

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2017

NEW ISSUE-Book Entry Only

See "RATINGS" herein.

\$ _____*

**Santa Clara Valley Water District
Water System Refunding Revenue Bonds, Series 2017A**

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

The Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2017A Bonds are being issued to provide a portion of the money to (i) refund all of the currently outstanding Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2007A and (ii) pay costs of issuance of the 2017 Bonds, all as more fully described herein. Interest due on the 2017 Bonds is payable on each June 1 and December 1, commencing June 1, 2017.

The 2017 Bonds are being issued pursuant to Resolution No. 16-10 adopted by the Board of Directors of the District on February 23, 2016 (as amended to the date hereof, the "Parity Master Resolution") and an indenture of trust, dated as of March 1, 2017 (the "Indenture") by and between the District and U.S. Bank National Association, as trustee thereunder. **The 2017 Bonds are subject to optional and extraordinary redemption prior to maturity as described in this Official Statement.**

The 2017 Bonds are being issued in fully registered form and, when each of the 2017 Bonds 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 2017 Bonds. Purchasers of beneficial interests will not receive certificates representing their interest in the 2017 Bonds. So long as Cede & Co. is the registered owner of the 2017 Bonds, 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 2017 Bonds. Individual purchases of the 2017 Bonds will be made in book-entry form only in authorized denominations of \$5,000 or any integral multiple thereof. Principal and interest on the 2017 Bonds are payable directly to DTC by U.S. Bank 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 2017 Bonds.

The principal and interest on the 2017 Bonds 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. The pledge and lien created under the Parity Master Resolution is subordinate to the pledge and lien created under the Senior Master Resolution which, after the refunding contemplated herein, secures \$62,340,000 aggregate principal amount of bonds and installment payments relating to certain Senior Obligations and which are payable prior to the 2017 Bonds. The District has covenanted in the Parity Master Resolution that it will not issue or incur any additional Senior Obligations under the Senior Master Resolution, including but not limited to refunding obligations. The principal and interest on the 2017 Bonds is secured by Water Utility System Revenues and are payable from Net Water System Revenues on a parity with the obligation of the District to pay debt service and to make installment payments on Bonds and Contracts outstanding, as of June 30, 2016, in the aggregate principal amount of \$279,575,000. The revenues of the District's flood control system and parcel tax revenue of the Safe, Clean Water Program, as well as property taxes levied by the District to pay certain State Water Project costs, are not included in Water Utility System Revenues pledged to the payment of the 2017 Bonds.

The obligation of the District to pay the principal of and interest on the 2017 Bonds 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 limitation or restriction.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, 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 on the 2017 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 and corporations. In the further opinion of Bond Counsel, interest on the 2017 Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences with respect to the 2017 Bonds.

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.

The 2017 Bonds are offered when, as and if executed and delivered to the Purchaser, subject to the approval as to the legality of certain matters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by District Counsel, Stan Yamamoto, Esq. and for the Trustee by its counsel. It is expected that the 2017 Bonds will be available for delivery through the facilities of DTC on or about May __, 2017.

**BIDS TO BE RECEIVED ON _____, 2017.
SEE THE NOTICE OF SALE ATTACHED HERETO.**

Dated: _____, 2017

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

MATURITY SCHEDULE

\$ _____
Santa Clara Valley Water District
Water System Refunding Revenue Bonds, Series 2017A

<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>
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\$ _____ % Term Bonds due June 1, 20__ - Yield ____% - Price _____, CUSIP[†] _____

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SANTA CLARA VALLEY WATER DISTRICT

5750 Almaden Expressway
San Jose, California 95118

BOARD OF DIRECTORS AND OFFICERS OF THE DISTRICT

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

DISTRICT STAFF

Norma Camacho, Interim Chief Executive Officer
Susan Stanton, Chief Operating Officer – Administration
Jim Fiedler, Chief Operating Officer – Water Utility Enterprise*
Melanie Richardson, Interim Chief Operating Officer – Watersheds
Darin Taylor, Chief Financial Officer
Stan Yamamoto, Esq., District Counsel
Michele L. King, CMC, Clerk of the Board

BOND COUNSEL

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

TRUSTEE

U.S. Bank National Association
San Francisco, California

MUNICIPAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

VERIFICATION AGENT

Causey Demgen & Moore P.C.
Denver, Colorado

* Anticipated retirement date May 1, 2017.

No dealer, broker, salesperson or other person has been authorized by the Purchaser, the District, 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 2017 Bonds by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as a contract with the purchasers or any of the owners of the 2017 Bonds. 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 the District, 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 Purchaser.

In reliance upon exemptions contained in such acts, the 2017 Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Indenture Act of 1939, as amended. The registration or qualification of the 2017 Bonds in accordance with applicable provisions of securities laws of any state in which the 2017 Bonds 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 2017 Bonds or the accuracy or completeness of this Official Statement.

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 Purchaser. 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 the District since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2017 BONDS, THE PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2017 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District 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 2017 Bonds.

References to website addresses other than the District'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 websites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission.

For purposes of compliance with Rule 15c2-12, as amended, and in effect on the date hereof, this Preliminary Official Statement constitutes an official statement of the District that has been deemed final by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

TABLE OF CONTENTS

Page

INTRODUCTION	1
General.....	1
The 2017 Bonds	1
Senior Obligations	2
Parity Obligations	2
Rate Covenants	3
Additional Parity Debt Test	3
Rate Stabilization Fund.....	4
Special Purpose Funds	4
Flood System Obligations, Parcel Tax Revenue and State Water Project Property Taxes	4
Limited Obligations	4
Miscellaneous	5
Continuing Disclosure.....	5
Forward-Looking Statements.....	5
THE REFUNDING PLAN	6
Verification of Mathematical Computations.....	6
THE 2017 BONDS	7
Terms of the 2017 Bonds	7
Redemption of 2017 Bonds.....	8
Notice of Redemption	8
Book-Entry Only System.....	9
Transfers and Exchanges Upon Termination of Book-Entry Only System	9
SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS	10
Pledge of Water Utility System Revenues	10
Allocation of Water Utility System Revenues	11
Rate Covenant.....	12
No Reserve Fund for the 2017 Bonds	13
Rate Stabilization Fund.....	13
Special Purpose Funds	14
Additional Bonds and Contracts	14
DEBT SERVICE SCHEDULE.....	15
THE DISTRICT.....	17
Organization, Purpose and Powers	17
Board of Directors and Management	18
Insurance	21
Budgeting Process.....	22
PAWS Report.....	23
DEBT STRUCTURE OF THE DISTRICT	23
WATER UTILITY SYSTEM.....	25
Service Area.....	25
Primary Sources of Revenues	25
SANTA CLARA COUNTY WATER SUPPLY	32
Summary Table of the County of Santa Clara's Water Supply	33
Local Supplies.....	33

TABLE OF CONTENTS

	Page
Surface Water.....	33
Groundwater Recharge	34
Imported Supplies	34
State Water Project.....	34
Central Valley Project.....	35
DISTRICT FACILITIES	36
Local Reservoirs	36
Groundwater Subbasins	37
Santa Clara Subbasin – Santa Clara Plain.....	37
Santa Clara Subbasin – Coyote Valley	38
Llagas Subbasin	38
Raw Water Conveyance System	39
PIPELINES.....	40
Water Treatment and Water Purification	40
Treated Water Storage and Distribution System.....	41
Seismic Considerations.....	42
Water Distribution System.....	43
Water Usage.....	44
FACTORS AFFECTING WATER SUPPLIES	47
General.....	47
Endangered Species Act Issues.....	47
California Water Policy Framework	50
Allocation of Water Deficiencies.....	52
Water Banking	53
District’s Local Water Right Permit and Licenses.....	53
California Drought and Response	54
QUALITY OF DISTRICT’S WATER.....	55
Groundwater	55
Surface Water.....	56
Treated Water.....	56
CAPITAL IMPROVEMENT PROGRAM.....	57
Future Water Utility System Improvements	57
FINANCIAL INFORMATION OF THE DISTRICT	57
Financial Statements	57
Historical and Projected Operating Results and Debt Service Coverage.....	58
Fiscal Year 2015-16 Financial Highlights for the Water Enterprise Fund.....	58
Projected Operating Results and Debt Service Coverage	61
DISTRICT EMPLOYEE RELATIONS	63
Bargaining Units	63
Employees’ Retirement Plan.....	64
Discount Rate.....	66
LITIGATION	70
General.....	70
Great Oaks Matter.....	70

TABLE OF CONTENTS

	Page
CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.....	72
Article XIII B.....	72
Proposition 218	72
Proposition 26.....	74
Future Initiatives	74
CERTAIN LIMITATIONS ON RIGHTS AND OBLIGATIONS.....	74
TAX MATTERS.....	75
RATINGS	76
CONTINUING DISCLOSURE UNDERTAKING.....	76
PURCHASE AND REOFFERING	77
MUNICIPAL ADVISOR	78
CERTAIN LEGAL MATTERS	78
MISCELLANEOUS	78
APPENDIX A AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016.....	A-1
APPENDIX B SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS	B-1
APPENDIX C SUMMARY OF SENIOR MASTER RESOLUTION	C-1
APPENDIX D BOOK-ENTRY SYSTEM.....	D-1
APPENDIX E FORM OF BOND COUNSEL OPINION	E-1
APPENDIX F FORM OF CONTINUING DISCLOSURE AGREEMENT	F-1

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**Santa Clara Valley Water District
Water System Refunding Revenue Bonds, Series 2017A**

INTRODUCTION

General

This Official Statement, including the cover page, inside cover page and Appendices, is provided to furnish certain information in connection with the offering of (i) \$ _____ * aggregate principal amount of the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2017A (the “2017 Bonds”). The Santa Clara Valley Water District (the “District”) 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 2017 Bonds and not otherwise defined shall have the meanings set forth in “APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS.” Capitalized terms used herein with respect to the Senior Obligations (defined below) and not otherwise defined shall have the meanings set forth in “APPENDIX C—SUMMARY OF SENIOR MASTER RESOLUTION.”

The 2017 Bonds

General. The 2017 Bonds will be issued pursuant to Resolution No. 16-10, adopted by the Board of Directors of the District on February 23, 2016 (amended to the date hereof, the “Parity Master Resolution”) and an Indenture of Trust, dated as of March 1, 2017 (the “Indenture”) by and between the District and U.S. Bank National Association, as trustee thereunder (the “Trustee”).

Purpose. The 2017 Bonds are being issued to provide a portion of the money to (i) refund the currently outstanding Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2007A (the “2007A Certificates”) and (ii) pay costs of issuance of the 2017 Bonds, all as more fully described herein. See “THE REFUNDING PLAN.”

Security for the 2017 Bonds. The 2017 Bonds are secured by a pledge of the Water Utility System Revenues of the District’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 — Pledge of Water Utility System Revenues”) and amounts on deposit in certain funds and accounts established under Parity Master Resolution and the Indenture. The obligation of the District to pay principal of and interest on the 2017 Bonds is a special obligation of the District payable solely from Net Water Utility System Revenues of the Water Utility System. Net Water Utility System Revenues of the Water Utility System of the District include the Water Utility System Revenues remaining after payment of Operation and Maintenance Costs and less the principal and interest with respect to Senior Obligations (as defined in the Parity Master Resolution) and transfers to and from the Rate Stabilization Fund and Special Purpose Funds. The District’s obligation to pay debt service on the 2017 Bonds from Net Water Utility System Revenues is subordinate to the District’s obligation to pay debt service on the Senior Obligations, and on a parity with the obligation to pay debt service on the Parity Obligations (as defined below). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS — Pledge of Water Utility System Revenues” and “— Allocation of Water Utility System Revenues — Senior Master Resolution.”

* Preliminary, subject to change.

No Reserve Fund for the 2017 Bonds. No reserve fund has been created or will be funded with respect to the 2017 Bonds.

Redemption. The 2017 Bonds will be subject to optional and extraordinary redemption prior to maturity, as more fully described under the caption “THE 2017 BONDS.”

Senior Obligations

After the refunding contemplated herein, the District’s obligation to pay debt service on the 2017 Bonds from Net Water Utility System Revenues is subordinate to the District’s obligation to pay debt service on \$20,370,000 aggregate principal amount of the District’s Water Utility System Refunding Revenue Bonds Taxable Series 2006B (the “2006B Bonds”) and to make, after the refunding described herein, \$41,970,000 aggregate principal amount of installment payments under an installment purchase agreement dated as of September 1, 2007 (the “2007 Installment Purchase Agreement”), which installment payments secure \$41,970,000 aggregate principal amount of the District’s Revenue Certificates of Participation (Water Utility System Improvement Projects) Taxable Series 2007B (the “2007B Certificates” and together with the 2006B Bonds, the “Senior Obligations”). The Senior Obligations were delivered pursuant to Resolution No. 94-58 adopted by the Board of Directors of the District (the “Board”) 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 (the “Senior Master Resolution”). The District has covenanted in the Parity Master Resolution that it will not issue or incur any additional Senior Obligations under the Senior Master Resolution, including but not limited to refunding obligations.

Parity Obligations

The 2017 Bonds are 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 (i) the obligation of the District to pay principal of and interest on the District’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 the District to make installment payments under an installment purchase agreement dated as of February 1, 2016 (the “2016 Installment Purchase Agreement”) by and between the District and the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”), which installment payments secure \$98,045,000 aggregate principal amount of the District’s Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2016C and Taxable Series 2016D (collectively, the “2016 Certificates”) and (iii) the obligation of the District 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 “DEBT STRUCTURE OF THE DISTRICT” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS — Additional Bonds and Contracts.”

Rate Covenants

Senior Obligations. The District has covenanted in the Senior Master Resolution to fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and nondiscriminatory and which will 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 and Net Water Utility System Revenues which are at least 1.10 times the sum of all Debt Service on all Bonds and Contracts plus all debt service on all obligations subordinate to Bonds and Contracts; but, in any event such Net Water Utility System Revenues shall be sufficient in each Fiscal Year to make all of the allocations, transfers and payments to pay Debt Service on Bonds and Contracts and to replenish any reserve fund established with respect to such Bonds and Contracts. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS — Rate Covenant” herein. **Defined terms used in the foregoing rate covenant under the Senior Master Resolution shall have the meanings set forth Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION” and differ in certain respects from similar defined terms in the Parity Master Resolution.**

The rate covenant described above applies only to coverage of Debt Service of Senior Obligations and shall not be effective with respect to the 2017 Bonds on and after the date no Senior Obligations are outstanding.

Parity Obligations. The District 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 2017 Bonds.

The District 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 2017 BONDS — Rate Covenant” herein.

So long as the District 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 2017 Bonds upon satisfaction of certain conditions. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS — Additional Bonds and Contracts” and in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — WATER UTILITY MASTER RESOLUTION — Additional Bonds and Contracts.”

Rate Stabilization Fund

The District has established a Rate Stabilization Fund under the Parity Master Resolution to be held by the District. The District 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 but not the Senior Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS — Rate Stabilization Fund.” As of December 31, 2016, approximately \$19,973,809 was on deposit in the Rate Stabilization Fund.

Special Purpose Funds

The Parity Master Resolution authorizes the District to establish Special Purpose Funds. Upon certain determinations by the Board, the District 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 but not the Senior Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS — Special Purpose Funds.” The District has previously designated the Drought Reserve, the San Felipe Emergency Reserve, the Santa Clara Valley Advanced Water Purification Center Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of December 31, 2016, there was approximately \$22,055,014 on deposit in such Special Purpose Funds.

Flood System Obligations, Parcel Tax Revenue and State Water Project Property Taxes

The District has executed and delivered two installment purchase agreements outstanding as of March 1, 2017, in the approximate aggregate principal amount of [\$91,040,000] secured by revenues of the District’s Flood Control System (the “Flood Control System Obligations”). 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 2017 Bonds.

The District also receives parcel tax revenues in connection with its Safe, Clean Water program which are not pledged to the payment of the 2017 Bonds.

The District levies property taxes to pay certain costs under the District’s State Water Project contract. Such State Water Project contract costs are not Maintenance and Operation Costs of the Water Utility System and such State Water Project property taxes are not pledged to the payment of the 2017 Bonds.

Limited Obligations

The obligation of the District to pay principal of and interest on the 2017 Bonds described herein is secured by a pledge of and lien on, the District’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 and the Senior Obligations). The obligation of the District to pay the principal of and interest on the 2017 Bonds 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 limitation or restriction.

Miscellaneous

Brief descriptions of the Senior Master Resolution, the Parity Master Resolution, the 2017 Bonds, the security and sources of payment for the 2017 Bonds and the District 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 and the Senior Master Resolution may be found in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS” and in Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION,” respectively. 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 the District located at 5750 Almaden Expressway, San Jose, California.

Continuing Disclosure

The District has covenanted in a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the 2017 Bonds to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2018, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Reports and the notices of material events will be filed by the District with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. 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.” These covenants have been made in order to assist the Purchaser in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. For a discussion of the District’s compliance with prior continuing disclosure undertakings, see the caption “CONTINUING DISCLOSURE UNDERTAKING.”

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 THE DISTRICT” 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. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

THE REFUNDING PLAN

A portion of the proceeds of the 2017 Bonds together with certain other moneys, will be applied to (i) currently refund, \$66,610,000 aggregate principal amount of the 2007A Certificates. The 2007A Certificates were initially executed and delivered pursuant to a Trust Agreement by and among the District, the Corporation and U.S. Bank National Association, as trustee. Pursuant to the Indenture, the District will deliver a portion of the proceeds of the 2017 Bonds to U.S. Bank National Association, as escrow agent (the “Escrow Agent”) under the Escrow Agreement (2007A) dated as of March 1, 2017 (the “2007A Escrow Agreement”), by and between the District and the Escrow Agent for deposit in an escrow fund (the “2007A Escrow Fund”) established thereunder. Such amounts, together with certain amounts transferred to the Escrow Agent from the District and deposited in the 2007A Escrow Fund, will be held in cash or invested in direct general obligations of the United States of America (the “Defeasance Obligations”). The cash and Defeasance Obligations held in the 2007A Escrow Fund will be scheduled to mature in such amounts and at such times and bear interest at such rates to provide amounts sufficient to pay on June 1, 2017 the regularly scheduled payment of interest and principal with respect to the 2007A Certificates and the prepayment price of the 2007A Certificates (equal to 100% of the principal amount thereof) maturing on and after June 1, 2018.

The amounts held in the 2007A Escrow Fund are pledged solely to the payment of the 2007A Certificates. The funds deposited in the 2007A Escrow Fund will not be available for the payment of principal or interest with respect to the 2017 Bonds. Sufficiency of the deposits in the 2007A Escrow Fund for those purposes will be verified by Causey Demgen & Moore P.C. (the “Verification Agent”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2007A Escrow Agreement, the 2007A Certificates will be defeased pursuant to the provisions of the 2007A Trust Agreement and the obligation of the District under the 2007 Installment Purchase Agreement will be discharged as of the date of issuance of the 2017 Bonds. See the caption “—Verification of Mathematical Computations” below.

Verification of Mathematical Computations

Upon delivery of the 2017 Bonds, the Verification Agent, a firm of independent public accountants, will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Purchaser relating to the adequacy of the maturing principal of and interest earned on the Defeasance Obligations, together with the cash to be concurrently deposited in the 2007A Escrow Fund, to pay on June 1, 2017, the regularly scheduled payment of interest and principal with respect to the 2007A Certificates and the prepayment price of the 2007A Certificates maturing on and after June 1, 2018 (equal to 100% of the principal amount thereof).

The estimated sources and uses of funds with respect to the 2017 Bonds are set forth below.

Table 1
SANTA CLARA VALLEY WATER DISTRICT
Estimated Sources and Uses of Funds

Sources

Principal Amount of 2017 Bonds
Plus Original Issue Premium
Transfer from the District⁽¹⁾
TOTAL

Uses

Deposit to 2007A Escrow Fund
Costs of Issuance⁽²⁾
TOTAL

⁽¹⁾ Reflects amount to pay the regularly scheduled principal of and interest with respect to the 2007A Certificates on June 1, 2017.

⁽²⁾ 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 2017 BONDS

Terms of the 2017 Bonds

The 2017 Bonds will be issued in the aggregate principal amount of \$_____.^{*} The 2017 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, 2017 (each, an "Interest Payment Date"), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2017 Bonds will be computed on the basis of a 360 day year of twelve 30 day months.

The 2017 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 2017 Bonds. Ownership interests in the 2017 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 D 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 2017 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 2017 Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the "Registration Books") as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the "Record Date"), such interest to be paid by check or draft of the Trustee, sent by first class mail to the Owner at such Owner's address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of 2017 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 2017 Bonds will be payable in lawful money of the United States of America.

^{*} Preliminary, subject to change.

Interest on any 2017 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, 2017, in which case interest thereon will be payable from the Issuance Date.

Redemption of 2017 Bonds

Optional Redemption. The 2017 Bonds with stated maturities on or after June 1, 20__ 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 by the District in a Written Request provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after ____ 1, 20__ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Redemption from Insurance or Eminent Domain Proceeds. The 2017 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 and within maturities as directed by the District in a Written Request 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 date fixed for redemption, without premium. See Appendix B under the caption “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — Covenants of the District—Eminent Domain and Insurance Proceeds” for a description of the circumstances under which the 2017 Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

Selection of 2017 Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2017 Bonds, the Trustee will select the 2017 Bonds for redemption as a whole or in part on any date as directed by the District and by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture.

Notice of Redemption

When redemption is authorized or required, such notice will be given at least twenty (20) days but not more than sixty (60) days before any redemption date, to the respective Owners of any 2017 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 2017 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 registered mail, other electronically secure means, or any other method agreed upon and notice of redemption to the Information Services shall be given by mail, other electronically secure means, or any other method agreed upon. 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 2017 Bonds of any such maturity are to be redeemed, the serial numbers of the 2017 Bonds of such maturity to be redeemed by giving the individual number of each 2017 Bond or by stating that all 2017 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2017 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 2017 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 2017 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 2017 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 2017 Bond. Notice of redemption of 2017 Bonds shall be given by the Trustee at the expense of the District.

With respect to any notice of optional redemption of 2017 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 2017 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 2017 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 2017 Bond of each maturity and series will be issued in the principal amount of the 2017 Bonds of such maturity and series. Such 2017 Bond will be registered in the name of Cede & Co. and will be deposited with DTC.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2017 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The District cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2017 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 D hereto 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 2017 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2017 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 2017 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 2017 Bond for transfer, the Trustee is to issue a new 2017 Bond or 2017 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 2017 Bond issued upon any transfer. The Trustee may require the payment by any 2017 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 2017 Bonds, the Trustee will cancel and destroy the 2017 Bonds it has received.

2017 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2017 Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new 2017 Bond issued upon any exchange except in the case of any exchange of temporary 2017 Bonds for definitive 2017 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 2017 Bonds, the Trustee will cancel and destroy the 2017 Bonds it has received.

The Trustee is not required to register the exchange or transfer of any 2017 Bond during the period in which the Trustee is selecting 2017 Bonds for redemption for any 2017 Bond which the Trustee has selected for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS

Pledge of Water Utility System Revenues

Pursuant to the Parity Master Resolution, the District has continued and agreed to maintain, so long as any Bonds or Contracts remain outstanding, the Water Utility System Revenue Fund. The District has covenanted that all Water Utility System Revenues received by the District will be deposited in the Water Utility System Revenue Fund. So long as any Senior Obligations are outstanding, amounts in the Water Utility System Revenue Fund will be disbursed, allocated and applied solely to the uses and purposes described in the Senior Master Resolution and in the Parity Master Resolution. On and after the date no Senior Obligations are outstanding, 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 Senior Master Resolution and 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 the District.

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 subordinate solely to the lien created under the Senior Master Resolution. See “— Allocation of Water Utility System Revenues” below.

The 2017 Bonds are Bonds under the Parity Master Resolution and are secured by the pledge and the liens created therein. Pursuant to the Indenture, in order to carry out the pledge contained in the Parity Master Resolution, the District 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 2017 Bonds when due, all in accordance with the terms of the Parity Master Resolution and the Indenture. No reserve fund has been created with respect to the 2017 Bonds.

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 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 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 and less the principal and interest with respect to Senior Obligations payable during such Fiscal Year or period. The obligation of the District to pay the principal of and interest on the 2017 Bonds from Net Water Utility System Revenues is absolute and unconditional.

THE OBLIGATION OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2017 BONDS IS A LIMITED OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET WATER UTILITY SYSTEM REVENUES OF THE DISTRICT'S WATER UTILITY SYSTEM AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED FOR THE PAYMENT OF THE 2017 BONDS. THE OBLIGATION OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2017 BONDS DOES NOT CONSTITUTE INDEBTEDNESS OF THE DISTRICT IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION.

Allocation of Water Utility System Revenues

The Senior Master Resolution and the Parity Master Resolution provide for the allocation of Water Utility System Revenues as described below. As set forth under the Senior Master Resolution and the Parity Master Resolution, all Current Water Utility System Revenues (as such terms are used in the Senior Master Resolution and the Parity Master Resolution) are deposited initially in the Water Utility System Revenue Fund.

Senior Master Resolution. So long as the Senior Obligations are outstanding, the District shall 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 shall require to provide for the payment of Maintenance and Operation Costs;
- (b) To each Trustee to pay Debt Service at the times and in the amounts required by the Senior Obligations;
- (c) To each Trustee for deposit in the reserve funds 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 such Senior Obligations reserve funds as and to the extent required by the applicable Senior Obligation;
- (d) 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 (including payment of the principal of and interest on the 2017 Bonds); and

(e) 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.

Defined terms used in the foregoing description of the allocation of Water Utility System Revenues under the Senior Master Resolution shall have the meanings set forth Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION” and differ in certain respects from similar defined terms in the Parity Master Resolution.

Parity Master Resolution. On and after the date no Senior Obligations are outstanding, 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 the District 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 the District 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 the District 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 the District.

Rate Covenant

Senior Obligations. The District has covenanted in the Senior Master Resolution to fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and nondiscriminatory and which will 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 shall be at least 1.25 times the sum of all Debt Service and Net Water Utility System Revenues shall be at least 1.10 times the sum of all Debt Service on all Bonds and Contracts plus all debt service on all obligations subordinate to Bonds and Contracts; but, in any event such Net Water Utility System Revenues shall be sufficient in each Fiscal Year to make all of the allocations, transfers and payments to pay Debt Service on Bonds and Contracts and to replenish any reserve fund established with respect to such Bonds and Contracts. **Defined terms used in the foregoing rate covenant under the Senior Master Resolution shall have the meanings set forth Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION” and differ in certain respects from similar defined terms in the Parity Master Resolution.**

The rate covenant described above applies only to coverage of Debt Service of Senior Obligations and shall not be effective on and after the date no Senior Obligations remain outstanding.

Parity Obligations. The District 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.

The District 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 the District has complied with its 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 2017 Bonds

No reserve fund has been created with respect to the 2017 Bonds.

Rate Stabilization Fund

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

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 2017 Bonds; 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.

The District 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 the District 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, 2016.”

Transfers from the Rate Stabilization Fund to the Water Utility System Revenue Fund are not included in Water Utility System Revenues under the Senior Master Resolution and are not taken into account for the calculations under the rate covenant in the Senior Master Resolution.

As of December 31, 2016, there was approximately \$19,973,809 on deposit in the Rate Stabilization Fund.

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 the District.

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 2017 Bonds, 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 therein. 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.

The District 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 the District 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.

Transfers from any Special Purpose Fund to the Water Utility System Revenue Fund are not included in Water Utility System Revenues under the Senior Master Resolution and are not taken into account for the calculations under the rate covenant in the Senior Master Resolution.

The District has designated the Drought Reserve, the San Felipe Emergency Reserve, the Santa Clara Valley Advanced Water Purification Center Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of December 31, 2016, there was approximately \$22,055,014 on deposit in such Special Purpose Funds.

Additional Bonds and Contracts

No Additional Senior Obligations. The District has covenanted in the Parity Master Resolution that it will not issue or incur any additional Senior Obligations under the Senior Master Resolution, including but not limited to refunding obligations.

Additional Parity Obligations. The District 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 2017 Bonds), 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, 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 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, 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, 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.

Subordinate Obligations. The District 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 on a basis subordinate to the pledge of the Senior Master Resolution or payable therefrom on a basis subordinate to the pledge of the Parity Master Resolution securing the 2017 Bonds. The District currently has tax and revenue notes ("TRANS") outstanding in the amount of \$225,000,000 securing the Commercial Paper Certificates, Series A (Tax-Exempt) and Series B (Taxable) and the Revolving Certificates Series C (Tax-Exempt) and Series D (Taxable) (together, the "Commercial Paper Certificates"), which are payable from Net Water Utility System Revenues subordinate to the 2017 Bonds. As of [_____, 2017], the District [has \$_____] in Commercial Paper Certificates outstanding.

DEBT SERVICE SCHEDULE

Set forth below is a schedule of debt service with respect to the 2017 Bonds and the schedule debt service of the Senior Obligations due in each annual period ending June 1 of the following years.

Outstanding Debt Service Schedule⁽¹⁾
(As of April __, 2017)

<i>Fiscal Year Ending June 30</i>	<i>Senior Obligations⁽²⁾</i>	<i>2017 Bonds</i>			<i>Other Parity Obligations⁽³⁾</i>	<i>Total Parity Obligations</i>	<i>Total</i>
		<i>Principal</i>	<i>Interest</i>	<i>Total</i>			
2017	\$7,377,267.00				\$12,227,005.86		
2018	4,924,189.00				16,877,005.86		
2019	5,442,049.00				19,029,993.76		
2020	5,564,106.00				19,227,362.00		
2021	5,546,101.00				19,234,027.90		
2022	5,530,418.00				19,232,233.66		
2023	5,545,344.00				19,241,626.46		
2024	5,497,880.50				19,233,789.66		
2025	5,516,760.50				19,236,179.06		
2026	5,456,718.50				19,233,822.76		
2027	5,482,489.50				19,222,167.36		
2028	5,463,339.00				19,230,376.40		
2029	5,431,002.00				19,224,211.16		
2030	5,409,211.00				19,235,621.10		
2031	5,390,702.00				19,235,621.10		
2032	5,006,210.00				15,828,871.10		
2033	4,971,387.00				15,824,371.10		
2034	4,908,378.00				15,829,121.10		
2035	4,861,915.00				14,686,798.20		
2036	2,596,000.00				14,689,314.00		
2037	-				14,694,106.40		
2038	-				14,695,302.30		
2039	-				14,692,236.30		
2040	-				14,697,371.60		
2041	-				14,695,121.90		
2042	-				14,689,898.70		
2043	-				14,695,734.30		
2044	-				14,696,007.90		
2045	-				14,689,784.10		
2046	-				14,691,902.70		
Total	\$105,921,467.00				\$502,716,985.80		

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

⁽²⁾ Includes scheduled debt service on the 2006B Bonds and the outstanding installment payments under the 2007 Installment Purchase Agreement. Excludes interest paid pursuant to the 2007 Installment Purchase Agreement on December 1, 2016 with respect to the 2007A Certificates, which is expected to be refunded from the proceeds of the 2017 Bonds.

⁽³⁾ Includes scheduled debt service on the 2016 Bonds and the outstanding installment payments under the 2016 Installment Purchase Agreement.

THE DISTRICT

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”). The District 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 Serena, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga and Sunnyvale). The District encompasses all of 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.”

The District has broad powers relating to the management of flood and storm waters within the County. The District 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 the District.

The District has been providing flood protection measures since 1951. These measures include maintenance and construction of flood protection facilities. The District’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 the District 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).

The District seeks to provide water supply of adequate quantity and quality to meet the desired quality of life in the community. To fulfill this mission, the District 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, ten reservoirs, three pumping stations, a hydroelectric plant, 18 recharge facilities in six major recharge systems, and related distribution facilities.

The District 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. The District receives revenue from groundwater charges for water pumped from areas receiving benefit from District groundwater management activities, from the sale of treated water and from the sale of nonpotable surface water and recycled water. See the caption “LITIGATION—Great Oaks Matter” for a discussion of certain litigation relating to the District’s imposition of charges on groundwater producers.

The District’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 the District’s water treatment and distribution facilities have been paid. In the event the District terminates a contract due to a water retailer’s failure to cure a material breach (such as failure to remit payment), the District may pursue remedies to which it is entitled under applicable law, which may include recovery of amounts the District 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. The District has not experienced any material delinquencies in the payment of amounts due from its water retailers.

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

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

The Law authorizes the District 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 District 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. The District may also issue bonds, borrow money and incur indebtedness. The District 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 California law, the District receives its share of the County-wide 1% tax levied. A portion of the taxes received is used to pay maintenance and operations cost of the Water Utility System. While the remaining portion of the taxes received is available to the Flood Control System Obligations secured by revenues of the flood protection system facilities of the District, such proceeds are available to pay maintenance and operation costs of the Water Utility System after the annual payments on debt service on Flood Control System Obligations have been met.

Board of Directors and Management

Board of Directors. The District Board of Directors (the “Board”) 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. The current Directors are:

John Varela (District 1): Mr. Varela was elected to the Board in November 2016. Mr. Varela is the current Chair 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 2016 to represent District 2. 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 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 2016 to represent District 3. Mr. Santos is the current Vice Chair of the Board. 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) portions of Sunnyvale and Santa Clara.

Linda J. LeZotte (District 4): Ms. LeZotte first became a member of the Board in 2010 and served as Chair of the Board in 2012. 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 an 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, and North Almaden and Blossom Hill areas of San Jose.

Nai Hsueh (District 5): Ms. Hsueh was reelected to the Board in November 2016 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 the District. During her tenure at the District, she first progressed through the engineering career path from Assistant Engineer to Senior Engineer to one of the District's Chief Operating Officers. In such capacity, Ms. Hsueh was responsible for managing and implementing the District'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 District Board in 1996. He is the Directing Attorney for the Santa Clara County Legal Aid Society. 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 North-Eastern 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 elected to the District Board in 2014. Mr. Kremen has over 30 years of experience in starting and mentoring companies, including Clean Power Finance and WaterSmart Software. Mr. Kremen teaches graduate level courses from time to time at Northwestern University on energy policy, is a member of the Foundation Board of University of California, Merced, and is

an advisor, grant proposal evaluator, and judge at Stanford University's TomKat Center for Sustainable Energy. Mr. Kremen has served as President of the Board of Directors of Purissima Hill Water District and as the Secretary of the Water Conservation Committee for Los Altos Hills. Mr. Kremen is a member of the Proposition 39, California Clean Energy Jobs Act Citizen's Oversight Board, appointed by the then-California State Controller, John Chiang. District 7 includes Palo Alto, Los Altos, Los Altos Hills, Mountain View, Monte Sereno, Los Gatos, and the southernmost portion of the San Jose.

Management. The District is headed by a Chief Executive Officer, District Counsel, Chief Operating Officer – Water Utility Enterprise, Chief Operating Officer – Watersheds, Chief Operating Officer – Administration, Chief Financial Officer and Clerk of the Board.

On March 8, 2016, the District Board appointed Ms. Norma Camacho, Chief Operating Officer – Watersheds as Interim Chief Executive Officer. Ms. Camacho is expected to serve as Interim Chief Executive Officer until the Board selects a permanent Chief Executive Officer. As a result of such appointment, on March 15, 2016, the District announced that the position of Interim Chief Operating Officer, Watersheds, will be filled by Melanie Richardson, a Deputy Operating Officer, until further decision is taken by the Board with respect to such position. On December 13, 2016, the Board approved a consultant agreement with Korn Ferry to provide executive recruitment services for a national recruitment, evaluation and selection of a permanent Chief Executive Officer.

Norma Camacho, Interim Chief Executive Officer. Ms. Camacho joined the District in March 2012 and was the Chief Operating Officer for the District's Watersheds Operation before being appointed as the Interim Chief Executive Officer. She has more than 25 years of long-range planning, program development, finance, and capital projects experience. Most recently she was the director of the Ventura County Watershed Protection District, directing day-to-day operations of a 142-person organization with a budget of \$59,000,000. Prior to that position she served in the Ventura County Executive Office as deputy executive director of finance and budgets. Ms. Camacho holds a bachelor's degree in civil engineering (structural) from Stanford University. She is a member of the American Society of Civil Engineers and the American Public Works Association, and was recently vice-chair of the County Engineers Association of California Flood Control Committee.

Susan Stanton, Chief Operating Officer - Administration. Ms. Stanton joined the District in January 2017 as the Chief Operating Officer – Administration. Ms. Stanton has over 30 years of experience managing small and large cities, employing between 350 to 1,000 employees throughout the nation. She has managed various departments, including police, fire, public works, human resources, information technology, and finance. Ms. Stanton also has experience managing potable and reclaimed water systems, an advanced wastewater reclamation system, and an electric generation and distribution utility, during her various tenures as a city manager. Ms. Stanton has a Bachelor's degree in Political Science and a Master's in Public Administration, both from the University of Florida. She has also received her Senior Executive in State and Local Government Training from Harvard University's John F. Kennedy School of Government.

James M. Fiedler, Chief Operating Officer – Water Utility Enterprise. Mr. Fiedler is the Chief Operating Officer responsible for management of the District's Water Utility Enterprise. Responsibilities include leading the District's water policy development and program implementation of its water importation, surface reservoir operations, groundwater management, raw and treated water delivery, wholesale treated water, water recycling and water conservation programs. Mr. Fiedler has 35 years of engineering and management experience in the area of water supply and flood control, primarily with the District. His management and technical experience includes regional water resources, flood and environmental planning, design, construction, operations and maintenance of water supply and flood protection infrastructure. He is a registered engineer in California and received his bachelor's degree in civil engineering from Loyola Marymount University, Los Angeles, California and his master's degree in civil engineering from Stanford University. Mr. Fiedler has announced his intention to retire in May 2017.

Melanie Richardson, Interim Chief Operating Officer – Watershed. Ms. Richardson is the Interim Chief Operating Officer for Watersheds at the District. She has been with the District for 25 years in the following roles: Associate Civil Engineer, Assistant Operating Officer of Water Supply, Deputy Administrative Officer of Corporate Business Services, and most recently, the Deputy Operating Officer of Watersheds Design & Construction. She was appointed as Interim Chief Operating Officer for Watersheds effective August 15, 2016. Ms. Richardson is a registered Civil Engineer in California and has served as one of the two Designated Engineers for the District.

Darin Taylor, Chief Financial Officer. Mr. Taylor was hired as the District's Chief Financial Officer effective December 19, 2016, after 14 years as a senior project manager with the District. Mr. Taylor has more than 14 years of governmental financial planning and management experience with the District. 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.

Stan Yamamoto, District Counsel. Mr. Yamamoto joined the District as District Counsel in February 2010. Mr. Yamamoto is a graduate of San Jose State University and earned his law degree at the University of Santa Clara School of Law. Mr. Yamamoto has more than 34 years of experience in the area of public law and has served as City Attorney for the cities of Redwood City, Riverside and Modesto, California.

Michele L. King, CMC, Clerk of the Board. Ms. King began service with the District in 2004 and has more than 12 years of experience in providing support to elected officials of special districts. As Clerk, Ms. King's responsibilities include ensuring that the District 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.

Employee Relations. The District has three funded positions assigned to the Labor Relations Unit. Employees and management engage in a cooperative relationship, meeting regularly to address problems of concern. Memoranda of Understanding (MOU's), or labor agreements, are entered into between the District and each of these bargaining units. The MOU's cover, among other things, the pension benefits that the District provides for eligible employees. See the caption "DISTRICT EMPLOYEE RELATIONS" below for a description of the District's pension plans.

Insurance

General Liability Insurance. Since January 1, 1987, the District 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, the District is responsible for the first \$2,000,000 per occurrence for all General Liability claims. The District also purchases general liability insurance with limits of not less than \$50,000,000 per occurrence and aggregate in excess of its \$2,000,000 self-insured retention.

The District 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.

Property Appraisal and Insurance. A property appraisal and valuation of the District's buildings and contents was prepared in April 2006 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.

The District maintains blanket property insurance coverage for its buildings and equipment, covering all traditional perils, but excluding earth movement and risks that are usually covered by bonds. The current blanket limit for this coverage is \$400,000,000. There are sublimits for particular perils consistent with normal property policies and appropriate to District loss exposures. The District's dams are not insured.

The District does not currently carry flood or earthquake insurance.

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

The District 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, the District also purchases crime coverage up to \$1,000,000 per loss, including 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. Since June 1, 2015, the District has maintained cyber liability insurance coverage in the amount of \$5,000,000 with a self-insured retention of \$50,000 per claim. The liability associated with cybercrime, unauthorized access and failure to protect sensitive information are mitigated by cyber security insurance.

Settled claims have not exceeded commercial insurance coverage in any of the past three Fiscal Years.

Budgeting Process

The District'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 the District 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. The District 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, the District 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.

[The current budget for Fiscal Year 2016-17 was approved by the Board on May 10, 2016. As of January 2017, the District Board had approved approximately \$11.6 million in aggregate budgetary amendments across District funds, including an approximately \$4.8 million increase to the operating expense for the Water Enterprise Fund budget.]

PAWS Report

On February 24, 2017, the District released its Annual Report on the Protection and Augmentation of Water Supplies (the “2017 PAWS Report”), which provides an analysis of the District’s present and future water requirements and supply reliability, programs to promote reliability and an overview of the District’s future capital improvements, maintenance and operating requirements. The 2017 PAWS Report forms the basis on which the District proposed its maximum groundwater production and water charges for Fiscal Year 2017-18. See caption “Water Charge Setting Process” for more information with respect to the District’s rate-setting process. Copies of the 2017 PAWS Report may be obtained from the District’s website, however, the contents of the 2017 PAWS Report are not incorporated by reference herein.

DEBT STRUCTURE OF THE DISTRICT

Long-Term Indebtedness. The District’s long-term debt outstanding as of June 30, 2016, consisted of the following:

SCHEDULE OF LONG-TERM INDEBTEDNESS
(Dollars In Thousands)
(as of June 30, 2016)

<i>Type of Indebtedness</i>	<i>Final Maturity</i>	<i>Balance Outstanding</i>
Water Utility System Senior Obligations:		
Water Utility System Refunding Revenue Bonds, Taxable Series 2006B	2035	\$ 20,370
Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2007A and Taxable Series 2007B ⁽¹⁾	2037	<u>108,580</u>
Total Senior Water System Obligations		\$ 128,950
Water Utility System Parity Obligations:		
Water System Refunding Revenue Bonds, Series 2016A and Taxable Series 2016B	2046	\$ 181,530
Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2016C and Taxable Series 2016D	2029	<u>98,045</u>
Total Parity Water System Obligations		\$ 279,575
All Other Debt Not Secured by Water Utility System Revenues:		
1994 Installment Purchase Agreement ⁽²⁾	2024	\$ 41,865
1995 Installment Purchase Agreement ⁽³⁾	2030	<u>57,195</u>
Total Other Debt		<u>\$ 99,060</u>
Total Long-Term Indebtedness		<u>\$ 507,585</u>

⁽¹⁾ A portion of the proceeds of the 2017 Bonds, together with certain other moneys, will be applied to refund the outstanding 2007A Certificates.

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

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

Source: District.

Short-Term Indebtedness. The District may issue from time to time TRANS to secure the District's Commercial Paper Certificates. The TRANS are payable from taxes, income, revenue, cash receipts and other moneys which are received by the Water Utility System of the District for Fiscal Year 2016-17 and which are lawfully available for the payment of current expenses and other obligations of the District. The obligation of the District to make payments of principal and interest on the TRANS is a general obligation of the District. The District 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 amount of \$225 million are dated July 1, 2016 and mature on October 1, 2017. As of [_____, 2017], the District [has \$_____ in] Commercial Paper Certificates outstanding.

WATER UTILITY SYSTEM

Service Area

The District'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 population increased by approximately 6.3 percent between 2010 and 2014 to a total of approximately 1,895,000. Of the approximately 370,000 acre-feet of water used in the County on average in a normal rainfall year, the District estimates that approximately 55 percent of water use in the County is residential, approximately 20 percent is commercial, approximately 10 percent is industrial, approximately 10 percent is agricultural, and approximately 5 percent is public water use. The 370,000 acre-feet of water referred to above includes treated water provided by the District, 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 the District'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 the District that will benefit from the recharge of under groundwater supplies or the distribution of imported water in such zones. The District has established two primary zones, one in the northern area of the county and one in the southern area. The District 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, whether public or private. A fixed and uniform rate per acre-foot is set for agriculture water, and another rate per acre-foot for all water other than agricultural water. See the caption "LITIGATION" herein for a discussion of certain litigation with respect to the District groundwater charges.

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 the District'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 which 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 District water to users are charged at variants of these rates. In the southern portion of the County ("South County"), rates are charged for usage of recycled water produced by the South County Regional Wastewater Authority and sold by the District under a producer-wholesaler agreement.

Water Charge Setting Process. Each year, the Board establishes groundwater production charges for two zones of benefit 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, while Zone W-5 refers to the southern area of the County and largely coincides with the Coyote Valley and the Llagas Subbasin. 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 thru the SWP tax, within the framework of the groundwater charge setting process. The Water Utility Taxing and Pricing Policy, Resolution 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 Proposition 218's requirements for

property-related fees for water services as detailed in Board Resolutions 12-10 and 12-11. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES — Proposition 218” below for description of the requirements under Proposition 218.

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 zone of benefit, 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 the District’s groundwater production charges.

The Board may establish zones of benefit in accordance with the Law. The objective of establishing various groundwater charge zones is to recover costs for the benefits of the District 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 zones of benefit by customer class.

Water Revenue Zones W-2 and W-5. The water charges listed in the following table are the historical agricultural and non-agricultural water charges for Zones W-2 and W-5. The treated water deliveries are all for municipal and industrial water use. The non-contract treated water may be available at the discretion of the District 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 and recycled water, rather than treated water.

HISTORICAL WATER RATES (DOLLARS (\$) PER ACRE-FOOT)

<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>
2012-13	W-2	\$622.00	\$17.70	\$672.00	\$722.00	\$634.60	\$30.30	--	--
	W-5	295.00	17.70	--	--	307.60	30.30	\$275.00	\$41.50
2013-14	W-2	680.00	18.30	755.00	780.00	695.31	33.61	--	--
	W-5	305.00	18.30	--	--	320.31	33.61	285.00	42.10
2014-15 ⁽¹⁾	W-2	747.00	19.14	897.00	847.00	765.60	37.74	--	--
	W-5	319.00	19.14	--	--	337.60	37.74	299.00	42.94
2015-16 ⁽¹⁾	W-2	894.00	21.36	1,094.00	994.00	916.60	43.96	--	--
	W-5	356.00	21.36	--	--	378.60	43.96	336.00	45.16
2016-17	W-2	1,072.00	23.59	1,122.00	1,172.00	1,099.46	51.04	--	--
	W-5	393.00	23.59	--	--	420.46	51.04	373.00	47.38

⁽¹⁾ Due to lower surface water supplies, non-contract treated water rates were higher than contract rates in Fiscal Years 2014-15 and 2015-16 to incentivize retail customers to not take more water than their contract allotment.

Source: District.

Future Rates and Charges. The water charges listed in the following table are the projected agricultural and non-agricultural water charges by the District for Zones W-2 and W-5. [To be updated per final PAWS report]

**PROJECTED WATER RATES
(DOLLARS PER ACRE-FOOT)**

<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 ⁽¹⁾	W-2	\$1,178.00	\$25.09	\$1,228.00	\$1,278.00	\$1,211.36	\$58.45	--	--
	W-5	418.00	25.09	--	--	451.36	58.45	\$398.00	\$48.88
2018-19 ⁽¹⁾	W-2	1,306.00	26.53	1,356.00	1,406.00	1,340.83	61.36	--	--
	W-5	442.00	26.53	--	--	476.83	61.36	422.00	50.32
2019-20 ⁽¹⁾	W-2	1,449.00	28.03	1,499.00	1,549.00	1,485.36	64.39	--	--
	W-5	467.00	28.03	--	--	503.36	64.39	447.00	51.82
2020-21 ⁽¹⁾	W-2	1,607.00	29.59	1,657.00	1,707.00	1,644.96	67.55	--	--
	W-5	493.00	29.59	--	--	530.96	67.55	473.00	53.40
2021-22 ⁽¹⁾	W-2	1,782.00	31.27	1,832.00	1,882.00	1,821.63	70.90	--	--
	W-5	521.00	31.27	--	--	560.63	70.90	501.00	55.10

Source: District.

The projected water charges set forth above have not been approved by the Board and there can be no assurance that the water charges will be approved by the Board as currently projected.

Historical Water Deliveries. The District records the volume of water delivered by the District. The following table presents a summary of historical water deliveries and the sources of water supply in acre-feet per year for the five most recent fiscal years.

HISTORICAL WATER DELIVERIES AND SOURCES OF THE WATER DELIVERED
(In acre-feet per year)

Deliveries

<i>Fiscal Year Ending June 30</i>	<i>Municipal & Industrial</i>	<i>Agriculture</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2012	241,402	24,695	266,098	5.98%
2013	249,420	28,255	277,676	4.35
2014	256,056	28,729	284,785	2.56
2015 ⁽¹⁾	211,050	25,700	236,750	(16.87)
2016 ⁽¹⁾	174,553	24,300	198,853	(16.01)

Sources

<i>Calendar Year</i>	<i>Local Surface Water⁽²⁾</i>	<i>Central Valley Project⁽³⁾</i>	<i>SFPUC Intertie⁽⁴⁾</i>	<i>State Water Project⁽⁵⁾</i>	<i>Other⁽⁶⁾</i>	<i>Total</i>
2012 ⁽⁷⁾	50,900	137,200	(1,700)	63,800	1,900	252,100
2013 ⁽⁷⁾	45,300	111,800	600	78,600	2,000	238,300
2014 ⁽⁷⁾	15,400	69,400	(60)	40,000	2,000	126,740
2015	40,400	49,600	(600)	65,800	2,400	157,600
2016 ⁽⁸⁾	85,100	88,200	80	94,300	2,000	269,700

(1) Decrease primarily a result of State and locally mandated reductions in water use in response to drought conditions. See the caption "DISTRICT WATER SUPPLIES — California Drought and District Response."

(2) Reservoir inflows plus supplies from storage, which may include flows to the environment.

(3) Sum of all CVP imports, plus exchanges, sales, reschedules, adjustments, transfers, etc.

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

(5) Sum of all SWP imports, plus Article 21, Buy, Sale, Reschedule, Pool A, etc.

(6) Includes recycled water produced by South County Regional Wastewater Authority.

(7) Declines from 2012 through 2014 are a result of dry hydrological conditions.

(8) [Calendar year 2016 amounts reflects estimates as of February 2017.]

Note: Table does not include natural groundwater infiltration, SFPUC managed water, South Bay Water Recycling, or SJWC local surface water. The District estimates that natural groundwater infiltration between 2012 and 2016 provided an average of approximately 46,000 acre-feet of water per year.

Source: District.

District water sources have been below normal since 2011 as a result of Statewide drought conditions. Drought conditions affect local surface water runoff as well as CVP and SWP allocations. The District has offset certain of the reductions in CVP and SWP allocations through exchanges, transfers, and other supplemental supplies. See the caption "DISTRICT WATER SUPPLIES — California Drought and District Response."

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, District 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 the District 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 “DISTRICT FACILITIES – Groundwater Basin” and “SANTA CLARA COUNTY WATER SUPPLY.”

Projected Water Deliveries and Sources of Water Delivered. The following table projects water deliveries and sources of water delivered by the Water Utility System of the District for Fiscal Year 2016-17 and the next four fiscal years.

PROJECTED WATER DELIVERIES AND SOURCES OF WATER DELIVERED

(In acre-feet per year)

Deliveries				
<i>Fiscal Year Ending June 30</i>	<i>Municipal & Industrial</i>	<i>Agricultural</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2017 ⁽¹⁾	179,800	25,587	205,387	3.29%
2018 ⁽¹⁾	189,800	27,587	217,387	5.84
2019 ⁽¹⁾	198,800	27,587	226,387	4.14
2020 ⁽¹⁾	209,800	27,587	237,387	4.86
2021	221,800	27,587	249,387	5.06

Sources					
<i>Calendar Year</i>	<i>Local Surface Water</i>	<i>Central Valley Project</i>	<i>State Water Project</i>	<i>Other⁽³⁾</i>	<i>Total</i>
2017 ⁽¹⁾	237,900	107,600	77,900	2,000	425,400
2018 ⁽²⁾	78,600	109,600	61,400	2,000	251,600
2019 ⁽²⁾	78,600	109,600	61,400	2,000	251,600
2020 ⁽²⁾	78,600	109,600	61,400	2,600	252,200
2021 ⁽²⁾	78,600	109,600	61,400	2,600	252,200

⁽¹⁾ Projected sources in Calendar Year 2017 and projected deliveries in Fiscal Year 2017 assumes median hydrologic year and a return to normal hydrologic conditions beginning in Calendar Year 2018.

⁽²⁾ Calendar Years 2018 through 2021 CVP and SWP sources are based on average supplies identified in the 2015 Urban Water Management Plan, and are less than previous estimates included in the 2010 Urban Water Management Plan. The projected decrease is due to lower CVP and SWP projections by California’s Department of Water Resources and lower local surface water projections by the District as a result of incorporating additional instream flow requirements. CVP and SWP sources exclude carryover.

⁽³⁾ Local Surface Water in Calendar Year 2017 includes flow to the environment.

⁽⁴⁾ Other sources include recycled water produced by South County Regional Wastewater Authority (SCRWA).

Note: Table does not include natural groundwater infiltration, SFPUC managed water, recycled water produced by Palo Alto, Sunnyvale, or South Bay Water Recycling, or SJWC or Stanford local surface water. The District estimates that natural groundwater infiltration will provide an average of approximately 61,000 acre-feet of water per year.

Source: District.

The projected amounts in Fiscal Years 2016-17 and 2017-18 reflect a slight increase from Fiscal Year 2015-16 amounts, during which the District experienced its lowest water usage in the last five Fiscal Years. Projected deliveries in Fiscal Years 2018-19 and 2019-20 reflect on average a gradual return to a new normal water use projection of approximately 250,000 acre-feet per year.

As described above under the caption “— *Historical Water Deliveries*,” the water stored in the groundwater subbasins managed by the District 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 the District’s historical water sales revenues for the last five fiscal years.

HISTORICAL SALES REVENUES

<i>Fiscal Year Ending June 30</i>	<i>Groundwater</i>	<i>Treated Water</i>	<i>Surface & Recycled Water</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2012	\$48,030,000	\$92,904,000	\$849,000	\$141,783,000	16.84%
2013	62,084,000	92,359,000	1,275,000	155,718,000	9.83
2014	84,308,000	86,386,000	1,680,000	172,374,000	10.70
2015	77,095,000	76,799,000	925,000	154,819,000	(10.18)
2016	61,128,400	89,375,182	731,735	151,235,317	(2.31)

Source: District.

Projected Sales Revenues. The following table shows the annual water sales revenues projected by the District for Fiscal Year 2016-17 and the next four fiscal years. The projections reflect an assumption by District staff that the water charges will be increased in each fiscal year from 2016-17 through 2019-20 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 District Board and there can be no assurance that such increases will be implemented as currently projected.

[To be updated per final PAWS report]

PROJECTED SALES REVENUES

<i>Fiscal Year Ending June 30</i>	<i>Groundwater</i>	<i>Treated Water</i>	<i>Surface & Recycled Water</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2017	\$ 76,847,000	\$107,824,000	\$2,218,000	\$186,889,000	23.57%
2018	94,431,000	117,576,000	2,429,000	214,436,000	14.74
2019	115,035,000	129,352,000	2,658,000	247,045,000	15.21
2020	141,967,000	142,508,000	2,910,000	287,385,000	16.33
2021	174,931,000	157,044,000	3,186,000	335,161,000	16.62

Source: District.

District Revenue Derived from Property Taxes. The County levies a 1% property tax on behalf of all taxing agencies in the County, including the District. 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 the District, 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.

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 AB 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 AB 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. AB 454 allows generally 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 the District, was exempted. The 2004-05 State budget reallocated additional portions of the special districts' shares of the countywide 1% ad valorem property tax shifting a portion of the property tax revenues collected by the County from special districts to school districts. As a result of the 2004-05 State budget, the District lost approximately \$51,000,000 of property tax revenues, cumulatively, over Fiscal Years 2004-05 and 2005-06. Pursuant to the State fiscal year 2005 budget, such property tax revenues reverted to the District in Fiscal Year 2006-07.

On November 2, 2004, California voters approved Proposition 1A, which amends 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.

On July 28, 2009, the Governor of the State signed a revised State fiscal year 2010 budget which included a shift of approximately 8% of the 1% ad valorem property tax revenues (other than unitary taxes) from certain local agencies, including the District, to school districts and other governmental agencies. In June 2013, the District received the repayment of the Proposition 1A loan plus interest.

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 the District 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 the District. The District currently expects that existing reserves and the statutory authority to raise water rates may offset future property tax revenue losses.

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 the District, the District 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 the District therein will be continued indefinitely.

The District determines the amount of one-percent ad valorem property tax allocated to the Water Utility System on a year-to-year basis. In Fiscal Year 2015-16, the District allocated approximately \$6,062,880 (approximately 7.5%) to the Water Utility System.

The table below sets forth the total amount of revenue received by the District from the District’s share of the one-percent *ad valorem* property taxes levied in the County in each of the last five Fiscal Years.

District Share of 1% Property Tax Levy

<i>Fiscal Year Ended June 30</i>	<i>District Share of 1% Levy</i>	<i>% Increase/ (Decrease)</i>
2012	\$57,507,000	1.93%
2013	65,811,000	14.44
2014	68,381,000	3.91
2015	74,700,000	9.24
2016	80,797,165	8.16

Source: District.

Property taxes levied by the District to pay State Water Project contract costs are not pledged to the payment of the 2017 Bonds and are not included in the amounts shown above.

SANTA CLARA COUNTY WATER SUPPLY

The District derives its water supply from four main sources: (i) local natural recharge in the groundwater subbasins, (ii) local surface water from District reservoirs, (iii) water imported by the District through SWP, and (iv) water imported by the District through CVP. The District also sells a small 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 SVAWPC.

The District receives revenue from the sale of treated water at 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 the District 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. The District 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 analysis.

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

Approximately 45 percent of the County's water supply comes from local sources. Such sources are heavily dependent upon rainfall, runoff, and District operated recharge facilities. The remaining 55 percent comes through purchases from CVP and SWP (40%), as well as from the SFPUC (15%). The following table summarizes the County's sources of its water supply:

SANTA CLARA COUNTY WATER SUPPLY (ACRE-FEET)

<i>Calendar Year</i>	<i>SWP</i>	<i>CVP</i>	<i>SFPUC</i>	<i>Recycled Water</i>	<i>Local Surface Water</i>	<i>Natural Groundwater Recharge</i>	<i>Total</i>
2012	63,800	137,200	52,000	17,000	54,000	52,000	376,000
2013	78,600	111,800	55,000	21,000	57,000	39,000	362,400
2014	40,000	69,400	47,000	22,000	46,000	53,000	277,400
2015	65,800	49,600	42,000	20,000	45,200	39,000	261,600
2016	94,300	88,200	43,000	19,000	92,600	47,000	384,100

Note: The sources of water supply listed in this table include sources that are not directly managed by the District, such as SFPUC and natural groundwater recharge. These non-District supplies contribute to the County's water supply and are important for overall water supply reliability in the District's service area. [2016 values shown are estimated.]

Source: District.

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 the 125 years of rainfall data at Rainfall Station 86 in San Jose shows that the average (or mean) annual rainfall is approximately 14 inches. There is variability in rainfall, with many years of above normal rainfall and many years of below normal rainfall. The District stores water from wetter years for use during drier years.

Surface Water

Local surface water is both streamflow and 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.

The District operates ten surface water reservoirs, with a total capacity of about 169,000 acre-feet, which generally provide seasonal storage for downstream releases to percolation facilities. Anderson Reservoir, the largest of the District's reservoirs, can provide carryover storage from one year to the next. Groundwater storage is also available in the county's two groundwater subbasins and is used for both seasonal and carryover storage.

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 or Monterey Bays. Based on 2010 through 2014 data,

between 3,000 acre-feet and 125,000 acre-feet of water per year was released to the bays. The average release was about 35,000 acre-feet per year.

Groundwater Recharge

Recharge to the groundwater subbasins consists of natural groundwater recharge and managed recharge with local surface and imported 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 in specific streams and in off-stream recharge facilities. The District 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, which continues at a slower pace today, the City and County of San Francisco first started delivering water in 1956 to municipalities in the northern area of the District. The SFPUC water supply continues to provide approximately 15 percent of water supply in the County; however, the District does not receive revenue for the Hetch Hetchy water supply.

The District then imported SWP water starting in 1965 and CVP water in 1987. The SWP water and CVP water are either treated in the District's water treatment plants or recharged in the groundwater subbasins. The recharge of SWP water contributed to the District's success in arresting land surface subsidence due to groundwater overdraft by 1969. Because the District recharges and manages the groundwater subbasins, the District collects a groundwater production charge when groundwater is pumped from the zones receiving benefit from District groundwater management activities. Treated water wholesaled by the District reduces the demand for groundwater which also serves to prevent further land surface subsidence.

State Water Project

In 1961, the District contracted with the SWP (the "SWP Contract") for a new water supply. This imported supply normally provides water for groundwater recharge and for treatment at two District water treatment plants, the Rinconada and Penitencia WTPs, but can also be used to supply the Santa Teresa WTP. The SWP Contract provides for a maximum annual entitlement of 100,000 acre-feet of water from SWP, which became effective in 1961 and will remain effective through the project repayment period, or for seventy-five 75 years (2035), whichever period is longer. In certain years, the District 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 entitlement amount under the SWP Contract. As of December 31, 2016, the District had received delivery of approximately [3,546,000] acre feet of water through the SWP Contract. Based on a January 18, 2017 announcement by DWR, the District's current SWP allocation under its SWP Contract for 2017 is 60 percent of its maximum annual entitlement. The allocation for 2017 is subject to revision by DWR. See the caption "WATER UTILITY SYSTEM — Primary Sources of Revenues — *Historic Water Deliveries.*" SWP water deliveries began in 1967 and are transported to the District service area via the South Bay Aqueduct.

The SWP Contract requires the District 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 the District to pay the cost of this obligation. Such property taxes are not pledged to the payment of the 2017 Bonds and such costs are not Maintenance and Operation

Costs of the Water Utility System. The State re-estimates the District's total commitment for reimbursement of such costs annually.

DWR faces various challenges in the continued supply of imported water to the District 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 October 13, 2016, relating to its Central Valley Project Water System Revenue Bonds Series AW ("DWR's Water Supply Disclosure"). The District 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, the District 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.

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 "Department of Water Resources 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 <http://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 the District, the Trustee or the Owners of the 2017 Bonds to provide Department of Water Resources Information to the District or the Owners of the 2017 Bonds. The District has not incorporated by reference the information filed by DWR described above and neither the District nor the Purchaser assumes 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 THE DISTRICT OR THE OWNERS OF THE 2017 BONDS 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, the District entered into a contract (the "CVP Contract") with the United States Bureau of Reclamation ("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 the District up to a total contract amount of 152,500 acre-feet per year. The District's initial allocation for 2017 under the CVP Contract is expected to be announced in the spring of 2017. Such allocation for 2017 will be subject to revision by the USBR. See the caption "WATER UTILITY SYSTEM — Primary Sources of Revenues — *Historic Water Deliveries.*" In certain years, the District can receive additional CVP water consisting of temporary flood flow in the Delta which does not count against the contract amount. The District'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.

The District'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 while the M&I water rate policy is still an interim policy.

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 the District'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 the District self-funds and performs San Felipe Division operation and maintenance. The District contested the USBR's accounting for project costs, and a settlement was achieved in March 2005. The settlement reduced the District's costs for CVP water by approximately \$5,000,000 per year.

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

The first water from the CVP was delivered in June 1987. In preparation for this source of supply, the District 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.

See the caption "— FACTORS AFFECTING WATER SUPPLIES" for further information with respect to CVP water deliveries. See the caption "—CAPITAL IMPROVEMENT PROGRAM" for further information with respect to expansion of advanced water purification program for indirect potable reuse.

DISTRICT FACILITIES

Local Reservoirs

The District owns, operates, and maintains a County-wide water conservation and distribution system to convey water for recharge and treatment. Included are ten local surface water reservoirs, which conserve winter runoff for either managed recharge of the groundwater subbasins or treatment at the District's 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 the District's reservoirs:

SIGNIFICANT FEATURES OF DISTRICT RESERVOIRS

<i>Reservoir</i>	<i>Capacity (acre-feet)</i>	<i>DSOD Restricted Capacity (acre-feet)</i>	<i>Year Completed</i>	<i>Surface Area (acres)</i>	<i>Dam Height (ft)</i>
Almaden	1,586	1,472	1935	59	105
Anderson**	90,373	61,810	1950	1,244	240
Calero	9,934	4,585	1935	347	98
Chesbro*	7,945	7,945	1955	265	95
Coyote	23,244	12,382	1936	638	138
Guadalupe	3,415	2,218	1935	79	129
Lexington*	19,044	19,044	1952	404	195
Stevens Creek*	3,138	3,138	1935	92	120
Uvas*	9,835	9,835	1957	286	118
Vasona*	495	495	1935	58	30
Total	169,009	122,924		3,472	

Sources: SCVWD Urban Water Management Plan 2015 and Protection and Augmentation of Water Supplies Report, February 2017.

*Indicates reservoirs that do not have dam safety operating restrictions.

** An interim reservoir restriction is under review for Anderson Reservoir.

Source: District.

The District monitors, collects, and analyzes seepage and vertical and horizontal movement data monthly and reports the information to the California Department of Water Resources (DWR) Division of Safety of Dams (DSOD). DSOD has an annual dam inspection program. In addition, the District performs inspections of the entire Water Utility System every other month from a helicopter. The District 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, the District 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 a quarter of the total surface storage capacity.

Groundwater Subbasins

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

Two major groundwater subbasins underlie the County: Santa Clara Subbasin and Llagas Groundwater Subbasin. The District further delineates Santa Clara Subbasin into two management areas: Santa Clara Plain and the Coyote Valley. These subbasins and their operational storage capacities are described below.

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 Metcalf Road in the south. It is bounded on the west by the Santa Cruz Mountains and on the east by the Diablo Range. The subbasin is 22 miles long and 15 miles wide with a

surface area of 225 square miles. The northern and central area of the subbasin is underlain with a laterally extensive clay layer, resulting in confined aquifer conditions. The southern area and eastern and western edges are the unconfined area or forebay where the clay layer does not extend. The forebay is where the District recharges local and imported water. DWR published Bulletin Number 7 in June 1955 in which the storage volume is estimated at 1,900,000 acre-feet of water in Santa Clara Subbasin, including the Coyote Valley. However, subsidence may occur if groundwater elevations drop below subsidence threshold elevations for an extended period of time. As a result, the District 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 salt water 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 Metcalf Road in the north to Cochrane Road in the south. The subbasin is seven miles long and ranges in widths from half a mile to three miles. It has a surface area of approximately 15 square miles. The groundwater subbasin in Coyote Valley is unconfined and has no laterally extensive layers of clay. 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 Cochrane Road in the north to the Pajaro River at the southern border of the County. This subbasin is approximately 15 miles long, three miles wide at the northern boundary and six miles wide along the Pajaro River. Its surface area is approximately 74 square miles. Laterally extensive clay layers are present in the central and southern portion of the subbasin, resulting in confined aquifer conditions. The District's groundwater recharge activities are primarily in the northern unconfined area, or forebay, of this subbasin. Bulletin Number 7 by DWR estimates the storage volume at 510,000 acre-feet of water. The District estimates that the operational storage capacity is between 152,000 and 165,000 acre-feet of water.

Managed Recharge Facilities

The District owns and operates seven managed aquifer recharge systems. Within these systems, the District supplies off-stream recharge facilities and supplements natural flow in existing stream channels to recharge local and imported water into the groundwater subbasins. In 2016, it was estimated that the amount of managed recharge into the groundwater subbasins by the District was 148,000 acre-feet. The amount recharged in each year varies depending on hydrological conditions and the availability of surface water for recharge. As set forth in the District's 2016 Groundwater Management Plan, the long-term average is estimated at approximately 98,000 acre-feet per year. 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 Area (in acres)</i>	<i>Miles of Stream</i>	<i>Average Annual Recharge Quantity (acre-feet per year)*</i>
Westside	2	3	20	7,000
Los Gatos	27	71	8	16,000
Guadalupe	20	80	21	11,000
Penitencia	24	21	2	2,000
Coyote	2	40	17	17,000
Upper Llagas	21	25	10	10,000
Lower Llagas	<u>3</u>	<u>25</u>	<u>8</u>	<u>11,000</u>
Total	99	265	86	74,000

* Average Annual Recharge Quantity is based generally on recharge averaged over calendar years 2011 through 2015. Calendar years 2014 and 2015 were exceptionally dry years with limited surface water available for recharge. As set forth in the District's 2016 Groundwater Management Plan, the long-term average managed recharge is estimated at approximately 98,000 acre-feet per year.

Source: District.

Raw Water Conveyance System

The District 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/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. The District 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 pipe.

The District also owns and operates the Vasona Pumping Plant, with a total 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. The District also operates two pumping plants on the San Felipe Project: The Pacheco Pumping Plant and Coyote Pumping Plant, with a combined capacity 36,000 horsepower. In addition, the District 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.

PIPELINES

<i>Line</i>	<i>Diameter (in inches)</i>	<i>Year Completed</i>
Central Pipeline	66	1966
Rinconada Force Main	72	1967
Stevens Creek Pipeline	20-37	1971
Almaden Valley Pipeline	72-78	1981
Calero Pipeline	78	1990
Cross Valley Pipeline	78	1986
San Felipe Division	96-120	1987

Source: District.

Water Treatment and Water Purification

General. The District owns and operates three drinking water treatment plants (each, a “WTP”): 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.

The District’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 Hetch Hetchy intertie and/or groundwater if Santa Teresa WTP is shut down. The water retailers served by Rinconada WTP can use groundwater or Hetch Hetchy 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 Hetch Hetchy or groundwater to replace District treated water if necessary.

Santa Teresa Water Treatment Plant. First operated in 1989, Santa Teresa WTP is the largest of the District’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 the District’s local supplies at Anderson and Calero reservoirs.

The Santa Teresa WTP is a conventional treatment plant utilizing coagulation, flocculation, sedimentation, filtration, and disinfection. In spring of 2006, the District 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. 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, the District completed significant upgrades to the Penitencia WTP which were highlighted by the addition of ozone to the treatment process. This plant typically serves an area of the northeastern portion of the County in the City of San Jose, supplying safe drinking water 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 District system. As the second largest of the District'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 the District's local Anderson and Calero reservoirs.

The Rinconada WTP differs from the two other plants in that the plant utilizes upflow clarifiers in place of the coagulation, flocculation, and sedimentation processes. The District is currently upgrading the Rinconada WTP to a 100 MGD conventional sedimentation plant with ozone disinfection.

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 (SVAWPC) is District owned and operated. 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 the water to near-distilled quality water. This purified water is delivered to the City of San Jose and blended with tertiary treated recycled water for use by South Bay Water Recycling's customers for irrigation and industrial uses that offset potable water supplies.

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 the District's retail customers by nine treated water pipelines. The total storage capacity is 30,000,000 gallons.

The following table depicts the District's water treatment facilities and treated water storage facilities and distribution systems:

WATER TREATMENT AND STORAGE FACILITIES AND DISTRIBUTION SYSTEM

<i>Treatment Plant</i>	<i>Storage Facility</i>	<i>Distribution System</i>
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

Source: District.

Seismic Considerations

Beginning in the late 1970's, the District conducted a series of studies that focused on evaluating the seismic performance of major facilities of the District. The studies provided the District with a detailed analysis of the predicted seismic performance of District 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 two of the older water treatment plants. 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 the District'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, the District embarked on another series of studies to re-evaluate the seismic performance of major District 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 District Dams

<i>Dam</i>	<i>Year Study Completed</i>	<i>Result Summary</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.
Almaden	2012	Embankment dam meets modern seismic design criteria. However, seismic retrofit of intake structure, spillway improvements, and dam raise 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.

Source: District.

The seismic evaluations of Chesbro, Coyote, and Uvas Dams commenced in 2015 and are currently ongoing. The District's Water Utility Capital Division is currently working on the seismic retrofit of Anderson, Calero, and Guadalupe Dams; and on the capital improvements for Almaden Dam. District 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 District 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 District 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. Recent independent studies indicate that some District facilities might be subject to damage from fault displacement or moderate earthquakes on faults previously thought to be low-risk. The District conducts periodic engineering studies, inspections and maintenance of District facilities, including District dams, which informs the District's future planning and design work.

The District 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 District dams. The program provides for the self-deployment of trained District 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 illustration shows how all water distribution system components are utilized to serve the water demands of the County. In general, the District's water distribution system, in conjunction with the SFPUC, has the capacity to deliver the total projected water needs of the County.



Water Usage

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

The District's treated water and groundwater usage by water retailers and other accounts is listed below.

**TREATED WATER AND GROUNDWATER USAGE
(ACRE-FEET)**

	<i>Fiscal Year 2014-15</i>			<i>Fiscal Year 2015-16</i>		
	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>	<i>Groundwater⁽²⁾</i>	<i>Treated Water</i>	<i>Total</i>
WATER RETAILERS						
San Jose Water Company	56,907.81	54,701	111,608.81	35,111.45	55,930	91,041.45
Santa Clara, City of	13,362.13	3,378	16,740.13	9,852.37	4,366	14,218.37
California Water Service	5,270.67	6,516	11,786.67	2,187.02	7,338	9,525.02
San Jose, City of	1,252.62	11,691	12,943.62	838.85	10,029	10,867.85
Great Oaks Water Co	9,996.29	--	9,996.29	8,605.80	-	8,605.80
Sunnyvale, City of	1,163.38	7,523	8,686.38	150.63	6,562	6,712.63
Gilroy, City of	7,609.08	--	7,609.08	6,658.63	-	6,658.63
Morgan Hill, City of	6,804.11	--	6,804.11	5,784.25	-	5,784.25
Milpitas, City of	--	3,556	3,556.00	.74	3,468	3,468.74
Cupertino, City of	--	2,389	2,389.00	524.30	1,536	2,060.30
Mountain View City of	563.51	919	1,482.51	112.25	686	798.25
West San Martin Water Co	371.81	--	371.81	291.66	-	291.66
New Avenue Mutual Water	<u>31.51</u>	<u>--</u>	<u>31.51</u>	<u>0.22</u>	<u>-</u>	<u>0.22</u>
Subtotals Water Retailers	103,332.92	90,673	194,005.92	70,118.17	89,915	160,033.17
Other Groundwater Revenue Accounts	<u>41,249.08</u>	<u>0</u>	<u>41,249.08</u>	<u>38,244.33</u>	<u>0</u>	<u>38,244.33</u>
Total	144,582.00	90,673	235,255.00	108,352.50	89,915	198,277.50

**GROUNDWATER, TREATED WATER, SURFACE WATER
AND RECYCLED WATER USAGE
(ACRE-FEET)⁽¹⁾**

<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>				
2012	23,539.95	100,118.58	138,977	2,767.43	695.31	266,098.27
2013	26,681.78	117,172.95	129,547	3,313.82	960.36	277,675.91
2014	26,984.55	141,796.96	111,551	3,558.39	893.54	284,784.44
2015	25,700.00	118,882.00	90,673	607.00	893.00	236,755.00
2016	25,379.70	82,982.80	89,915	967.07	2,152.75	201,397.32

⁽¹⁾ Certain water usage set forth above reflect adjustments made subsequent to the relevant Fiscal Year.

Source: District.

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

	<i>Fiscal Year 2014-15</i>			<i>Fiscal Year 2015-16</i>		
	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>
WATER RETAILERS						
San Jose Water Company	\$ 42,480,561	\$ 46,331,662	\$ 88,812,223	\$ 31,378,362	\$ 55,574,744	\$ 86,953,106
Santa Clara, City of	9,981,511	2,861,200	12,842,711	8,808,019	4,353,919	13,161,938
San Jose, City of	810,042	9,901,862	10,711,904	570,994	9,969,194	10,540,188
California Water Service	3,937,190	5,518,823	9,456,013	1,955,196	7,293,930	9,249,126
Sunnyvale, City of	869,045	6,371,854	7,240,899	134,663	6,522,250	6,656,913
Great Oaks Water Co	5,753,015		5,753,015	5,540,057	-	5,540,057
Milpitas, City of		3,011,703	3,011,703	662	3,453,036	3,453,698
Gilroy, City of	2,427,297		2,427,297	2,370,472	-	2,370,472
Cupertino, City of	364,783	2,023,720	2,388,503	468,724	1,526,446	1,995,170
Morgan Hill, City of	2,170,511		2,170,511	2,059,193	-	2,059,193
Mountain View, City of	420,942	778,063	1,199,005	100,352	681,794	782,146
West San Martin Water Co	118,607		118,607	103,831	-	103,831
New Avenue Mutual Water	10,052		10,052	78	-	78
Subtotals Water Retailers	\$ 69,343,556	\$ 76,798,887	\$ 146,142,443	\$ 53,490,603	\$ 89,375,313	\$ 142,865,916
All Others	4,428,585	0	4,428,585	4,668,498	0	4,668,498
Individual groundwater customers	3,322,859	0	3,322,859	2,968,899	0	2,968,899
Total	\$ 77,095,000	\$ 76,798,887	\$ 153,893,887	\$ 61,128,000	\$ 89,375,313	\$ 150,503,313

Source: District.

San Jose Water Company. San Jose Water Company is the largest water retailer served by the District and currently provides water service to over 1,000,000 customers. San Jose Water Company is currently owned by SJW Corporation, a public traded company. For the fiscal year ended June 30, 2016, the District received \$86,953,106 in charges for treated water and groundwater from the San Jose Water Company consisting of approximately 58 percent of the water sales revenues of the District'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, Saratoga and the Town of Los Gatos, and adjacent unincorporated territory, all in the County.

San Jose Water Company and SJW Corporation are not obligors with respect to the 2017 Bonds. The 2017 Bonds are obligations of the District payable from the District's Net Water Utility System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS," herein. References made herein to San Jose Water Company and SJW Corporation are for informational purposes only. The District makes no representations as to the accuracy or the adequacy of any of the filings of SJW Corporation with the Securities Exchange Commission (the "Commission") described below. The filings described below are strictly those of SJW Corporation and not of the District and such filings are not incorporated by reference herein.

SJW Corporation 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, 2016, has been filed by SJW Corporation with the Commission. The Form 10-K and other annual and periodic reports of the SJW Corporation (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.

FACTORS AFFECTING WATER SUPPLIES

General

The District has several sources of water supply that provide a great deal of flexibility in managing water supplies to meet the needs of the County.

Under normal water conditions, the District imports about half of its water supply under water supply contracts with the California SWP and the federal CVP and obtains the other half from local surface and groundwater supplies. Certain water retailers in the County also import water from the San Francisco Public Utilities Commission's Regional Water System, and have their own local surface water supplies and deliver recycled water.

The District completed its 2015 Urban Water Management Plan ("UWMP") on June 20, 2016 (District Resolution No. 16-50), 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 the District to review, update and adopt an UWMP at least every five years. The District's UWMP is prepared in coordination with water retailers (who also must prepare their own UWMPs), the County, and local cities and towns. The District's 2015 UWMP updates the District's water demand projections based upon increases in population and job growth to 2040 as projected by local water retailers. The 2015 UWMP also presents water supply projections and includes the District's Water Shortage Contingency Plan. Completion of the UWMP allows the District to remain eligible for state water bank assistance and for state grant funding.

A key finding of the UWMP is that the District must make significant investments to maintain and safeguard existing water supplies, infrastructure, and programs to ensure a reliable water supply into the future. These baseline investments are described in the District's 2012 Water Supply and Infrastructure Master Plan (the "2012 Plan"), which has three elements – secure existing supplies and infrastructure, optimize the use of existing supplies and infrastructure, and increase water recycling (including potable reuse) and conservation to meet future needs – in its strategy to provide a reliable water supply into the future.

Another key finding of the UWMP is that, in addition to baseline investments described in the 2012 Plan, additional investments will be necessary to achieve the District's water supply reliability level of service goal. The District is in the process of preparing the 2017 Water Supply Master Plan (the "2017 Plan"), with a target completion date in December 2017. The process of developing the 2017 Plan will involve evaluating groups of water supply projects and programs to achieve long-term water supply reliability targets. The preliminary lifecycle cost projections for the groups of water supply project and programs ranges from less than \$500 million to over \$3 billion. The impact of the implementation of the various groups of water supply projects and programs on the District will also be evaluated in the 2017 Plan. The objectives of the 2012 Plan have been incorporated into the District's Capital Improvement Program and the new objectives and projects in the completed 2017 Plan is expected to be incorporated into the Capital Improvement Program in the future. See the caption "CAPITAL IMPROVEMENT PROGRAM."

Endangered Species Act Issues

The District's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA"). 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 Environmental Protection Agency (the "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. It was these circumstances that led to the historic 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 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 Plan and the California Water Fix (See the below caption “—California Water Policy Framework”) to develop a long-term solution for conflicts in the Bay-Delta.

Delta Litigation. Various legal challenges have been filed impacting the conveyance of water through the Delta by the California Department of Water Resources (“DWR”) via the SWP and by the United States Bureau of Reclamation (“Bureau”) via the CVP. These have included such cases as *Watershed Enforcers v. Broderick (California Department of Fish and Game), et al.* (Alameda County Superior Court, J. Smith, presiding) (the “Watershed Smelt Litigation”), which relates to the SWP; *Natural Resources Defense Council v. Kempthorne (United States Department of the Interior)* (United States District Court for the Eastern District of California, J. Wanger, presiding) (the “Delta Smelt OCAP Litigation”) and *Pacific Coast Federation of Fisherman’s Association/Institute for Fisheries Resources v. Gutierrez* (United States Department of Commerce) (United States District Court for the Eastern District of California, J. Wanger, presiding) (the “Salmon OCAP Litigation”), which relate to the coordinated operations of the CVP and SWP; and *State Water Contractors (“SWC”), San Luis and Delta Mendota Water Authority (“SLDMWA”), Westlands Water District (“WWD”), et al. v. California Department of Fish and Game* (Sacramento Superior Court) (“Longfin Smelt Litigation”), which also relates to the operations of the SWP.

The above-listed lawsuits constitute challenges to Biological Opinions (“BOs”) relating to the coordinated operations of the CVP and SWP; required permitting for “incidental take” related to the SWP; a decision to list a new species as threatened under the California Endangered Species Act (“CESA”), or other, similar grounds. The factual basis for these cases relate to claims of recent population declines of pelagic organisms, which include the delta smelt and longfin smelt, and certain salmon species, in and around the Delta. While there are other potential causes for the decline of these Delta fish, the BOs, permitting requirements, and listing decisions that underlie these cases have significantly curtailed SWP and CVP deliveries and threaten to further curtail them.

Watershed Smelt Litigation. On October 4, 2006, Watershed Enforcers, a nonprofit organization related to the California Sportfishing Protection Alliance, filed an action against DWR in the Alameda County Superior Court, alleging that DWR was illegally operating certain pumping facilities without obtaining a “take” permit under CESA. Kern County Water Agency (“KCWA”) and SWC, a non-profit association of twenty-seven public agencies, including the District, and others intervened as real-parties-in-interest in the action in support of DWR. The fish species at issue were endangered winter-run Chinook salmon, threatened Delta smelt and spring-run Chinook. The court determined that DWR did not have the required State permit to “take” protected fish species in the Delta, and, on April 17, 2007, issued a final order directing DWR to shut down its Delta export pumps in 60 days, unless it obtained a determination from the State Department of Fish and Game (“DFG”) that SWP operations are in compliance with CESA. Immediate appeals were filed, which stayed enforcement of such order. In July 2009, DWR obtained a Consistency Determination (the “CD”) from DFG providing CESA incidental take coverage and DWR, SWC and KCWA dismissed their appeals. Other parties continued to litigate the appeal on other issues, which have all been determined. The case is now closed.

Delta Smelt OCAP Litigation. In 2005, a coalition of environmental and sportfishing organizations challenged the no jeopardy and no adverse modification findings in a 2005 Operating Criteria and Plan (“2005 OCAP”) BO in the United States District Court for the Eastern District of California. In May 2007, Judge Wanger ruled that the 2005 OCAP BO was unlawful and inadequate. Following a subsequent remedies hearing, the court determined that the water supply to the SWP and CVP would have to be reduced by up to one-third (approximately 2,000,000 acre-feet per year) to mitigate for impacts to the declining population of Delta smelt, and based on that determination issued an interim injunction, which was to remain in effect until a new BO for Delta smelt was prepared.

The 2008 BO prepared by United States Fish and Wildlife Service (“FWS”) and delivered to the Bureau on December 15, 2008 appeared to create water supply impacts greater than those that had already resulted from the Delta Smelt OCAP Litigation court’s interim injunction. This led to the filing of five separate challenges to the 2008 BO in 2009 by SLDMWA, SWC, Metropolitan Water District of Southern California (“MWD”), Central Delta Water Agency, and the Coalition for a Sustainable Delta. The challenges were consolidated before Judge Wanger. On May 28, 2009, Judge Wanger granted the motion for preliminary injunction filed by plaintiffs SLDMWA and WWD, which was joined by SWC and the other plaintiffs, finding that plaintiffs were likely to prevail on their National Environmental Policy Act (“NEPA”) challenge to the 2008 BO. Thereafter, the plaintiffs filed motions for summary judgment, which Judge Wanger granted in part, determining that the Bureau must perform environmental review under NEPA prior to accepting and implementing the BO and its restrictive measures that would result in a further reduction in water deliveries from the SWP and CVP and other impacts.

On December 14, 2010, Judge Wanger issued a decision on summary judgment finding that there were major scientific and legal flaws in the 2008 BO. The court found that some but not all of the restrictions on project operations contained in the 2008 BO were arbitrary, capricious and unlawful. On May 18, 2011, Judge Wanger issued a final amended judgment directing the FWS to complete a new draft biological opinion by October 1, 2011, and a final biological opinion with environmental documentation by December 1, 2013. Later stipulations and orders changed the October 1, 2011 due date for a draft biological opinion to December 14, 2011. A draft biological opinion was issued on December 14, 2011. The draft biological opinion deferred specification of a reasonable and prudent alternative and an incidental take statement pending completion of environmental impact review under NEPA. The federal defendants and environmental intervenors appealed the final judgment invalidating the 2008 BO to the U.S. Court of Appeals for the Ninth Circuit. SWP and CVP contractor plaintiffs cross-appealed from the final judgment. On March 13, 2014, the Ninth Circuit reversed the district court’s findings that portions of the BO failed to meet the requirements of the ESA and its regulations, but upheld the requirement that the Bureau was required to perform NEPA review. The U.S. Court of Appeals for the Ninth Circuit issued a mandate on September 16, 2014. Petitions for Writ of Certiorari were submitted to the U.S. Supreme Court; however, the Court decided not to hear the case. The District Court issued the Final Order on October 1, 2014.

The SWP and CVP have been operating under the 2008 BO since it was issued. Deliveries of water supply from the SWP and CVP are not likely to increase in the near future unless new information or projects are developed that support a reconsultation and reconsideration of project operations.

Salmon Operating Criteria and Plan Litigation. In the Salmon Operating Criteria and Plan Litigation, the United States District Court for the Eastern District of California issued a summary judgment order invalidating a 2004 BO related to certain salmon species, steelhead, and other aquatic species, finding it unlawful and inadequate on a variety of legal grounds under the ESA, and holding that NEPA review was required. A new BO was released on June 4, 2009 (the “2009 BO”) by the National Marine Fisheries Services which contained new measures concerning complex habitat management schemes and studies which are likely to cause additional water supply impacts. As a result, seven separate actions challenging the 2009 BO were filed in the United States District Court for the Eastern District of California and assigned to Judge Wanger, including challenges by the SWC, MWD, and KCWA. The court consolidated the cases under the caption Consolidated Salmon Cases.

On May 25, 2010, the court granted the plaintiffs’ request for preliminary injunction in the Consolidated Salmon Cases, restraining enforcement of two requirements under the salmon BO that limit exported water during the spring months based on San Joaquin River flows into the Bay-Delta and reverse flows on the Old and Middle Rivers. Hearings on motions for summary judgment in the Consolidated Salmon Cases were held on December 16, 2010. On September 20, 2011, Judge Wanger issued a decision on summary judgment, finding that the salmon BO was flawed, and that some but not all of the project restrictions in the Salmon BO were arbitrary and capricious. On December 12, 2011, Judge O’Neill (who was assigned to this case following Judge Wanger’s retirement) issued a final judgment in the Consolidated Salmon Cases.

The final judgment remands the 2009 salmon BO to the National Marine Fisheries Service (“NMFS”), and directs that a new draft salmon BO be issued by October 1, 2014, and that a final BO be issued by March 1, 2017, after completion of environmental impact review under NEPA. On January 19, 2012, Judge O’Neill approved a joint stipulation of the parties that specifies how to comply with one of the salmon BO restrictions that applies to water project operations in April and May of 2012. In January and February 2012, the federal defendants and environmental intervenors filed appeals of the final judgment in the Consolidated Salmon Cases, and the SWP and CVP contractors filed cross-appeals, but the NEPA holding was not appealed and thus stands. A hearing before the U.S. Court of Appeals for the Ninth Circuit was held in September 2014, and on December 22, 2014, the Ninth Circuit reversed the district court decision and upheld the Salmon BO. The remand order related to the 2009 Salmon BO was rescinded. The Ninth Circuit issued a mandate on February 17, 2015. The district court issued the final order on May 5, 2015.

Longfin Smelt Litigation. The California Fish and Game Commission listed the longfin smelt as a threatened species under CESA in March 2009. On February 23, 2009, in anticipation of the listing action, the DFG issued a CESA section 2081 incidental take permit to DWR authorizing the incidental take of longfin smelt by the SWP. This permit authorizes continued operation of the SWP under the conditions specified in the section 2081 permit through December 31, 2018. SWC filed suit against the DFG on March 25, 2009, alleging that the export restrictions imposed by the section 2081 permit have no reasonable relationship to any harm to longfin smelt caused by SWP operations, are arbitrary and capricious and are not supported by the best available science. Such litigation was recently settled and dismissed.

The SWP and CVP have been operating under the 2008 Delta Smelt BO and 2009 Salmon BO since they were issued. Deliveries of water supply from the SWP and CVP are not likely to increase in the near future unless new information or projects are developed that support a reconsultation and reconsideration of project operations. The District believes that any future decision or order by a State or Federal court related to one or more of the above-described BOs and leading to adverse decisions reducing SWP or CVP supplies would not have a material impact on the District’s ability to pay debt service on the 2017 Bonds.

California Water Policy Framework

The District’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 agriculture 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 and today it no longer functions as a healthy ecosystem. 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 (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 beneficial uses of water in the Bay-Delta watershed. The SWRCB also implements the Bay-Delta Plan through water rights and other measures and otherwise administers water rights in the Bay-Delta Watershed.

The SWRCB is in the process of developing and implementing updates to the Bay-Delta Plan and flow objectives for priority tributaries to the Bay-Delta to protect beneficial uses in the Bay-Delta watershed, which is expected to occur in phases. Phase 1 of this work involves updating San Joaquin River flow and southern Delta water quality requirements 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 (i.e., Delta outflows, Sacramento River inflows, export limits, reverse flows, etc.). Phase 3 involves changes to water rights and other measures to implement changes to the Bay-Delta Plan from Phases 1 and 2.

On September 15, 2016, the SWRCB staff released a draft proposal for new flow requirements for the San Joaquin River's major tributaries, increasing flows for fish and wildlife. The proposal recommends increasing flow on the San Joaquin River and its tributaries to a range of 30 to 50 percent, with a starting point of 40 percent of unimpaired flow from February through June. Unimpaired flow represents the water production of a river basin, unaltered by upstream diversions, storage, or by export or import of water to or from other watersheds.

A hearing for receipt of oral comments on the draft proposal began on November 29, 2016 and concluded on January 3, 2017. [The SWRCB accepted written comments on the draft proposal through March 17, 2017.] After receipt of comments, the SWRCB will make any needed changes to the proposal and prepare written responses to comments along with a final draft proposal and final draft changes to the Bay-Delta Plan for consideration by the SWRCB. Changes to the Bay-Delta Plan must be approved by the SWRCB and the Office of Administrative Law before becoming effective. Phase 1 of the update is not expected to be completed until the summer of 2017.

On October 19, 2016, the SWRCB staff released a working draft Scientific Basis Report (the "SBR") for fisheries and flows in the Sacramento River and Bay-Delta. The SBR is the next step in the SWRCB's Phase 2 update of the Bay-Delta Plan. 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. Once the SBR is finalized, an environmental document that analyzes possible effects of modified requirements for fish and wildlife protection on other beneficial uses of water, including alternatives and economic impacts, will also be developed as part of the process and will accompany any proposed changes to the plan in 2017.

On July 25, 2012, Governor Jerry 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 2016, the State separated the focus of the BDCP into two efforts: the California Eco Restore ("EcoRestore") Project and the California Water Fix. California EcoRestore aims 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. California Water Fix focuses on protecting the State's water supplies from climate change through water system upgrades that protect against the impacts of sea level rise and earthquakes while improving river flows and reducing entrainment for threatened fish species. The Bay-Delta diversion facilities previously proposed in the BDCP are now captured within the California Water Fix effort. The State released the Recirculated Draft Environmental Impact Report ("RDEIR")/Supplemental Draft Environmental Impact Statement ("SDEIS") on July 10, 2015, with comments due by August 31, 2015. On July 22, 2015, the comment period was extended to October 30, 2015. The RDEIR/SDEIS addresses the environmental impacts of the diversion facilities. The current estimated cost of the California Water Fix, including capital, operation and maintenance and monitoring costs over a 50 year period is approximately \$17.0 billion. There can be no assurance that such projected costs will not increase as a result of revisions to the project, increases in construction or other costs related thereto. Any changes could be material and impact the costs of the District's state and federal water supplies. The final Environmental Impact Report/Environmental Impact Statement for California Water Fix was released in late December 2016. A record of decision under the National Environmental Policy Act will be issued by the United States Bureau of Reclamation no sooner than 30 days after the EPA's Federal Register publication of the notice of availability. Certification of the EIR and final decision-making under the California Environmental Quality Act (CEQA) by DWR would not occur until after the 30-day Federal Register notice of availability period has passed.

The District has yet not decided whether to participate in the California Water Fix project. Participating in the California Water Fix project could result in material changes and impacts on the costs of the District's State and/or federal water supplies. Non participation could pose risks to the District's water supplies that result from climate change, sea level rise, and potential levee failure events, as well as greater reductions in supplies in response to potentially increasing regulatory restrictions. As a result, the District would need to undertake other water supply projects to offset impacts, which may require significant financial investments.

DWR and USBR have filed a petition with the SWRCB to change certain of their water rights as a result of the proposed California Water Fix project. On October 30, 2015, the SWRCB issued public notices on such petition and a public hearing with respect thereto. The notice of public hearing was revised on March 25, 2016 and May 11, 2016 to accommodate a change in the hearing schedule. The hearing is being conducted in two parts. The first part will address the potential impacts of the California Water Fix project on other legal users of water. The second part will focus on potential effects of the project on fish and wildlife and recreational uses and conditions that should be placed on any approval of the petition to protect those uses, including consideration of the appropriate Delta flow criteria for the California Water Fix project. The second part of the hearing is expected to begin once the CEQA, ESA and CESA processes are completed.

Part 1A of the hearing began on July 26, 2016. The evidentiary portion of Part 1A started on July 29, 2016, with DWR's and USBR's cases-in-chief, including direct testimony and associated cross-examination. Part 1B of the hearing began on October 20, 2016, with other parties' cases-in-chief, associated cross-examination and rebuttal for all of Part 1 of the hearing. On December 19, 2016, the hearing officers issued a ruling letter transmitting submittal deadlines for introducing Part 1 exhibits into evidence, filing and responding to objections to exhibits or testimony offered. Parties will have 30 days from the hearing officers' ruling on admissibility of Part 1 evidence to submit written rebuttal testimony and exhibits. [This ruling is estimated to be issued in February 2017.]

In 2009, the SLDMWA issued its \$50,000,000 Revenue Notes (DHCCP Development Project), Series 2009A (the "DHCCP Notes") to finance certain preliminary planning costs relating to the Delta Habitat Conservation and Conveyance Plan (DHCCP), which, together with the BDCP described above, are programs consisting of joint efforts by agencies of the federal government and the State and local agencies to fund and plan habitat conservation and water supply activities in the Delta. The District, along with certain other water agencies in the State, entered into contracts with SLDMWA in connection with the delivery of the DHCCP Notes pursuant to which the District was obligated to make certain payments which were applied to the pay debt service on the DHCCP Notes. The District has since paid off its share of such contractual payments with respect to the DHCCP Notes. As of [December 31, 2016], the District's allocated share of the unspent proceeds of the DHCCP Notes was approximately \$390,000. [The District has not made a formal decision as to the expenditure of such remaining unspent proceeds.]

Allocation of Water Deficiencies

The District'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. The District 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.

The District'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, the Bureau developed a M&I water shortage policy that gives M&I use a higher degree of protection than agricultural use in drought periods. The Bureau had implemented this policy as an Interim Policy since 1994. In November 2015, the Bureau 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 Reclamation 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. In 1997, the District entered into a 25-year renewable contract with the Bureau and agricultural contractors in the SLDMWA to further establish the reliability of its CVP M&I supplies (the “Water Reallocation Agreement”). Under the Water Reallocation Agreement, the District’s historic use is set at 130,000 acre-feet.

Water Banking

The District’s 2012 Water Supply and Infrastructure Master Plan identified banking of excess supplies in wetter years as a central element in the preferred strategy for providing supplies needed in future dry years.

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 the District until January 1, 2006 was 350,000 acre-feet. By that date, the District 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 twenty years, the District has stored about 428,000 acre-feet of water in Semitropic Groundwater Banking Program and withdrawn about 220,000 acre-feet of supply, including 97,000 acre-feet over the last three years during a time when supplemental water supply has been limited. As of December 31, 2016, the District had approximately 190,339 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 the District would be significantly affected along with other imported water deliveries from the District’s SWP and CVP contracts. To the extent that SWP water may be conveyed through or is stored in San Luis Reservoir and is available, deliveries from the Semitropic Groundwater Banking Program could be accomplished through the San Felipe Division.

District’s Local Water Right Permit and Licenses

On July of 1996, the Guadalupe Coyote Resources Conservation District (“GCRCD”) filed a complaint with the SWRCB alleging that the District 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 the District’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 the District’s 17 local appropriative water right licenses 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, the District commenced settlement negotiations with GCRCD as well as with NMFS, FWS, California Department of Fish and Wildlife (“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 District established process called the Fisheries and Aquatic Habitat Collaborative Effort (“FAHCE”). On May 27, 2003, a conditional settlement was initialed 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 the District to carrying out certain conditions precedent including completing an environmental review and obtaining state and federal regulatory approvals of certain District reservoir reoperations measures, scientific studies, and restoration measures (collectively referred to as the “FAHCE Restoration Program”), and amending the District’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 the District to carry out the FAHCE Restoration Program. Although the District is not required to implement the FAHCE Restoration Program until the conditions precedent are completed, the District 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. From the date the FAHCE Settlement Agreement was initiated in May of 2003 to 2014, the District 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. Because of past and likely ongoing protracted negotiations with NMFS, the District shifted its focus to complete the other conditions precedent specified in the FAHCE Settlement Agreement required for state regulatory approval. Once these other conditions precedent are completed, the District intends to carry out the FAHCE Restoration Program, while pursuing federal incidental take coverage of Steelhead Trout either through Section 7 or Section 10 of the ESA.

If the District is unsuccessful in implementing the FAHCE Settlement Agreement, GCRCD’s water rights complaint before the SWRCB would likely recommence, thus exposing the District to liability in excess of the costs it committed to under the FAHCE Settlement Agreement. Under the terms of the FAHCE Settlement Agreement, the District conditionally agreed to undertake restoration measures at a cost not to exceed \$42,000,000 for each three 10-year phase. A hearing before the SWRCB on GCRCD’s complaint could result in a ruling requiring increased environmental in-stream uses of the District’s local water rights and corresponding decreased water supply availability.

California Drought and Response

Governor’s Executive Orders. Hydrological conditions in California can vary widely from year to year. In 2013, much of California experienced one of the driest years on record and such dry conditions continued through January 2014. Due to these record-dry conditions, Governor Edmund G. Brown (the “Governor”) proclaimed a drought emergency on January 17, 2014.

On April 1, 2015, Governor Brown issued an executive order (the “2015 Executive Order”) mandating, among other provisions, a 25% reduction in potable urban water usage in California (as compared to potable water usage in 2013) through February 28, 2016. On February 2, 2016, the reductions mandated by the 2015 Executive Order were extended through October 31, 2016. In connection with such extension, the general framework of the regulations implementing the 2015 Executive Order were left intact, however, urban water suppliers are now provided credits and adjustments based on climate and recognition of significant investments made to create local, drought-resilient sources of potable water.

On May 9, 2016, the Governor issued an executive order directing the SWRCB to adjust and extend the SWRCB’s emergency water conservation regulations through the end of January 2017 (the “2016 Executive Order”). On May 18, 2016 and in accordance with the 2016 Executive Order, the SWRCB adopted an emergency water conservation regulation (the “2016 SWRCB Regulation”) that replaced its February 2, 2016 emergency regulation and extends through January 31, 2017. The 2016 SWRCB Regulation requires urban water suppliers, including retail water agencies within the District, to develop conservation standards based upon each urban water supplier’s specific circumstances and replaces the prior percentage reduction-based standard described above.

While the 2016 SWRCB Regulation does not require the District, as a wholesaler, to develop a conservation standard, the District was required to calculate the volume of water it expects it would deliver to each urban water supplier in the next three years under the assumptions set forth in the 2016 SWRCB Regulation and to post this calculation and the underlying analysis on a publicly-available webpage no later than June 15, 2016. On June 15, 2016, the District posted the report required by the 2016 SWRCB Regulation to the District's website.

The 2016 SWRCB Regulation as implemented applies to retail water agencies within the District. The major water retailers reduced water use by approximately 27% in 2016 (January through October, compared to the same time period in 2013). Continued reduction in water sales may adversely affect the District's projected operating results set forth under the caption "FINANCIAL INFORMATION OF THE DISTRICT—Projected Operating Results and Debt Service Coverage." The District 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 FOR THE 2017 BONDS—Rate Covenant."

District Drought Response Actions and Impact. The District projects that it will be able to meet existing demands for imported water in Fiscal Years 2017-18 and 2018-19 even if dry conditions continue, provided retailers continue to achieve high levels of water savings. The District plans to continue to call for water use reductions, outreach to community and customers, operate the Water Waste Inspector program, provide water conservation rebates, retrieve water from the Semitropic Groundwater Banking Program, purchase supplemental water supplies, work with local agencies and retailers on water shortage contingency plans and ordinance development, consider and pursue potential legislation, and develop potable reuse to augment local water supplies.

QUALITY OF DISTRICT'S WATER

Groundwater

Groundwater in the County is generally of high quality. Water retailers within the County distribute groundwater directly to the consumer. Retailers typically do not have to treat water, other than disinfection. The retailers are responsible for monitoring and reporting the quality of water they serve.

The District has implemented numerous programs to protect groundwater quality. Each year, the District analyzes water quality data from approximately 300 wells (sampled by water retailers and the District) to assess current conditions, evaluate trends, and identify areas of special concern. Elevated nitrate concentrations in the southern portion of the County resulting from rural and agricultural land use pose an ongoing groundwater management challenge. The District continues to implement a comprehensive nitrate management program to monitor nitrate occurrence, reduce consumer exposure to nitrate in drinking water, and reduce nitrate loading. The District continues to promote a nitrate treatment system rebate program for residential well owners with high nitrate in their water. The District also promotes groundwater protection through workshops, groundwater fact sheets, and website information. The District's well construction and destruction programs ensure wells and other deep excavations are constructed, maintained, and destroyed such that they will not cause groundwater contamination.

The District also provides technical expertise and peer review to regulatory agencies such as the Regional Water Quality Control Board, the Department of Toxic Substances Control, and the EPA for cleanup sites and for the development of standards for groundwater protection. The District is continuing to support the Central Coast Regional Board's efforts to regulate perchlorate cleanup in the Llagas Subbasin. The District provides groundwater data, technical assistance, and logistical and technical support for Perchlorate Community Advisory Group meetings. In addition, staff is working closely with the Central Coast Regional Board, the County, and the cities of Morgan Hill and Gilroy to ensure that the Central Coast Regional Board's

long-term corrective action plan meets all of 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 the Sustainable Groundwater Management Act. This plan will help the District continue to sustainably manage its groundwater resources and ensure their long-term viability.

Surface Water

The District relies heavily on imported surface water from SWP, which is operated by DWR, and the CVP, operated by the USBR. Additionally, the District stores local surface water supplies in its own reservoirs. The District 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.

The District'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 the District because they are disinfection by-product precursors.

Treated Water

The District produces treated water that meets or exceeds all current requirements of the Safe Drinking Water Act ("SDWA") and the regulations of the SWRCB's Division of Drinking Water.

In recent years 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 ByProducts 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 the District 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 the District's drinking water treatment plants and completed in 2002. The TWIP2 was implemented at two treatment plants and was completed in 2006. The third plant is incorporating upgrades of the TWIP2 into a larger project known as the Reliability Improvement Project (RIP) that is targeted for completion in 2020.

The District'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, in order to continue ensuring high-quality drinking water that meets recent and future more stringent drinking water standards. The District 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, the District's oldest treatment facility.

CAPITAL IMPROVEMENT PROGRAM

Future Water Utility System Improvements

The District currently expects to undertake approximately \$1.5 billion of improvements to the Water Utility System from Fiscal Years 2017-18 through 2021-22. Such improvements would be funded with approximately \$1.1 billion of additional debt issuance, and approximately \$400 million from other non-financing sources.

With regards to investments to expand its water supply portfolio, the District is currently evaluating the feasibility, timing, scope, cost, and delivery method for producing up to 45,000 acre-feet per year of purified water for potable reuse (the “Expedited Purified Water Program”). If undertaken, the Expedited Purified Water Program would be in addition to the 8 MGD of purified water currently produced by the SVAWPC for non-potable uses. Current estimates of the capital cost of the Expedited Purified Water Program range between \$600 million and \$1 billion. The District’s preliminary Capital Improvement Program for Fiscal Years 2017-18 through 2021-22 includes \$460 million to partially fund the design and construction of certain components of the Expedited Purified Water Program, which costs could result in annual expenditures as high as \$200 million over such five-year period. The District is currently in discussions with the City of San Jose with respect to various agreements that will impact the development of the Expedited Purified Water Program. The District can make no assurances as to the timing or scope of these agreements or whether such discussions will result in any formal agreements. In June 2016, the District pre-qualified entities for both progressive design-build and public-private partnership delivery methods of the Expedited Purified Water Program through a request for qualification process. Decisions that are currently expected to be made by the District Board in the next 12 months will determine the delivery method, scope, and costs of the Expedited Purified Water Program, and could significantly impact the level of necessary funding in the coming years.

FINANCIAL INFORMATION OF THE DISTRICT

Financial Statements

A copy of the most recent audited financial statements of the District prepared by District staff and audited by Vavrinek, Trine Day & Co., LLP, Palo Alto, California (the “Auditor”) is attached as Appendix A hereto (the “Financial Statements”). The Auditor letter concludes that the audited 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 the District as of June 30, 2016 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 District’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 the District 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 the District'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. Agency funds are used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Agency 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 the District.

Historical and Projected Operating Results and Debt Service Coverage

The following table summarizes the District's combined revenues and expenses relating to the Water Utility System recorded in Fiscal Year 2011-12 through Fiscal Year 2015-16. Historical results have been derived from the Financial Statements of the District but exclude certain non-cash items and include certain other adjustments.

The District accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the District ("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 FOR THE FISCAL YEAR ENDED JUNE 30, 2016." Except as otherwise expressly noted herein, all financial information derived from the District's audited financial statement reflect the application of GAAP.

Fiscal Year 2015-16 Financial Highlights for the Water Enterprise Fund

The following provides a summary of the financial position of the District's Water Enterprise fund at the end of Fiscal Year 2015-16:

- Net position of the Water Enterprise fund at the end of Fiscal Year 2015-16 was approximately \$632,500,000, an increase of approximately \$8,100,000 from Fiscal Year 2014-15.
- Operating revenues decreased by approximately \$3,800,000 or 0.5% from Fiscal Year 2014-15, still reflecting the drop in water consumption resulting from the District's drought related water conservation program.
- Operating expenses increased by \$8,900,000 from Fiscal Year 2014-15. Sources of supply accounted for \$5,700,000 or 64% of the total increase as the District continues to purchase water

at an increasing cost, as well as promote the water conservation rebate program throughout the valley in order to mitigate the effects of the drought.

- Net non-operating revenues decreased by \$2,100,000 from Fiscal Year 2014-15. While investment income and property taxes increased by approximately \$1,300,000 and \$456,000 from Fiscal Year 2014-15, respectively, interest and fiscal agent fees (which are non-cash items) were \$4,600,000 higher compared to Fiscal Year 2014-15 as a result of debt refunding.
- Water charges for services decreased by approximately \$3,600,000 million or 2.3% from Fiscal Year 2014-15. The decrease was due to conservation efforts made by users in response to the historic drought that California continues to experience.
- Capital grants and contributions increased \$2,300,000 or 275% due to higher reimbursement receipts from the Department of Water Resources (\$1,300,000) and City of Santa Clara (\$1 million).

For further information with respect to the District's operating results for Fiscal Year 2015-16, see "Appendix A — AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

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

	2011-12	2012-13	2013-14	2014-15	2015-16
Water Utility System Revenues					
Groundwater Charges	\$48,030	\$62,084	\$84,308	\$77,095	\$61,128
Treated Water Charges	92,904	92,359	86,386	76,799	89,375
Surface and Recycled Water Charges	849	1,275	1,680	925	732
Property Taxes ⁽²⁾	4,289	4,711	5,104	5,634	6,095
Investment Income ⁽³⁾	1,082	1,163	1,624	1,621	2,925
Operating Grants	1,111	980	1,232	2,149	2,074
Net Transfers In ⁽⁴⁾	3,281	3,729	0	0	18,192
Net Transfers Out ⁽⁵⁾	0	0	272	11,406	0
Other ⁽⁶⁾	<u>3,203</u>	<u>4,765</u>	<u>2,233</u>	<u>1,879</u>	<u>1,883</u>
Total Revenues	\$154,750	\$171,066	\$182,295	\$154,696	\$182,404
Maintenance and Operation Costs					
Sources of Supply ⁽⁷⁾	\$51,371	\$47,898	\$53,812	\$68,294	\$73,982
Water Treatment	28,281	30,287	31,843	29,941	34,044
Transmission and Distribution					
Raw Water	9,777	11,137	9,322	9,585	11,101
Treated Water	1,998	1,636	1,868	1,539	1,743
Administration and General ⁽⁸⁾	<u>20,078</u>	<u>20,162</u>	<u>21,313</u>	<u>21,556</u>	<u>18,454</u>
Total Operating Expenses	\$111,505	\$111,120	\$118,158	\$130,915	\$139,324
Net Water Utility System Revenues	\$43,245	\$59,946	\$64,137	\$23,781	\$43,080
Debt Service on Senior Obligations					
Series 2006 Bonds	\$6,336	\$6,275	\$6,373	\$6,515	\$2,992
Series 2007 Installment Payments	6,437	7,893	7,751	7,981	6,621
DWR Loan ⁽⁹⁾	<u>401</u>	<u>401</u>	<u>401</u>	<u>401</u>	<u>401</u>
Total Senior Debt Service	\$13,174	\$14,569	\$14,525	\$14,897	\$10,014
Transfers to (-)/from (+) Rate Stabilization Fund ⁽¹⁰⁾	--	--	--	--	0
Transfers from Special Purpose Funds ⁽¹⁰⁾	--	--	--	--	0
Net Water Utility System Revenues Available for Parity Obligations Debt Service	\$30,071	\$45,377	\$49,612	\$8,884	\$33,066
Debt Service on Parity Obligations					
2016 Bonds	--	--	--	--	\$1,448
2016 Installment Purchase Agreement	--	--	--	--	<u>624</u>
Total Parity Debt Service	--	--	--	--	\$2,072
Parity Obligations Debt Service Coverage	--	--	--	--	15.96
Debt Service on Subordinate Obligations					
Commercial Paper ⁽¹¹⁾	<u>0</u>	<u>0</u>	<u>0</u>	<u>60</u>	<u>185</u>
Total Debt Service on Senior, Parity and Subordinate Obligations	\$13,174	\$14,569	\$14,525	\$14,957	\$12,271
Revenues Remaining for Capital Improvements	\$30,071	\$45,377	\$49,612	\$8,824	\$30,809
Senior Debt Service Coverage	3.28	4.11	4.42	1.60	4.30
Senior, Parity and Subordinate Obligations Debt Service Coverage	3.28	4.11	4.42	1.59	3.51

⁽¹⁾ Amounts rounded to nearest thousand.

(Footnotes continued on following page)

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- (2) Includes adjustments for homeowners' property tax relief and certain other property tax receipts not constituting Water Utility System Revenues.
- (3) Interest income includes market value adjustments per GAAP. Fiscal Year 2015-16 includes \$1,040,000 from the release of the guaranteed investment certificate held in the reserve fund for the Water Utility System Refunding Revenue Bonds, Series 2006A (the "2006A Bonds"), in connection with the refunding of 2006A Bonds from a portion of the proceeds of the Water System Refunding Revenue Bonds, Series 2016A.
- (4) Net Transfer In for Fiscal Year 2015-16 includes transfers in of approximately \$14,000,000 for Anderson Dam project from Safe, Clean Water Fund, approximately \$2,400,000 from the Watershed funds for sale of excess property, approximately \$3,200,000 from the Watersheds fund and approximately \$400,000 from the General Fund for the landscape rebate program, approximately \$1,200,000 from the Watershed funds for the open space credit, and approximately \$1,200,000 from the General Fund for the open space credit; offset against transfers out of approximately \$2,600,000 to the general fund for emergency drought response program and approximately \$1,700,000 to the State Water Project fund.
- (5) Net Transfer Out in Fiscal Year 2014-15 amount includes a transfer out of approximately \$13,200,000 to the general fund for the drought emergency response project and a transfer in of approximately \$1,880,000 from the general fund and watershed and stream stewardship fund relating to subsidies provided for agricultural rates and charges.
- (6) Includes rental income, reimbursements relating to the San Felipe Division, and adjustments for unrealized gains and losses on investments to comply with Governmental Accounting Standards Board Statement No. 31.
- (7) Increase in Fiscal Years 2014-15 and 2015-16 as result of supplemental water purchases. See the discussion under "— Fiscal Year 2015-16 Financial Highlights for the Water Enterprise Fund" above.
- (8) Excludes certain capital expenditures. Includes certain adjustments for OPEB costs and accrued compensated absences.
- (9) In February 2016, the District prepaid the outstanding balance of the DWR Loan from proceeds of Commercial Paper Certificates.
- (10) The Parity Master Resolution, adopted by the Board in February 2016, authorized the designation of the Rate Stabilization Fund and Special Purpose Funds. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS — Rate Stabilization Fund" and "— Special Purpose Funds."
- (11) Constitutes interest only on Commercial Paper Certificates. The District has pledged Net Water Utility System Revenues to the payment of TRANs on a subordinate basis to the 2017 Bonds, which TRANs support the Commercial Paper Certificates.

Source: District.

The property taxes levied by the District 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 2016-17 through Fiscal Year 2020-21 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the estimate of projected financial results of the District based upon the District'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 the District, 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.

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

	<i>2016-17⁽²⁾</i>	<i>2017-18</i>	<i>2018-19</i>	<i>2019-20</i>	<i>2020-21</i>
Water Utility System Revenues					
Groundwater Charges ⁽²⁾	\$ 76,847	\$ 94,431	\$ 115,035	\$ 141,967	\$ 174,931
Treated Water Charges ⁽³⁾	107,824	117,576	129,352	142,508	157,044
Surface and Recycled Water Charges ⁽⁴⁾	2,218	2,429	2,658	2,910	3,186
Property Taxes ⁽⁵⁾	6,063	6,495	6,722	6,957	7,201
Investment Income ⁽⁶⁾	629	735	911	1,230	1,587
Intergovernmental Services	3,428	1,924	1,796	1,815	1,830
Net Transfers In ⁽⁷⁾	2,601	3,143	4,678	5,075	5,489
Net Transfers Out ⁽⁸⁾	(3,925)	(9,609)	(1,043)	(4,688)	(3,845)
Other	<u>377</u>	<u>379</u>	<u>386</u>	<u>393</u>	<u>400</u>
Total Revenues	\$ 196,062	\$ 217,503	\$ 260,495	\$ 298,167	\$ 347,823
Maintenance and Operation Costs					
Sources Of Supply ⁽⁹⁾	\$ 76,364	\$ 65,983	\$ 69,073	\$ 71,661	\$ 73,954
Water Treatment ⁽¹⁰⁾	36,454	38,185	39,923	41,316	42,788
Transmission And Distribution ⁽¹¹⁾					
Raw Water	12,661	13,110	14,039	15,341	15,275
Treated Water	1,696	1,637	1,695	2,210	1,865
Administration and General	<u>23,851</u>	<u>26,192</u>	<u>27,270</u>	<u>27,992</u>	<u>29,100</u>
Total Operating Expenses	\$ 151,026	\$ 145,107	\$ 152,000	\$ 158,520	\$ 162,982
Net Water Utility System Revenues	\$ 45,036	\$ 72,396	\$ 108,495	\$ 139,647	\$ 184,841
Debt Service on Senior Obligations					
Series 2006B Bonds	\$ 1,777	\$ 1,781	\$ 1,778	\$ 1,778	\$ 1,781
2007 Installment Purchase Agreement	<u>7,221</u>	<u>2,778</u>	<u>3,306</u>	<u>3,786</u>	<u>3,765</u>
Total Senior Debt Service	\$ 8,998	\$ 4,559	\$ 5,084	\$ 5,564	\$ 5,546
Transfers to (-)/from (+) Rate Stabilization Fund	0	0	0	0	0
Transfers from Special Purpose Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Water Utility System Revenues Available for Parity Obligations Debt Service	\$ 36,038	\$ 67,837	\$ 103,411	\$ 134,083	\$ 179,295
Debt Service on Parity Obligations					
2017 Bonds	--	\$ 4,708	\$ 4,725	\$ 4,718	\$ 4,731
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
Future Debt Issuances ⁽¹²⁾	<u>1,919</u>	<u>4,125</u>	<u>11,502</u>	<u>25,253</u>	<u>51,071</u>
Total Parity Debt Service	\$14,146	\$ 25,710	\$ 35,257	\$ 49,198	\$ 75,036
Parity Obligations Debt Service Coverage	2.55	2.64	2.93	2.73	2.39
Debt Service on Subordinate Obligations					
Commercial Paper ⁽¹³⁾	\$ 1,553	\$ 4,730	\$ 3,671	\$ 4,909	\$ 5,428
Total Debt Service on Senior, Parity and Subordinate Obligations	\$ 24,697	\$ 34,999	\$ 44,012	\$ 59,671	\$ 86,010
Revenues Remaining for Capital Improvements	\$ 20,339	\$ 37,397	\$ 64,484	\$ 79,976	\$ 98,831
Senior Debt Service Coverage	5.01	15.88	21.34	25.10	33.33
Senior, Parity and Subordinate Obligations Debt Service Coverage	1.82	2.07	2.47	2.34	2.15

⁽¹⁾ Amounts rounded to nearest thousand.

(Footnotes continued on following page)

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- (2) Reflects adjusted budget amounts, including a downward adjustment in Groundwater Charges revenues due to a projected reduction in water usage in Fiscal Year 2016-17. Reflects compound annual growth rate of 22.8% per annum between Fiscal Year 2016-17 and Fiscal Year 2020-21.
- (3) Reflects compound annual growth rate of 10% per annum between Fiscal 2016-17 and Fiscal Year 2020-21. Assumes the water rates and charges set forth under the caption "PRIMARY SOURCES OF REVENUES — Water Charges."
- (4) Reflects compound annual growth rate of 9.5% per annum between Fiscal 2016-17 and Fiscal Year 2020-21. Assumes the water rates and charges set forth under the caption "PRIMARY SOURCES OF REVENUES — Water Charges."
- (5) Reflects compound annual growth rate of 4.4% per annum between Fiscal 2016-17 and Fiscal Year 2020-21. See footnote 2 to the Historical Operating Results & Debt Service Coverage table for information with respect to adjustments for homeowners' property tax relief and certain other property tax receipts.
- (6) Reflects projected interest earnings at a rate of 0.75% in Fiscal Year 2016-17 thru 2017-18, 1.0% in Fiscal Year 2018-19, 1.25% in Fiscal Year 2019-20 and 1.5% in Fiscal Year 2020-21. The projected interest earnings do not include any assumptions for market value adjustments.
- (7) Fiscal Years 2016-17 thru 2020-21 include projected transfers in from the Watershed Stream Stewardship Fund and the General Fund for the Open Space Credit, which helps subsidize agricultural water rates.
- (8) Fiscal Years 2016-17 through 2020-21 include projected transfers out for one-time capital costs of approximately \$13.4 million for the new headquarters operations building, and the Winfield Warehouse capital improvements and \$9.3 million in Fiscal Year 2017-18 for the Main/Madrone Pipeline Restoration project.
- (9) Fiscal Year 2017-18 includes \$1.35 million for projected costs related to the CVP portion of the California Water Fix project under the Sources of Supply cost category, which are projected to increase to \$1.86 million by Fiscal Year 2020-21. See the caption "FACTORS AFFECTING WATER SUPPLIES —California Water Policy Framework." Projected costs related to the California Water Fix project are subject to Board approval.
- (10) Reflects compound annual growth rate of 4.1% per annum between Fiscal 2016-17 and Fiscal Year 2020-21.
- (11) Reflects compound annual growth rate of 4.8% for raw water and 2.4% for treated water transmission and distribution per annum between Fiscal 2016-17 and Fiscal Year 2020-21.
- (12) Amounts include projected combination of projected amounts of Commercial Paper Certificates and long-term debt issuances estimated at \$128 million in Fiscal Year 2016-17, \$75 million in Fiscal Year 2017-18, \$91 million in Fiscal Year 2018-19, and \$341 million in Fiscal Year 2019-20; annual debt service calculated assuming an interest rate ranging between 4.4% and 7.0% per annum.
- (13) Interest only on Commercial Paper Certificates at an assumed rate of 2.0% per annum in Fiscal Year 2016-17, 3.5% per annum in Fiscal Year 2017-18, 5.0% per annum in Fiscal Year 2018-19, 6.3% per annum in Fiscal Year 2019-20 and thereafter, on projected outstanding Commercial Paper Certificates balance.

Source: District.

The property taxes levied by the District 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.

DISTRICT EMPLOYEE RELATIONS

Bargaining Units

On August 26, 2014, the Board approved new multi-year memorandum of understanding agreements ("MOU's") between the District and the bargaining units. The agreements became effective on January 1, 2015 and expire on December 31, 2017. The current agreements include across the board salary adjustments of 3.0% in 2015, 2016 and 2017. Under the current MOU's, the District 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. The District'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). During the term of the current MOU's: (1) employees participating in the 2.5% @ 55 tier will pay 50% of the normal cost as determined by CalPERS, with a minimum contribution of 8% and a maximum of 11%; (2) employees participating in the 2.0% @ 60

tier will pay 50% of the normal cost as determined by CalPERS, with a minimum contribution of 7% and a maximum of 10%; and (3) employees participating in the 2% @ 62 tier will pay 50% of the normal cost as determined by CalPERS, which is currently 6.75%. The foregoing deductions will be pre-tax.

Employees are eligible for the following retiree medical coverage: (1) 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 District service, and (b) medical coverage for the employee plus one eligible dependent with a minimum of 15 years (31,200 hours) of continuous District service; and (2) 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 District service, and (b) medical coverage for the employee plus one eligible dependent with 20 years (41,600 hours) or more years of continuous District service.

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 District's 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/>).

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 for those members enrolled in the 2.5% @ 55 and 2.0% @ 60 retirement formulas. Members enrolled in the 2.0% @ 62 formula are eligible to retire at age 52 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.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

<i>Hire Date</i>	<i>Prior to 3/19/2012</i>	<i>3/19/2012 to 12/31/2012</i>	<i>On or After 1/1/2013</i>
Benefit formula	2.5% @ 55 (Classic CalPERS Members – Tier 1)	2% @ 60 (Classic CalPERS Members – Tier 2)	2% @ 62 (New-PEPRA-CalPERS Members – Tier 3)
Benefit vesting schedule	5 years' service	5 years' service	5 years' service
Benefit payments	monthly	monthly	monthly
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation ⁽¹⁾	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 1.09%*	7.0% + 2.09%*	6.75%
Required employer contribution rates ⁽²⁾	21.147%	21.147 %	21.147%

* Member additional contribution towards District's CalPERS cost in effect at June 30, 2016; See the caption "— Bargaining Units" above for a description of the maximum employee contributions per negotiated agreement with the bargaining units.

(1) With respect to the 2% @ 60 and 2% @ 62 benefit formulas, the monthly benefits earned as a percentage of eligible compensation increases at a rate set by CalPERS for each quarter worked beyond age 60. Members who first entered into CalPERS membership prior to January 1, 2013 and have less than a six (6) month cap between a CalPERS/Reciprocal employer are deemed "Classic" members. Members who first entered into CalPERS membership on or after January 1, 2013 or have more than a six (6) month cap between a CalPERS/Reciprocal employer are deemed "New-PEPRA" members.

(2) In August 2016, CalPERS released the actuarial valuation report of the District's pension plan as of June 30, 2015. The report includes projections of employer rates for Fiscal Years 2016-17 and 2017-18, which are 22.416% and 23.623%, respectively. See "— Contributions"

Employees Covered. At July 1, 2016, the following number of employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	444
Active employees	718

Contributions. Section 20814(c) of the California Public Employees' Retirement Law 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. The District 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 requirement employer contributions for Fiscal Years 2016-17 and 2017-18. 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</i>	<i>Total</i>
2012-13	9.798%	6.896%	16.694%
2013-14	10.251	7.498	17.749
2014-15	10.152	9.480	19.632
2015-16	10.197	10.950	21.147
2016-17	10.249	12.167	22.416
2017-18 ⁽¹⁾	9.985	13.638	23.623

⁽¹⁾ Beginning with Fiscal Year 2017-18, CalPERS will collect employer contributions toward the unfunded accrued liability as dollar amounts instead of a contribution rate. The District's estimated employer contribution for its unfunded liability in Fiscal Year 2017-18 is estimated to be \$11,525,929, which is approximately 13.638% of projected payroll.

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2015.

Net Pension Liability. The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The available net pension liability of the Plans was most recently measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. 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, 2014 and June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2014	June 30, 2015
Measurement date	June 30, 2015	N/A ⁽¹⁾
Actuarial cost method	Entry-age normal cost method	Entry-age normal cost method
Discount rate	7.65% ⁽²⁾	7.65% ⁽²⁾
Inflation	2.75%	2.75%
Salary increases	Varies by entry age and service	Varies by entry age and service
Investment rate of return ⁽³⁾	7.5%	7.5%
Mortality rate table ⁽⁴⁾	Derived using CalPERS' membership data for all funds	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.75% unit purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.	Contract COLA up to 2.75% unit purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

⁽¹⁾ Measurement date pending Fiscal Year 2016-17 GASB 68 accounting valuation report, to be available by June 2017.

⁽²⁾ The discount rate, net of pension plan investment expenses (including inflation), is 7.5%.

⁽³⁾ Net of pension plan investment expenses, including inflation. In December 2016, CalPERS' board voted to reduce the assumed investment rate of return to 7% by 2020. See the caption "— Discount Rate" below.

⁽⁴⁾ The mortality rate table was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuarial Scale BB.

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2015 and as of June 30, 2014.

Discount Rate

General. CalPERS reviews all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. In December 2016, CalPERS' board approved reductions in the assumed investment rate of return (also referred to as the discount rate) in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. Such reductions in the discount rate are expected to increase the District's required employer contributions as well as the District'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 the District's net pension liability.

The District does not expect such reductions in CalPERS' assumed discount rate and increases in its required payments CalPERS' which may result therefrom to have a material adverse impact on its ability to pay debt service on the 2017 Bonds. CalPERS may adjust the discount rate in the future, which adjustments will require action by CalPERS' board and proper stakeholder outreach.

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 6/30/2015 ⁽¹⁾	\$ 657,757,127	\$ 508,241,424	\$ 149,515,703
Changes Recognized for the Measurement Period:			
Service Cost	13,735,953	--	13,735,953
Interest on Total Pension Liability	48,842,236	--	48,842,236
Different between Expected and Actual Experience	(184,479)	--	(184,479)
Changes of Assumptions	(12,079,891)	--	(12,079,891)
Contribution from Employer	--	15,157,939	(15,157,939)
Contribution from Employees	--	6,242,234	(6,242,234)
Net Investment Income	--	11,478,076	(11,478,076)
Benefit Payments, including Refunds of Employee Contribution	(27,800,233)	(27,800,232)	--
Administrative Expense	--	(566,550)	566,550
Net Changes During 2015-16	<u>22,513,586</u>	<u>4,511,466</u>	<u>18,002,120</u>
Balance at 6/30/2016 ⁽¹⁾	\$ 680,270,713	\$ 512,752,890	\$ 167,517,823

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the District, calculated using the current discount rate, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<i>Discount Rate – 1% 6.65%</i>	<i>Current Discount 7.65%</i>	<i>Current Discount + 1% 8.65%</i>
Plan Net Pension Liability/(Assets)	\$259,734,951	\$167,517,823	\$91,158,808

Source: Santa Clara Valley Water District.

Funding History. The following table sets forth the schedule of funding progress in connection with the District'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>
6/30/11	\$528,826,584	\$384,834,976	\$143,991,608	72.8%	\$80,604,447
6/30/12	565,851,333	384,890,385	180,960,948	68.0	76,988,604
6/30/13	595,102,821	433,484,413	161,618,408	72.8	75,617,324
6/30/14	657,572,648	507,409,049	150,163,599	77.2	75,737,603
6/30/15	689,570,070	511,968,421	177,601,649	74.2	77,343,360

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2015.

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

Pension Expenses and Deferred Outflow/Inflow of Resources. For the year ended June 30, 2016, the District recognized pension expense of \$11,900,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<i>Deferred Outflow of Resources</i>	<i>Deferred Inflow of Resources</i>
Pension contribution subsequent to measurement date	\$ 16,532,182	--
Change of assumptions		\$ (8,900,972)
Difference between actual and expected experience		(135,932)
Net differences between projected and actual earnings on plan investments	--	(4,369,267)
Total	\$ 16,532,182	\$(13,406,171)

Source: Santa Clara Valley Water District.

Approximately \$16,500,000 is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<i>Measurement Period</i>	<i>Deferred Outflows/(Inflows) of Resources</i>
2015-16	\$ (6,484,114)
2016-17	(6,484,114)
2017-18	(5,838,619)
2018-19	<u>5,400,676</u>
Total	\$ (13,406,171)

Source: Santa Clara Valley Water District.

Payable to the Pension Plan. At June 30, 2016, the District reported a payable of \$167,500,000 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

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

Post-Employment Benefits. The District provides post-employment health care benefits, 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, 2016, there were 444 retirees and surviving dependents receiving such benefits.

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

The District 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. Subsequent years' funding, pursuant to the annual budget approved by the Board,

would be phased in to gradually reach full funding of the ARC (as defined below) in order to limit its immediate impact on groundwater charge increases and the funding of core services within limited available revenues.

The District's annual OPEB cost is calculated based on the ARC of the employer, and the amount actuarially determined in accordance with the parameters of GASB No. 45. The annual required contribution ("ARC") represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The District expects to fund 100% of the ARC in Fiscal Year 2016-17.

The following table shows the components of the District's annual OPEB cost for Fiscal Year 2015-16, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan

Annual required contribution		\$ 10,311,304
Interest on net OPEB obligation		20,229
Adjustment to annual required contribution		<u>(18,991)</u>
Annual OPEB cost (expense)		10,312,542
Contributions made- Fiscal Year 2015-16 cost	\$ (10,312,542)	
Contributions made- Prior years' unfunded ARC	<u>(396,229)</u>	
Total Contributions made in Fiscal Year 2015-16		<u>(10,708,771)</u>
Increase (decrease) in Net OPEB obligations		(396,229)
Net OPEB obligation, June 30, 2015		<u>277,872</u>
Net OPEB obligation, June 30, 2016		\$ (118,357)

Source: Santa Clara Valley Water District.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the Fiscal Year ended June 30, 2014 through 2016 are summarized in the table below.

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
6/30/2014	\$11,174,939	149.30%	\$1,556,814
6/30/2015	11,122,509	111.50	277,872
6/30/2016	10,312,542	103.84	(118,357)

Source: Santa Clara Valley Water District.

As of July 1, 2015, the latest valuation date, the estimated funded status of the OPEB plan was as follows.

Actuarial accrued liability (AAL)	\$ 186,660,555
Actuarial value of plan assets	80,783,751
Unfunded actuarial accrued liability (UAAL)	105,876,804
Funded ratio (actuarial value of plan assets/AAL)	43.28%
Covered payroll	86,172,345
UAAL as a percentage of covered payroll	122.87%

Source: Santa Clara Valley Water District.

The July 1, 2015 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.28% and a 3.25% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 7% to 4.5%. The unfunded liability is being amortized as a percent of payroll over 30 years on a closed basis. The remaining years in the amortization period at June 30, 2016 was 22 years.

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

Other Benefits. The District 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.

The District has established a deferred compensation plan for employees wishing to defer part of their salaries. Under certain conditions, the District makes matching contributions. In the Fiscal Year ended June 30, 2016, the District contributed \$865,000 to the deferred compensation plan.

LITIGATION

General

No litigation is pending or, to the knowledge of the District, threatened, in any way questioning or affecting the validity or enforceability of the Senior Master Resolution, the Parity Master Resolution, the 2017 Bonds, the Certificates or the Indenture. Neither the creation, organization or existence of the District, nor the title of the present directors or officers of the District to their respective office is being contested. While the District has certain other ongoing litigation with respect to the Water Utility System, District Counsel does not believe such litigation is material to the finances or operation of the Water Utility System, except as described below under the caption "—Great Oaks Matter."

The District is engaged in routine litigation incidental to the conduct of its business. In the opinion of the District's District Counsel, the aggregate amounts recoverable against the District, taking into account insurance coverage, are not material.

Great Oaks Matter

As a public entity and due to its size and its activities, at virtually all times, the District is a defendant, co-defendant, or cross-defendant in court cases in which money damages are sought. Such a case is Great Oaks Water Company v. Santa Clara Valley Water District, Santa Clara County Superior Court Case No. 105-CV-053142; Cal. Court of Appeals Nos. HO35260 and HO35885 (the "Great Oaks Case").

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that the groundwater charges for 2005-06 violated the Law and sought a partial refund. After the claim was deemed denied, Great Oaks filed its lawsuit that subsequently included an allegation that the groundwater production charges violated Proposition 218, or Article XIII D of the state constitution because proceeds are used to fund projects and services that benefit the general public, not just ratepayers. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

On February 3, 2010, the Honorable Kevin Murphy issued Judgment After Trial and decided that the District owes Great Oaks a refund of groundwater charges in the amount of \$4,623,096 plus interest at 7% per annum. The award of pre-judgment interest as of December 1, 2009, amounted to \$1,285,524. Judge Murphy also awarded post-judgment interest at the rate of \$886.62 per day until the date of the entry of judgment. Judge Murphy also decided that the District owes Great Oaks damages in the amount of \$1,306,830. Recovery of this damages amount is in the alternative to the award of refund described above. The District appealed this decision to the Sixth District Court of Appeals.

During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, the District has recorded a liability in the amount of \$5,930,000, which includes the Judgment After Trial decision amount plus interest in fiscal year 2008-09. The District recorded \$160,000 in Fiscal Year 2009-

10, \$324,000 in Fiscal Year 2010-11, \$325,000 in Fiscal Year 2011-12, and \$324,000 in Fiscal Years 2012-13 and 2013-14 as liability for the post-judgment interest from January 1, 2010 through June 30, 2014 at the rate of \$886.62 per day. The total liability as of June 30, 2016 in the amount of \$7,386,000 is presented under the caption "Litigation Claim" in the Statement of Net position – Proprietary Funds in the District's Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016.

On March 26, 2015, the California Court of Appeal for the Sixth Appellate District ("Court of Appeal") reversed in full the judgment of the trial court in the Great Oaks case. The Court of Appeal found that under Proposition 218 the District's groundwater charge is a "property-related fee," but also a fee for water service excepted from the voter ratification requirement. The Court of Appeal also found that the trial court erred when it found that the 2005-06 groundwater charges failed to satisfy the applicable procedural requirements. The Court of Appeal also reversed the trial court's finding that the District had failed to comply with the Law in setting the groundwater fee. The effect of the Court of Appeals decision is to reverse the refund the trial court had ordered the District to pay to Great Oaks, as well as reverse the awards of damages, pre-judgment interest, and certain other amounts. The Court of Appeal remanded the case to the trial court for proceedings consistent with its decision.

On April 10, 2015, the District and Great Oaks each filed their separate petitions for rehearing with the Court of Appeal, which were granted on April 24, 2015. On August 12, 2015, the Court of Appeal again reversed in full the judgment of the trial court in the Great Oaks case, leaving intact the substantive findings from its prior opinion. On August 27, 2015, Great Oaks again filed its petition for rehearing. On September 10, 2015, the Court of Appeal, without requiring any reply by the District, granted Great Oaks petition for rehearing. On December 8, 2015, the Court of Appeal again reversed in full the judgment of the trial court in the Great Oaks case.

Great Oaks has filed refund actions for subsequent years of annual groundwater charges, all of which are currently stayed (Santa Clara Superior Court Case Nos. 107-CV-087884; 108-CV-119465; 108-CV-123064; 109-CV-146018; 110-CV-178947; 111-CV-205462; 112-CV-228340; 113-CV-249349; 115-CV-281385; and 16-CV-292097).

Similar to the Great Oaks Case, Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa Golf Club have filed a refund action, Santa Clara Superior Court under Case No. 111-CV-195879. This action is currently stayed.

Other water retailers including San Jose Water Company, the cities of Morgan Hill, Gilroy and Santa Clara and the Los Altos Golf and Country Club, and Stanford University dispute the District's groundwater charges and have subsequently entered into tolling agreements with the District pending the final decision in the Great Oaks Case.

The District filed its petition for review in the California Supreme Court on January 19, 2016, and on March 23, 2016 review was granted. The District cannot predict the nature or extent of proceedings on remand, if any, at this time.

The District is currently reviewing its estimates of potential liability with respect to this case as well as other cases filed by Great Oaks and other plaintiffs or potential claimants which have either been stayed or are subject to tolling agreements. The District expects to update such estimates in connection with the preparation of its audited financial statements for the fiscal year ending June 30, 2017.

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. The District’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 XIID 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 XIID 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 XIID 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 XIID. 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 XIID.

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

Article XIIC. Article XIIC 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 XIIC 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 XIIC 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. The District and its District Counsel do not believe that Article XIIC grants to the voters within the jurisdiction of the District 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 2017 Bonds. Remedies available to beneficial owners of the 2017 Bonds in the event of a default by the District 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 2017 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, 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 (the form of which is attached as Appendix E), 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 XIII D. 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 the District groundwater charges are ultimately determined to be charges for property-related services, they will be governed by Article XIII D, and Proposition 26 will not apply. If, however, the District'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. The District believes that it did not "impose" any groundwater charge after November 2, 2010, as such term is used in Proposition 26. Moreover, the District 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 XIII B, XIII C and XIII D 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 the District'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 2017 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, 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 (the form of which is attached as Appendix E), will be similarly qualified.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, 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 on the 2017 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 and corporations. In the further opinion of Bond Counsel, interest on the 2017 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2017 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Bond Counsel's opinion as to the exclusion from gross income of interest on the 2017 Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2017 Bonds to assure that interest on the 2017 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 2017 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2017 Bonds. The District has covenanted to comply with all such requirements.

The amount by which a 2017 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2017 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 2017 Bond Owner's basis in the applicable 2017 Bond (and the amount of tax-exempt interest received with respect to the 2017 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 2017 Bond Owner realizing a taxable gain when a 2017 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2017 Bond to the Owner. Purchasers of the 2017 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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 2017 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2017 Bonds might be affected as a result of such an audit of the 2017 Bonds (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 2017 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2017 Bonds constituting interest or the market values of the 2017 Bonds.

It is possible that subsequent to the issuance of the 2017 Bonds 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 2017 Bonds or the market value of the 2017 Bonds. 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 2017 Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2017 Bonds. No assurance can be given that subsequent to the issuance of the 2017 Bonds such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the 2017 Bonds, 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 2017 Bonds.

Bond Counsel's opinion with respect to the 2017 Bonds, respectively, may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has 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 permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2017 Bond 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 have rendered opinions that interest on the 2017 Bonds constituting interest, respectively, are excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2017 Bonds and the accrual or receipt of interest on the 2017 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2017 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2017 Bonds.

RATINGS

The District expects that Moody's Investors Service, Inc. ("Moody's") will assign the 2017 Bonds the rating of "____" (____ outlook) and that Fitch Ratings, Inc. ("Fitch") will assign the 2017 Bonds the rating of "____" (____ outlook). There is no assurance that any credit rating given to the 2017 Bonds 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 2017 Bonds. 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 the District which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

In providing a rating on the 2017 Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology which may not reflect the provisions of the Parity Master Resolution. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any bond covenants, the availability of particular revenues for the payment of Debt Service or for any other purpose.

The District has covenanted in a Continuing Disclosure Agreement for the 2017 Bonds to file on EMMA, notices of any ratings changes on the 2017 Bonds. See the caption "CONTINUING DISCLOSURE UNDERTAKING" below and Appendix F. Notwithstanding such covenant, information relating to ratings changes on the 2017 Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the 2017 Bonds are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the 2017 Bonds after the initial issuance of the 2017 Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The District has covenanted in a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the 2017 Bonds to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2018, 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 the District 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 2017 Bonds are set forth in Appendix F—"FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Purchaser in complying with Section (b)(5) of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934.

Over the past five years, the District has been subject to obligations under various continuing disclosure certificates, including but not limited to the Refunding and Improvement Certificates of Participation Series 2003A, the 2006A Bonds, the 2006B Bonds, the 2007A Certificates, the 2007B Certificates, the 2016 Bonds, the 2016 Certificates and the Refunding and Improvement Certificates of Participation, Series 2004A, Refunding and Improvement Certificates of Participation, Series 2007A, and the Refunding and Improvement Certificates of Participation, Series 2012A executed and delivered to finance and refinance facilities of the District's Flood Control System (collectively, the "Prior Continuing Disclosure Undertakings"). Pursuant to the Prior Continuing Disclosure Undertakings, the District 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, if material.

The District believes that it is in compliance in all material respects with the Prior Continuing Disclosure Undertakings.

In order to ensure compliance by the District with its continuing disclosure undertakings in the future, the District'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. A copy of the Disclosure Procedures has been provided to the Purchaser and is available from the Treasury/Debt Officer of the District at 5750 Almaden Expressway, San Jose, California Telephone: (408) 265-2600.

PURCHASE AND REOFFERING

The 2017 Bonds were purchased at a competitive sale on _____, 2017 by _____, (the "Purchaser"), for an aggregate purchase price of \$_____ (representing the aggregate principal amount of the 2017 Bonds plus a net original issue premium of \$_____ and less a Purchaser's discount of \$_____). The Notice of Sale provides that the Purchaser will purchase all of the 2017 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 cover of this Official Statement may be changed from time to time by the Purchaser. The Purchaser may offer and sell the 2017 Bonds to certain dealers (including dealers depositing the 2017 Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

The Purchaser and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Purchaser and its affiliates may have certain creditor and/or other rights against the District and its affiliates in connection with such activities. In the various course of their various business activities, the Purchaser and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District. The Purchaser and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or

express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments

MUNICIPAL ADVISOR

The District has retained Public Resources Advisory Group, Los Angeles, California, as municipal advisor (the "Municipal Advisor") in connection with the issuance of the 2017 Bonds. 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 financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Municipal Advisor for the 2017 Bonds is contingent upon the issuance thereof.

CERTAIN LEGAL MATTERS

Bond Counsel will render an opinion with respect to the 2017 Bonds substantially in the form set forth in Appendix E hereto. A copy of such opinion will be furnished to the Purchaser at the time of delivery of the 2017 Bonds. Certain legal matters will be passed upon for the District by Counsel to the District, Stan Yamamoto, Esq. and for the Trustee by its counsel. The payment of the fees of Bond Counsel is contingent upon the issuance of the 2017 Bonds. Bond Counsel expresses no opinion to the owners of the 2017 Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2017 Bonds and expressly disclaims any duty to advise the Owners of the 2017 Bonds as to matters related to this Official Statement.

Bond Counsel represents the District in connection with the issuance of the 2017 Bonds. Bond Counsel may represent the Purchaser from time-to-time on other financings and matters unrelated to the District or the 2017 Bonds. Bond Counsel does not represent the Purchaser or any other party with respect to the issuance of the 2017 Bonds other than the District.

MISCELLANEOUS

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

The general purpose financial statements of the District, a summary of the principal legal documents related to the 2017 Bonds, information with respect to the book-entry only system relating to the 2017 Bonds, the form of opinion of Bond Counsel and the form of the proposed Continuing Disclosure Agreement 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 the District.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Interim Chief Executive Officer

Attest:

Clerk of the Board of Directors

APPENDIX A
AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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 and the Indenture 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.

APPENDIX C

SUMMARY OF SENIOR MASTER RESOLUTION

The following is a summary of certain provisions of the Senior Master Resolution which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Master Senior Resolution for a full and complete statement of the provisions thereof.

APPENDIX D

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District 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 2017 Bonds (the "Obligations"), payment of principal, premium, if any, accreted value, if any, and interest on the Obligations to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Obligations and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

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

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

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

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

knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 the District 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 the District, 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 the District 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 the District 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.

The District 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 E

FORM OF BOND COUNSEL OPINION

Upon issuance of the 2017 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 2017A

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 2017A (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 and an Indenture of Trust, dated as of March 1, 2017 (the “Indenture”), by and between the District and U.S. Bank 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 Indenture) is an enforceable obligation of the District and does not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an

adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest on the Bonds is exempt from State of California personal income tax.

5. 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 Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization 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. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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

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

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.

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 F

FORM OF CONTINUING DISCLOSURE AGREEMENT

Upon issuance of the 2017 Bonds, the District proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

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