

Contracts. “Contracts” means all installment purchase agreements or other contracts of the District authorized and executed by the District, which are secured by a pledge and lien on the Water Utility System Revenues in accordance with the Water Utility Parity System Master Resolution and are payable from Net Water Utility System Revenues in accordance with the Water Utility Parity System Master Resolution, but excluding contracts entered into for operation and maintenance of the Water Utility System.

Current Water Utility System Revenues. “Current Water Utility System Revenues” means, with respect to any Fiscal Year or other period, (1) all gross income and revenue of the Water Utility System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees, contributions in aid of construction legally available for Debt Service, and charges and standby or water availability charges), amounts allocated to the District 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 the District to the Water Utility System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water Utility System or arising from the Water Utility System, (2)(a) all income from the deposit or investment of any money in the Water Utility System Revenue Fund, the Rate Stabilization Reserve Fund and (b) all income from the investment of money held in any construction or acquisition fund established pursuant to a Trust Agreement to the extent such income is required to be deposited in the Water Utility System Revenue Fund, and (3) deposits to the Water Utility System Revenue Fund from amounts on deposit in Special Purpose Funds made in accordance with the Water Utility Parity System Master Resolution; but excluding (x) benefit assessments and proceeds of taxes, including but not limited to proceeds of taxes levied to pay costs with respect to the State Water Project, and (y) any refundable deposits made to establish credit and (z) advances or contributions in aid of construction.

Date of Operation. “Date of Operation” means, with respect to any uncompleted component Parity Project, the estimated date by which such uncompleted component Parity Project will have been completed and, in the opinion of the District, will be ready for operation by or on behalf of the District.

Debt Service. “Debt Service” means, for any period of calculation, the sum of: (1) the interest payable on all outstanding Bonds during such period, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program); (2) those portions of the principal amount of all outstanding serial Bonds maturing in such period (but excluding Excluded Principal), (3) those portions of the principal amount of all outstanding term Bonds required to be prepaid or paid in such period (but excluding Excluded Principal), and (4) those portions of the Contracts required to be paid during such period, (except to the extent the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program) (but excluding Excluded Principal); but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts; provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest at a fixed rate equal to the higher of: (i) the then current variable interest rate borne by such Bonds or Contracts, and (ii) if such Bonds or Contracts have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, or if such Bonds or Contracts have not been outstanding for the twelve prior months, the average rate borne by reference to an index comparable to that to be utilized in determining the interest rate for the Bonds to be issued or the Contracts to be executed; provided further that if any series or issue of such Bonds or Contracts have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined for the period of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of forty (40) years from the date of calculation; and provided further that if the Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the District with respect to such Paired Obligations; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

District. “District” means the Santa Clara Valley Water District, a water district duly organized and existing under and by virtue of the laws of the State of California.

Excluded Principal. “Excluded Principal” means each payment of principal of Bonds or Contracts with a maturity of less than 42 months and which the District specifies in a certificate of the District signed by an Authorized Officer and filed with each Trustee that the District intends to pay from the proceeds of Bonds or Contracts, other bonds, notes or other obligations of the District or moneys other than Water Utility System Revenues, Current Water Utility System Revenues or Net Water Utility System Revenues. No such determination will affect the security for such Bonds or Contracts or the obligation of the District to pay such Bonds or Contracts from Net Water Utility System Revenues.

Experienced Banker or Advisor. “Experienced Banker or Advisor” means a reputable investment banker experienced in underwriting obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Water Utility Parity System Master Resolution, or a reputable financial advisor experienced in advising issuers in connection with such issuers’ issuance of obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Water Utility Parity System Master Resolution.

Fiscal Year. “Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other accounting period hereafter selected and designated by the Board of Directors of the District as the Fiscal Year of the District.

Generally Accepted Accounting Principles. “Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Independent Certified Public Accountant. “Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed and paid by the District and who, or each of whom— (i) is in fact independent and not under domination of the District; (ii) does not have any substantial interest, direct or indirect, with the District; and (iii) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make annual or other audits of the books of or reports to the District.

Maintenance and Operation Costs. The term “Maintenance and Operation Costs” means, for any Fiscal Year or other period, (i) costs for maintenance and operation of the Water Utility System calculated in accordance with Generally Accepted Accounting Principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water Utility System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water Utility System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of engineers, auditors, accountants, attorneys, consultants, trustees, fiscal agents, letter of credit providers, dealers and remarketing agents and other charges and fees payable to credit or liquidity providers (other than payments of principal and interest constituting Debt Service) and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than Debt Service) required to be paid by it to comply with the terms of the Water Utility Parity System Master Resolution or any other Bond or Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds or the execution of such Contract, (ii) all costs of water purchased or otherwise acquired for delivery by the Water Utility System (including any interim or renewed arrangement therefor), including both fixed and variable components thereof except to the extent payable from amount identified in clause (x) of the definition of Current Water Utility System Revenues, and (iii) all amounts payable with respect to Maintenance and Operation Obligations, including both fixed and variable components thereof; but excluding in all cases depreciation, replacement and

obsolescence charges or reserves therefor and amortization of intangibles, other bookkeeping entries of a similar nature and other maintenance and operation costs of a non-cash basis.

Maintenance and Operation Obligation. “Maintenance and Operation Obligation” means any contractual obligation with respect to any facilities, properties, structures, works, services, water or rights to receive water, or any loan of credit to or guaranty of debts, claims or liabilities of any other person (including a joint powers agency of which the District is a member) with respect to any facilities, properties, structures, works, services, water or rights to receive water, so long as in each case the payments thereunder are designated as Maintenance and Operation Costs by the Board of Directors of the District; provided however Bonds and Contracts will not constitute Maintenance and Operation Obligations.

Net Water Utility System Revenues. “Net Water Utility System Revenues” means, for any Fiscal Year or other period, the Water Utility System Revenues during such Fiscal Year or period less the Maintenance and Operation Costs and less the principal and interest with respect to Senior Obligations payable during such Fiscal Year or period.

Parity Project. “Parity Project” means any additions, betterments, extensions or improvements to the District’s Water Utility System designated by the Board of Directors of the District as a Parity Project, the acquisition and construction of which is to be paid for with the proceeds of any Contracts or Bonds.

Paired Obligations. “Paired Obligations” means any Bond or Contract (or portion thereof) designated as Paired Obligations in the Trust Agreement authorizing the issuance or execution and delivery thereof, (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts, and (ii) the interest rates which, taken together, were intended to result in a fixed interest rate obligation of the District for all or a portion of the term of such Bond or Contract, all as certified by an Experienced Banker or Advisor.

Rate Stabilization Reserve Fund. “Rate Stabilization Reserve Fund” means the fund of the District by that name continued pursuant to the Water Utility Parity System Master Resolution.

Senior Master Resolution. “Senior Master Resolution” means Resolution No. 94-58 adopted by the Board of Directors of the District on June 23, 1994, entitled “A Resolution of the Board of Directors of the Santa Clara Valley Water District Providing for the Allocation of Water Utility System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Utility System Revenues,” as amended and supplemented from time to time.

Senior Obligations. “Senior Obligations” means obligations of the District secured by a pledge of and lien on Water Utility System Revenues under the Senior Master Resolution and payable from Net Water Utility System Revenues on a basis senior and superior to the payment of Bonds and Contracts. For avoidance of doubt, Maintenance and Operation Obligations do not constitute Senior Obligations under the Water Utility Parity System Master Resolution and nothing therein shall preclude the incurrence of Maintenance and Operation Obligations.

Special Purpose Funds. “Special Purpose Funds” means each fund of the District designated by resolution of the Board of Directors of the District as a special purpose fund including but not limited to the existing Drought Reserve Fund.

Trust Agreement. “Trust Agreement” means any resolution, indenture, trust agreement or other security documents providing for the issuance of Bonds or the execution and delivery of Contracts.

Trustee. “Trustee” means any entity appointed by the District as a trustee or fiscal agent under any Trust Agreement.

Water Service. “Water Service” means the water service furnished, made available or provided by the Water Utility System.

Water Utility System. “Water Utility System” means, subject to the Water Utility Parity System Master Resolution, (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District; and (ii) all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith hereafter acquired and constructed by or for the District and determined by the District to be a part of the Water Utility System; and (iii) all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

Water Utility System Revenue Fund. “Water Utility System Revenue Fund” means the fund by that name continued pursuant to the Water Utility Parity System Master Resolution.

Water Utility System Revenues. “Water Utility System Revenues” means, with respect to any Fiscal Year or other period, (i) Current Water Utility System Revenues, plus (ii) deposits to the Water Utility System Revenue Fund from amounts on deposit in the Rate Stabilization Reserve Fund, representing amounts other than Current Water Utility System Revenues, less (iii) any Current Water Utility System Revenues transferred from the Water Utility System Revenue Fund to the Rate Stabilization Reserve Fund.

#### WATER UTILITY SYSTEM REVENUES

Establishment of Water Utility System Revenue Fund. The District has established and agreed to maintain, so long as any Bonds or Contracts remain outstanding, the Water Utility System Revenue Fund to be held by the District. Amounts in the Water Utility System Revenue Fund will be disbursed, allocated and applied solely to the uses and purposes described in the Water Utility Parity System Master Resolution, and will be accounted for separately and apart from all other accounts, funds, money or other resources of the District.

All Water Utility System Revenues, the Water Utility System Revenue Fund and all amounts on deposit in the Water Utility System Revenue Fund are irrevocably pledged to the payment of the Bonds and Contracts as provided in the Water Utility Parity System Master Resolution; and the Water Utility System Revenues and all amounts on deposit in the Water Utility System Revenue Fund will not be used for any other purpose while any of the Bonds and Contracts remain outstanding; provided that out of the Water Utility System Revenues and amounts on deposit in the Water Utility System Revenue Fund there may be apportioned for such purposes as are expressly permitted in the Water Utility Parity System Master Resolution. Such pledge will constitute a lien on Water Utility System Revenues, the Water Utility System Revenue Fund and all amounts on deposit therein as permitted in the Water Utility Parity System Master Resolution for the payment of Contracts and Bonds in accordance with the terms thereof subordinate solely to the lien created under the Senior Master Resolution.

Allocation of Water Utility System Revenues. In order to carry out and effectuate the obligations of the District to pay Debt Service, the District has agreed and covenanted that all Current Water Utility System Revenues received by it will be deposited when and as received in the Water Utility System Revenue Fund. The District will transfer or make payments from the Water Utility System Revenue Fund the amounts set forth below at the following times and in the following order of priority: (a) Such amounts at such times as the District requires to provide for the payment of Maintenance and Operation Costs; (b) To each trustee to pay the principal of and interest with respect to Senior Obligations at the times and in the amounts required by the Senior Obligations; (c) To each trustee with respect to Senior Obligations for deposit in the applicable reserve fund created with respect to Senior Obligations, an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish each Senior Obligations reserve fund as and to the

extent required by the Senior Obligations or the resolutions, trust agreements, indentures or other instruments securing the Senior Obligations; (d) Debt Service at the times and in the amounts required by applicable Bonds or Contracts or the Trust Agreements securing each Bond or Contract; (e) To each Trustee for deposit in the applicable reserve fund with respect to such Bonds or Contracts, if any, 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; (f) On any date prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the Water Utility System; and (g) On the last Business Day of each Fiscal Year, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the District.

On and after the date no Senior Obligations are outstanding clause (f) and (g) above will no longer be operative and the following provisions will become effective: (h) So long as the District reasonably determines that there will be sufficient Current Water Utility System Revenues to make the transfers in (a) through (e) above for the remainder of such Fiscal Year, for any purpose of the Water Utility System; and (i) So long as the District reasonably determines that there will be sufficient Current Water Utility System Revenues to make the transfers in (a) through (e) above for the remainder of such Fiscal Year, for any lawful purpose of the District.

## BONDS AND CONTRACTS

Additional Bonds and Contracts. The District may at any time execute any Contract or issue any Bonds, as the case may be, in accordance with the Water Utility Parity System Master Resolution; provided:

(a) The Net Water Utility System 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 the District of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Water Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the District, will 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 Net Water Utility System 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 the District on file with the District, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Water Utility System Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for the Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of an Authorized Officer on file with the District, will 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.

For the avoidance of doubt, Net Water Utility System Revenues include transfers from the Rate Stabilization Fund and excludes transfers to the Rate Stabilization Fund as permitted by the Water Utility Parity System Master Resolution.

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

Nothing in the Water Utility Parity System Master Resolution prevents the District from incurring obligations secured by a pledge of Water Utility System Revenues, the Water Utility System Revenue Fund and all amounts on deposit in the Water Utility System Revenue Fund on a basis subordinate to the pledge continued in the Water Utility Parity System Master Resolution or payable from Net Water Utility System Revenues on a basis subordinate to Bonds and Contracts in accordance with the Water Utility Parity System Master Resolution.

Separate Utility Systems. The District may create, acquire, construct, finance, own and operate one or more additional systems for water supply, transmission or other commodity or service by a written determination of the Board of Directors of the District. The revenue of that separate utility system will not constitute Current Water Utility System Revenues and may be pledged to the payment of obligations issued to purchase, construct, condemn or otherwise acquire or expand such separate utility system. Neither the Water Utility System Revenues, the Net Water Utility System Revenues, the Water Utility System Revenue Fund or amounts on deposit in the Water Utility System Revenue Fund will be pledged by the District to the payment of any obligations of a separate utility system nor will such obligation be payable from Water Utility System Revenues except in either case on a basis subordinate to the Bonds and Contracts.

#### COVENANTS OF THE DISTRICT

Against Liens and Encumbrances. The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, to or for the District in, upon, about or relating to the Water Utility System and will keep the Water Utility System free of any and all liens against any portion of the Water Utility System. In the event any such lien attaches to or is filed against any portion of the Water Utility System, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien is reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Water Utility System or any part thereof essential to the proper operation of the Water Utility System or to the maintenance of the Net Water Utility System Revenues, and will not enter into any agreement or lease which would impair the operation of the Water Utility System or any part thereof necessary to secure adequate Net Water Utility System Revenues for the payment of Bonds or Contracts or which would otherwise impair the rights of the holders of Bonds or Contracts with respect to the Net Water Utility System Revenues or the operation of the Water Utility System; provided, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water Utility System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water Utility System Revenues below the requirements to be maintained under the Water Utility Parity System Master Resolution.

Maintenance and Operation of the Water Utility System; Budgets. The District will maintain and preserve the Water Utility System in good repair and working order at all times and will operate the Water

Utility System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable. Not later than the first Business Day of each Fiscal Year, the District will adopt and, if requested, make available to each Trustee, a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs, the estimated payments for Debt Service, the estimated reimbursement payments and the estimated debt service payments on all Bonds and Contracts for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget will be made available to each Trustee.

Compliance with Contracts. The District will comply with, keep, observe and perform all material provisions of agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the purchase of water for, and the provision of Water Service from the Water Utility System and all other material provisions of contracts affecting or involving the Water Utility System to the extent that the District is a party thereto; provided however nothing contained in the Water Utility Parity System Master Resolution will prevent the District from entering into supplements, modifications or amendments to such contracts (including any interim or renewed contract relating thereto).

No Superior Liens. The District will not create or allow any lien on the payment from the Water Utility System Revenues or Net Water Utility System Revenues or any part thereof prior or superior to the obligation to pay Bonds or Contracts as provided in the Water Utility Parity System Master Resolution or which might impair the security of any Bonds or Contracts. The District will not issue or incur any additional Senior Obligations under the Senior Master Resolution.

Insurance. The District will procure and maintain such insurance relating to the Water Utility System which it deems advisable or necessary (based on the annual written approval of the District's risk manager) to protect its interests, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water Utility System; provided, the District will not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided, further, that any such insurance may be maintained, fully or partially, under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with facilities, properties, structures and works similar to the Water Utility System.

Accounting Records and Financial Statements. (a) The District will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Water Utility System, which records will be available for inspection by each Trustee at reasonable hours and under reasonable conditions. (b) The District will prepare and file with each Trustee annually within two hundred and ten (210) days after the close of each Fiscal Year financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may now or later be lawfully imposed upon the Water Utility System or any part thereof when the same becomes due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water Utility System or any part thereof, but the District will not be required to comply with any regulations or requirements so long as the validity or application thereof are contested in good faith.

Collection of Rates, Fees and Charges. The District will charge and collect or cause to be collected the rates, fees and charges applicable to the Water Service and will not permit any part of the Water Utility System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof) if such use would prevent the District from complying with the requirements of the Water Utility Parity System Master Resolution.

Eminent Domain and Insurance Proceeds. If all or any part of the Water Utility System is taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the Water Utility System, the proceeds thereof will be used to substitute other components for the condemned or destroyed components of the Water Utility System or applied to the cancellation of Bonds and Contracts.

#### MISCELLANEOUS

Benefits of the Water Utility Parity System Master Resolution Limited to Parties. Nothing contained in the Water Utility Parity System Master Resolution, expressed or implied, is intended to give any person other than the District, the Trustee, or the owners of Bonds and Contracts any right, remedy or claim under or pursuant thereto, and any agreement or covenant required therein to be performed by or on behalf of the District will be for the sole and exclusive benefit of such other parties.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Water Utility Parity System Master Resolution to be performed by or on the part of the District is contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof will be null and void and will be deemed separable from the remaining agreements and covenants or portions thereof and will in no way affect the validity thereof. The District declares that it would have adopted the Water Utility Parity System Master Resolution, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Funds. Any fund required to be established and maintained in the Water Utility Parity System Master Resolution by the District may be established and maintained in the accounting records of the District either as an account or a fund, and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, will be treated either as an account or a fund; but all such records with respect to any such fund will at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the rights of the holders of Bonds and Contracts.

Investments. Any money held by the District in any of the funds provided in the Water Utility Parity System Master Resolution will be invested in lawful investments of District funds, provided that money held in any fund established under a Trust Agreement with respect to Bonds and Contracts will be invested as required in such Trust Agreement.

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**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS  
OF THE REFUNDING BOND INDENTURE**

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS  
OF THE INSTALLMENT PURCHASE AGREEMENT**

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS  
OF THE TRUST AGREEMENT**

## 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 2022 Bonds and the 2022C Certificates (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](http://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 2022 BONDS

*Upon issuance of the 2022 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 Water System Refunding Revenue Bonds,  
          Series 2022A and Taxable Series 2022B

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 Water System Refunding Revenue Bonds, Series 2022A (the “2022A Bonds”) and Taxable Series 2022B (the “2022B Bonds” and together with the 2022A Bonds, 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. 16-10 adopted on February 23, 2016 by the Board of Directors of the District, as amended by Resolution No. 16-82 adopted on December 13, 2016 (the “Resolution”) by the Board of Directors of the District, and an Indenture of Trust, dated as of September 1, 2020 (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 Net Water Utility System Revenues (as defined in the 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, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

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 on the 2022A Bonds (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) on the 2022A 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 2022A Bond over the issue price of a 2022A 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 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.

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 2022A Bonds and which may at the election of owners of the 2022B Bonds be amortized under Section 171 of the Code. With respect to the 2022A Bonds, such amortizable bond premium reduces the Owner’s basis in the applicable 2022A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. With respect to the 2022B Bonds, such amortizable bond premium reduces the Owner’s basis in the applicable 2022B Bond (and the amount of taxable interest received) and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of 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 on the 2022A 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 2022A Bonds to assure that such interest 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 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. 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 2022A 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 on the 2022A Bonds for federal income tax purposes with respect to any 2022A 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 2022A 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 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 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 2022C CERTIFICATES

*Upon execution and delivery of the 2022C Certificates, 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 Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2022C*

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 Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2022C (the “2022C Certificates”). The 2022C Certificates 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. 16-10 adopted on February 23, 2016 by the Board of Directors of the District, as amended by Resolution No. 16-82 adopted on December 13, 2016 (the “Resolution”) by the Board of Directors of the District. 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 2022C Certificates 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 2022C Certificates 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 2022C Certificates, 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 Net Water Utility System Revenues (as defined in the 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, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

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 2022C Certificates 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”), the portion of each Installment Payment with respect to the 2022C Certificates 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 on such corporations.

5. The portion of each Installment Payment with respect to the 2022C Certificates 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 2022C Certificates over the issue price of the 2022C Certificates (the first price at which a substantial amount of the 2022C Certificates 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 2022C Certificate Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2022C Certificate Owner will increase the 2022C Certificate Owner’s basis in the applicable 2022C Certificate.

7. The amount by which a 2022C Certificate Owner’s original basis for determining loss on sale or exchange in the applicable 2022C Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2022C Certificate premium, which must be amortized under Section 171 of the Code; such amortizable 2022C Certificate premium reduces the 2022C Certificate Owner’s basis in the applicable 2022C Certificate (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 2022C Certificate premium may result in a 2022C Certificate Owner realizing a taxable gain when a 2022C Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2022C Certificate 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 2022C Certificates 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 2022C Certificates to assure that such portion of each Installment Payment with respect to the 2022C Certificates 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 2022C Certificates 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 2022C Certificates. 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 2022C Certificates 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 2022C Certificates constituting interest (and original issue discount) for federal income tax purposes with respect to any 2022C Certificates 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 2022C Certificates.

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 2022C Certificates, 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 Resolution, the 2022C Certificates, 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 Resolution, the Agreement, the Trust Agreement and the 2022C Certificates 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 2022C Certificates or other offering material relating to the 2022C Certificates and expressly disclaim any duty to advise the owners of the 2022C Certificates with respect to matters contained in the Official Statement.

Respectfully submitted,

## **APPENDIX F**

### **FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2022 BONDS**

*Upon issuance of the 2022 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 2022C CERTIFICATES**

*Upon execution and delivery of the 2022C Certificates, Valley Water proposes to enter into a Continuing Disclosure Agreement in substantially the following form:*

[TO BE INSERTED BY BOND COUNSEL]