

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER __, 2019

NEW ISSUE – Book Entry Only

See “RATINGS” herein.

\$ _____ *

**Santa Clara Valley Water District
Water System Refunding Revenue Bonds, Taxable Series 2019C**

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

The Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2019C (the “2019 Bonds”) are being issued to (i) refund the District’s outstanding Revenue Certificates of Participation (Water Utility System Improvement Projects) Taxable Series 2007B (the “2007B Certificates”) and (ii) pay costs of issuance of the 2019 Bonds, all as more fully described herein. See “THE REFUNDING PLAN.” Interest due on the 2019 Bonds is payable on each June 1 and December 1, commencing June 1, 2020. Capitalized terms used but not defined on the cover of this Official Statement have the meanings ascribed herein.

The 2019 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 November 1, 2019 (the “Indenture”) by and between the District and U.S. Bank National Association, as trustee thereunder. **The 2019 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described in this Official Statement.**

The 2019 Bonds are being issued in fully registered form and, when each of the 2019 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 2019 Bonds. Purchasers of beneficial interests will not receive certificates representing their interest in the 2019 Bonds. So long as Cede & Co. is the registered owner of the 2019 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 2019 Bonds. Individual purchases of the 2019 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 2019 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 2019 Bonds.

The principal and interest on the 2019 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 secures, as of November 1, 2019, \$56,135,000 aggregate principal amount of bonds and installment payments relating to certain Senior Obligations and which are payable prior to the 2019 Bonds. After the refunding of the 2007B Certificates as described herein, the District will have \$18,155,000 in Senior Obligations outstanding. 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 2019 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 November 1, 2019, in the aggregate principal amount of \$414,665,000. 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 2019 Bonds.

The obligation of the District to pay the principal of and interest on the 2019 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 2019 Bonds is exempt from State of California personal income tax. See “TAX MATTERS” herein with respect to tax consequences with respect to the 2019 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 2019 Bonds are offered when, as and if executed and delivered to the Underwriter, 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., for the Underwriter by its counsel Schiff Hardin LLP, and for the Trustee by its counsel. It is expected that the 2019 Bonds will be available for delivery through the facilities of DTC on or about November __, 2019.

Siebert Cisneros Shank, a division of Siebert Williams Shank & Co., LLC

Dated: November __, 2019

* Preliminary; subject to change.

MATURITY SCHEDULE

\$ _____ *

Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2019C

<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> [†]
	\$	%	%	%	

* Preliminary; subject to change.

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SANTA CLARA VALLEY WATER DISTRICT

5750 Almaden Expressway
San Jose, California 95118

BOARD OF DIRECTORS AND OFFICERS OF THE DISTRICT

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Nai Hsueh, Vice Chair, District 5
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Nina Hawk, Chief Operating Officer – Water Utility Enterprise
Darin Taylor, Chief Financial Officer
Melanie Richardson, Chief Operating Officer – Watersheds
Tina Yoke, Chief Operating Officer – Information Technology and Administrative Services
Rick Callender, Chief of External Affairs
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

No dealer, broker, salesperson or other person has been authorized by the Underwriter, 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 2019 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 2019 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 Underwriter.

In reliance upon exemptions contained in such acts, the 2019 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 2019 Bonds in accordance with applicable provisions of securities laws of any state in which the 2019 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 2019 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 Underwriter. 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.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2019 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2019 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 2019 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.

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Santa Clara Valley Water District
Water System Refunding Revenue Bonds, Taxable Series 2019C

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 \$ _____* aggregate principal amount of the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2019C (the “2019 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 2019 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 2019 Bonds

General. The 2019 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 November 1, 2019 (the “Indenture”) by and between the District and U.S. Bank National Association, as trustee thereunder (the “Trustee”).

Purpose. The 2019 Bonds are being issued to (i) refund the District’s outstanding Revenue Certificates of Participation (Water Utility System Improvement Projects) Taxable Series 2007B (the “2007B Certificates”) and (ii) pay costs of issuance of the 2019 Bonds, all as more fully described herein. See the caption “THE REFUNDING PLAN.”

Security for the 2019 Bonds. The 2019 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 2019 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 2019 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 the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 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 2019 Bonds. No reserve fund has been created with respect to the 2019 Bonds.

Redemption. The 2019 Bonds will be subject to optional, mandatory and extraordinary redemption prior to maturity, as more fully described under the caption “THE 2019 BONDS.”

Senior Obligations

The District’s obligation to pay debt service on the 2019 Bonds from Net Water Utility System Revenues is subordinate to the District’s obligation to pay debt service on certain obligations (the “Senior Obligations”) 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 2007B Bonds are Senior Obligations. After the refunding of the 2007B Certificates as described herein, the only Senior Obligations outstanding will be the \$18,155,000 aggregate principal amount of the District’s Water Utility System Refunding Revenue Bonds Taxable Series 2006B (the “2006B 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.

Parity Obligations

The 2019 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 \$414,665,000 aggregate principal amount of Parity Obligations (as defined below) including: (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 Financing Corporation (the “Corporation”), which installment payments secure \$86,470,000 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”); (iii) the obligation of the District to pay principal of and interest on the District’s Water System Refunding Revenue Bonds, Series 2017A (the “2017A Bonds”) in the aggregate principal amount of \$51,410,000; (iv) the obligation of the District to pay principal of and interest on the District’s Water System Refunding Revenue Bonds, Series 2019A (the “2019A Bonds”) and Taxable Series 2019B (the “2019B Bonds” and together with the 2019A Bonds the, “2019AB Bonds”) in the aggregate principal amount of \$95,255,000 and (v) 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 the captions “DEBT STRUCTURE OF THE DISTRICT” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Additional Bonds and Contracts.”

Rate Covenants

Senior Obligations. Defined terms used in the rate covenant under the Senior Master Resolution and described in this paragraph shall have the meanings set forth in Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION” and differ in certain respects from similar defined terms in the Parity Master Resolution. 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 2019 BONDS — Rate Covenant” herein.

The rate covenant described above applies only to coverage of Debt Service under the Senior Master Resolution and shall not be effective with respect to the 2019 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 2019 Bonds. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Rate Stabilization Fund” and “— Special Purpose Funds.”

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 2019 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 2019 Bonds upon satisfaction of certain conditions. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Additional Bonds and Contracts” and in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE WATER UTILITY PARITY SYSTEM MASTER RESOLUTION — BONDS AND CONTRACTS — 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 2019 BONDS — Rate Stabilization Fund.” As of June 30, 2019 (but prior to Fiscal Year-ending transfers), approximately \$21.1 million 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 2019 BONDS — Special Purpose Funds.” The District has previously designated the Drought Reserve, the San Felipe Emergency Reserve, the Advanced Water Purification Center Reserve, Public-Private Partnership Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of June 30, 2019 (but prior to Fiscal Year-ending transfers), there was approximately \$24.7 million in aggregate 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 November 1, 2019 in the aggregate principal amount of \$73,570,000 (the “Flood Control System Obligations”) secured by revenues of the District’s flood and storm water control system (the “Flood Control System”). No Water Utility System Revenues are pledged to payment of these installment purchase agreements and the revenues of the Flood Control System are not pledged to the payment of the 2019 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 2019 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. Such State Water Project property taxes are not pledged to the payment of the 2019 Bonds.

Limited Obligations

The obligation of the District to pay principal of and interest on the 2019 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 (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 2019 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 2019 Bonds, the security and sources of payment for the 2019 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 2019 Bonds to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2020, and to provide notices of the occurrence of certain enumerated events. 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 or any successor repository prescribed by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Reports and the notice of enumerated events is set forth hereto in Appendix F — “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. In 2018, the District filed two supplements to its continuing disclosure annual report for Fiscal Year 2016-17 to correct certain debt service coverage calculations with respect to the District’s Flood Control System Obligations and obligations secured by revenues of the Water Utility System. 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 2019 Bonds together with certain other moneys, will be applied to currently refund, \$37,980,000 aggregate principal amount of the 2007B Certificates. The 2007B 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 2019 Bonds to U.S. Bank National Association, as escrow agent (the “Escrow Agent”) under the Escrow Agreement (2007B) dated as of November 1, 2019 (the “2007B Escrow Agreement”), by and between the District and the Escrow Agent for deposit in an escrow fund (the “2007B Escrow Fund”) established thereunder. Such amounts, together with certain amounts transferred to the Escrow Agent from the District and deposited in the 2007B Escrow Fund, will be held uninvested in cash. The cash held in the 2007B Escrow Fund will be calculated to be sufficient to pay on December 1, 2019 the regularly

scheduled payment of interest with respect to the 2007B Certificates and the prepayment price of the 2007B Certificates (equal to 100% of the principal amount thereof).

The amounts held in the 2007B Escrow Fund are pledged solely to the payment of the 2007B Certificates. The funds deposited in the 2007B Escrow Fund will not be available for the payment of principal or interest with respect to the 2019 Bonds. As a result of the deposit and application of funds as provided in the 2007B Escrow Agreement, the 2007B Certificates will be defeased pursuant to the provisions of the 2007B 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 2019 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the 2019 Bonds are set forth below.

SANTA CLARA VALLEY WATER DISTRICT Estimated Sources and Uses of Funds

<i>Sources</i>	<i>Total</i>
Principal Amount of 2019 Bonds	\$
Transfer from the District ⁽¹⁾	
TOTAL	<u>\$</u>
 <i>Uses</i>	
Transfer to 2007B Escrow Fund	\$
Costs of Issuance ⁽²⁾	
Underwriter's Discount	
TOTAL	<u>\$</u>

⁽¹⁾ Reflects interest with respect to the 2007B Certificates due on December 1, 2019.

⁽²⁾ Includes fees for the Trustee, Municipal Advisor's fees, legal fees, printing costs, rating agency fees, and other costs of delivery.

THE 2019 BONDS

Terms of the 2019 Bonds

The 2019 Bonds will be issued in the aggregate principal amount of \$_____*. The 2019 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, 2020 (each, an "Interest Payment Date"), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2019 Bonds will be computed on the basis of a 360 day year of twelve 30 day months.

The 2019 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 2019 Bonds. Ownership interests in the 2019 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 2019 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,

* Preliminary; subject to change.

(the “Office of the Trustee”). Interest on the 2019 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 2019 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 2019 Bonds will be payable in lawful money of the United States of America.

Interest on any 2019 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, 2020, in which case interest thereon will be payable from the date of initial delivery.

Redemption of 2019 Bonds

Optional Redemption at Par. The 2019 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 in a Written Request of the District provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date on or after June 1, 20__ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Optional Redemption With Make-Whole Payment. The 2019 Bonds shall be subject to redemption prior to June 1, 20__ at the option of the District, as a whole or in part on any Business Day 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 at the “Make-Whole Redemption Price.” The “Make-Whole Redemption Price,” as determined by the District, is the greater of (1) 100% of the principal amount of the 2019 Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal of and interest to the maturity date on the 2019 Bonds to be redeemed, not including any portion of those payments of interest thereon accrued and unpaid as of the date on which the 2019 Bonds are to be redeemed, discounted to the date on which the 2019 Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus the Applicable Spread (defined below), in each case plus accrued and unpaid interest on the 2019 Bonds to be redeemed on the date of redemption. The term “Applicable Spread” means __ basis points.

Redemption from Insurance or Eminent Domain Proceeds. The 2019 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 in a Written Request of the District provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in the Parity Master Resolution, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium. See Appendix B under the caption “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE WATER UTILITY SYSTEM PARITY MASTER RESOLUTION—COVENANTS OF THE DISTRICT—Eminent Domain and Insurance Proceeds” for a description of the circumstances under which the 2019 Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

Mandatory Sinking Fund Redemption. The 2019 Bonds with a stated maturity on June 1, 20__ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20__, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the Redemption Date, without premium, in accordance with the following schedule:

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

*

* Final Maturity.

Selection of 2019 Bonds for Redemption. Whenever provision is made in the Indenture for the optional redemption of less than all of the 2019 Bonds, if the 2019 Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the 2019 Bonds, the particular 2019 Bonds or portions thereof to be redeemed shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the 2019 Bonds are held in book-entry form, the selection for redemption of such 2019 Bonds shall be made in accordance with the operational arrangements of DTC then in effect and if the DTC operational arrangements do not allow redemption on a Pro Rata Pass-Through Distribution of Principal basis, the 2019 Bonds will be selected for redemption in accordance with DTC procedures by lot and in integral multiples of \$5,000.

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 2019 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 2019 Bonds, the Trustee will send notice of redemption only to the Securities Depositories and Information Services. Notice of redemption to the Securities Depositories shall be given by the method required by such Securities Depositories. Each notice of redemption will state the date of notice, the redemption date, the place or places of redemption, the redemption price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2019 Bonds of any such maturity are to be redeemed, the serial numbers of the 2019 Bonds of such maturity to be redeemed by giving the individual number of each 2019 Bond or by stating that all 2019 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2019 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 2019 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 2019 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 2019 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 2019 Bond. Notice of redemption of 2019 Bonds shall be given by the Trustee at the expense of the District.

With respect to any notice of optional redemption of 2019 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 2019 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 2019 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 2019 Bond of each maturity and series will be issued in the principal amount of the 2019 Bonds of such maturity and series. Such 2019 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 2019 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 2019 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 2019 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2019 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 2019 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 2019 Bond for transfer, the Trustee is to issue a new 2019 Bond or 2019 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 2019 Bond issued upon any transfer. The Trustee may require the payment by any 2019 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 2019 Bonds, the Trustee will cancel and destroy the 2019 Bonds it has received.

2019 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2019 Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new 2019 Bond issued upon any exchange except in the case of any exchange of temporary 2019 Bonds for definitive 2019 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 2019 Bonds, the Trustee will cancel and destroy the 2019 Bonds it has received.

The Trustee is not required to register the exchange or transfer of any 2019 Bond during the period in which the Trustee is selecting 2019 Bonds for redemption for any 2019 Bond which the Trustee has selected for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE 2019 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 (including the 2019 Bonds) or Contracts (as such terms are defined in Appendix B "—SUMMARY

OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS” attached hereto) 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 2019 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 2019 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 2019 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 2019 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 2019 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 2019 Bonds. The obligation of the District to pay the principal of and interest on the 2019 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.* Defined terms used in the description under this caption “—Senior Master Resolution” 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.**

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 (the District has not established any cash reserve funds with respect to Senior Obligations);
- (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 2019 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.

***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 (including the 2019 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 (the District has not established any cash reserve funds with respect to the currently outstanding Bonds and Contracts);

(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. Defined terms used in the rate covenant under the Senior Master Resolution and described in this paragraph shall have the meanings set forth in Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION” and differ in certain respects from similar defined terms in the Parity Master Resolution. 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.

The rate covenant described above applies only to coverage of Debt Service under the Senior Master Resolution and shall not be effective on and after the date no Senior Obligations remain outstanding. 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 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. See the captions “— Rate Stabilization Fund” and “— Special Purpose Funds.”

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 2019 Bonds

No reserve fund has been created with respect to the 2019 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 2019 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—*Parity Obligations*” 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, 2018.”

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 June 30, 2019 (but prior to Fiscal Year-ending transfers), there was approximately \$21.1 million 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 2019 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 Bonds and Contracts 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—Parity Obligations” 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 Advanced Water Purification Center Reserve, the Public-Private Partnership Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of June 30, 2019 (but prior to Fiscal Year-ending transfers), there was approximately \$24.7 million 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 2019 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 and payable therefrom on a basis subordinate to the pledge of the Parity Master Resolution securing the 2019 Bonds.

As of June 30, 2019, the District has tax and revenue notes (“TRANS”) outstanding in the amount of \$365,000,000 securing the Commercial Paper Certificates, Series A (Tax-Exempt) and Commercial Paper Certificates, Series B (Taxable) (together, the “Commercial Paper Certificates”), which are payable from Net Water Utility System Revenues subordinate to the 2019 Bonds and other Bonds and Contracts. As of November 1, 2019, the District had approximately \$30,000,000 in Commercial Paper Certificates issued to finance projects for the Safe, Clean Water program outstanding and approximately \$20,000,000 in Commercial Paper Certificates issued to finance projects for the Water Utility System. See the caption “DEBT STRUCTURE OF THE DISTRICT—Short-Term Indebtedness” below for a description of the letter of credit which supports the District’s commercial paper program.

DEBT SERVICE SCHEDULE

Set forth below is a schedule of debt service with respect to the 2019 Bonds, the outstanding Parity Obligations and the Senior Obligations due in each annual period ending June 30 of the following years.

Outstanding Debt Service Schedule⁽¹⁾
(As of November 1, 2019 for Senior Obligations and Other Parity Obligations)

<i>Fiscal Year Ending June 30</i>	<i>Senior Obligations⁽²⁾</i>	<i>2019 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>			
2020	\$ 1,778,106	\$	\$	\$	\$ 29,073,794	\$	\$
2021	1,781,101				29,090,188		
2022	1,780,418				29,096,479		
2023	1,777,344				29,072,107		
2024	1,776,880				29,104,438		
2025	1,778,760				29,075,777		
2026	1,782,718				29,128,982		
2027	1,778,490				29,086,031		
2028	1,776,339				29,098,358		
2029	1,776,002				29,114,757		
2030	1,777,211				29,131,344		
2031	1,779,702				29,138,840		
2032	1,408,210				25,731,091		
2033	1,407,387				25,746,993		
2034	1,408,378				25,807,897		
2035	1,405,915				24,689,723		
2036					24,701,927		
2037					24,716,280		
2038					20,186,217		
2039					20,187,382		
2040					20,191,048		
2041					20,192,656		
2042					20,184,855		
2043					20,191,676		
2044					20,191,052		
2045					20,181,848		
2046					20,183,709		
2047					5,493,822		
2048					5,492,718		
2049					5,493,242		
Total	\$ 26,972,960	\$	\$	\$	\$ 698,775,229	\$	\$

⁽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.

⁽³⁾ Includes scheduled debt service on all outstanding debt issued pursuant to the Parity Master Resolution, which includes the 2016 Bonds, the 2017A Bonds and the 2019AB Bonds and the outstanding installment payments under the 2016 Installment Purchase Agreement. See the caption "DEBT STRUCTURE OF THE DISTRICT."

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 Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga and Sunnyvale). The District encompasses all the territory within the County, one of the nine counties which make up the San Francisco Bay Area, and constitutes a major portion of “Silicon Valley.”

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, and the sale of treated water, 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 (“USBR”) 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 can 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 currently 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 would be available by Board action to pay maintenance and operation costs of the Water Utility System after annual payments on debt service on certain Flood Control System Obligations have been met.

Board of Directors and Management

Board of Directors. The District Board of Directors is composed of seven members each elected from equally-divided districts drawn through a formal process. The purpose of the Board, on behalf of the County, is to protect the public health and safety and enhance the quality of living within the County by comprehensively managing water resources in a practical, cost-effective, and environmentally-sensitive manner. The Directors serve overlapping four-year terms, a structure created pursuant to the adoption of the Law. The current Directors are:

John L. Varela (District 1): Mr. Varela was re-elected to the Board in November 2018. 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 retired as a Fire Captain from the San Jose Fire Department with 33 years of service. While at the San Jose Fire Department, Mr. Santos served for 12 years on the San Jose Police and Fire Retirement Board and was a labor representative of the San Jose Firefighters local union. He was then and is still very active as a volunteer for community services and has spearheaded several civic activity fundraiser projects. Mr. Santos received a bachelor's degree in public administration from Farelston and Nova Colleges and received associates degrees in political science and fire science. He also has a lifetime teaching credential from the California Community College system, where he taught fire science at Mission College. District 3 is in the northeastern portion of the county and includes the City of Milpitas, portions of San Jose (Berryessa area, the Alum Rock area north of McKee Road and the Alviso area) and portions of Sunnyvale and Santa Clara.

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

Nai Hsueh (District 5): Ms. Hsueh was reelected to the Board in November 2016 to serve District 5 and is the current Vice Chair of the Board. 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 Board in 1996. His government experience includes volunteering in both appointed and elected positions including the Santa Clara County Grand Jury, Santa Clara County Housing Task Force, Valley Medical Center Advisory Board, Santa Clara County Personnel Board, San Jose Municipal Stadium Task Force, (San Jose) Mayor's Committee on Minority Affairs and the San Jose/Evergreen Community College District Board of Trustees. Mr. Estremera received his law degree from the Boalt Hall School of Law, Berkeley. He is an active member of the State Bar of California and the Santa Clara County Bar Association. District 6 includes the northeastern portion of the City of San Jose (Alum Rock to the north and Monterey Road/Capital Expressway to the south).

Gary Kremen (District 7): Mr. Kremen was re-elected to the Board in 2018. Mr. Kremen is an engineer with more than 30 years of experience starting and mentoring companies that change people's lives. He invented online dating (founding Match.Com), founded Clean Power Finance (now Spruce Finance), and co-founded Pace Avenue. Mr. Kremen is the incubator, founding investor, and Chairman of the County's leading water conservation company, WaterSmart Software. Mr. Kremen also teaches a graduate level energy

policy course at Northwestern University's Institute for Sustainability and Energy (ISEN) and is a Foundation Board member at the University of California, Merced. He is also a long-time volunteer, judge and mentor at the leading water non-profit, Imagine H₂O. In addition to being elected as the 2015 Chair of the Board of Directors of the District, Gary has also served as President of the Board of Directors of Purissima Hills Water District. He was appointed as a member of the Proposition 39, California Clean Energy Jobs Act Citizen's Oversight Board. He has an MBA from Stanford University as well as degrees in Electrical Engineering and Computer Science from Northwestern University. District 7 includes Palo Alto, Los Altos, Los Altos Hills, Mountain View, Monte Sereno, Los Gatos, and the southernmost portion of San Jose.

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

Norma Camacho, 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 Chief Executive Officer in August 2017. She has more than 25 years of long-range planning, program development, finance, and capital projects experience. Before joining the District, Ms. Camacho was the director of the Ventura County Watershed Protection District and prior to that 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. She currently serves on the Board of Directors for the California Urban Water Agencies, Bay Area Council, WaterReuse California, Silicon Valley Organization, San Jose Evergreen Community College Foundation, and U.S. Water Alliance, and is a member of the Santa Clara City Managers' Association and the Bay Area Water Agencies Coalition.

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 35 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.

Nina Hawk, Chief Operating Officer – Water Utility Enterprise. Ms. Hawk joined the District in October 2017 as the Chief Operating Officer and is 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. Ms. Hawk has held roles in utility management in both private and public sectors, including in engineering, regulatory compliance, safety, finance, and operations and maintenance. Ms. Hawk's experience includes groundwater management, water distribution, industrial wastewater treatment plant operations, and long-range water supply planning. Ms. Hawk received her bachelor's degree in civil and environmental engineering and a master's degree in public administration from San Jose State University.

Darin Taylor, Chief Financial Officer. Mr. Taylor became the District's Chief Financial Officer effective December 19, 2016, after 15 years as a senior project manager with the District. Mr. Taylor has more than 17 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.

Melanie Richardson, Chief Operating Officer – Watersheds. Ms. Richardson is the Chief Operating Officer for Watersheds at the District. She has been with the District for 27 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. Ms. Richardson is a registered Civil Engineer in California and has served as one of the two Designated Engineers for the District.

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

Rick Callender, Chief of External Affairs. Mr. Callender was appointed Chief of External Affairs on May 8, 2017 and has worked for the District since 1996. As the Chief of External Affairs, Mr. Callender leads the District's efforts in strategic external communications to the media, community, and the public, leads all government relations efforts on local, regional, state, and federal levels, and is responsible for keeping the Chief Executive Officer and other District staff informed of public policies that directly affect the District. Mr. Callender earned his Bachelors of Science degree in Industrial Engineering and Technology with an emphasis in electronic and computer technology from California State University, Chico, a Masters of Arts in Public Administration from San Jose State University, earned his Juris Doctorate from Northwestern California University School of Law, and is a member of the California State Bar.

Michele L. King, CMC, Clerk of the Board. Ms. King began service with the District in 2004 and became the Clerk of the Board in January 2010. Ms. King has more than 20 years of experience in providing support to elected officials of special districts. As Clerk, Ms. King's responsibilities include ensuring that 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.

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. The last biannual review was completed in 2018 and the next is scheduled for mid-2020.

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 (earthquakes) and floods. The current blanket limit for this coverage is \$250,000,000. There are sub-limits for particular perils consistent with normal property policies and appropriate to District loss exposures. The District's dams are not insured.

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 for Board members and \$2,000,000 for non-Board members. Such coverage includes public employee dishonesty, including public officials who are required by law to give bonds for the faithful performance of their service, forgery or alteration and computer fraud, subject to a \$5,000 deductible for Board members and \$10,000 for non-Board members.

Cyber Liability Insurance. 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. See the caption "POTENTIAL INVESTMENT CONSIDERATIONS—Cyber Security."

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

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 2019-20 was approved by the Board on May 14, 2019. As of November 1, 2019, the Board had approved budgetary adjustments in the Water Enterprise Fund consisting of an approximately \$1.3 million decrease in capital expenditures and an approximately \$3.3 million increase in operating expenditures.

PAWS Report

On February 22, 2019, the District released its Annual Report on the Protection and Augmentation of Water Supplies (the “2019 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 2019 PAWS Report forms the basis on which the District proposed its maximum groundwater production and water charges for Fiscal Year 2019-20. See caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Water Charge Setting Process*” for more information with respect to the District’s rate-setting process. Copies of the 2019 PAWS Report may be obtained from the District’s website, however, the contents of the 2019 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 November 1, 2019, consisted of the following:

SCHEDULE OF LONG-TERM INDEBTEDNESS (Dollars In Thousands) (as of November 1, 2019)

<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	\$ 18,155
Revenue Certificates of Participation(Water Utility System Improvement Projects),Taxable Series 2007B ⁽¹⁾	2037	37,980
Total Senior Water System Obligations		<u>\$ 56,135</u>
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	86,470
Water System Refunding Revenue Bonds, Series 2017A	2037	51,410
Water System Refunding Revenue Bonds, Series 2019A and Taxable Series 2019B	2049	95,255
Total Parity Water System Obligations		<u>\$ 414,665</u>
All Other Debt Not Secured by Water Utility System Revenues:		
1994 Installment Purchase Agreement ⁽²⁾	2030	\$ 25,725
1995 Installment Purchase Agreement ⁽³⁾	2030	47,846
Total Other Debt		<u>\$ 73,570</u>
Total Long-Term Indebtedness		<u>\$ 544,370</u>

⁽¹⁾ A portion of the proceeds of the 2019 Bonds, together with certain other moneys, will be applied to refund all of the outstanding 2007B Certificates.

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

⁽³⁾ Installment payments under the Installment Purchase Agreement dated as of June 27, 1995 (the "1995 Installment Purchase Agreement"), by and between the District and the Corporation, secure a portion of 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 2019-20 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 aggregate principal amount of \$365 million, which secure the Commercial Paper Certificates, are dated July 1, 2019 and mature on October 1, 2020. As of November 1, 2019, the District had \$50 million in Commercial Paper Certificates outstanding which were issued to finance the following projects: \$20 million for Water Utility System projects and \$30 million for Safe, Clean Water Program projects. The Commercial Paper Certificates are currently payable from draws under a letter of credit issued by MUFG Bank, Ltd. (formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.), acting through its New York Branch, in the maximum principal amount of \$150 million (the “Letter of Credit”). The Letter of Credit currently expires on December 11, 2020.

While the current TRANs is in the aggregate principal amount of \$365 million, the ability to issue Commercial Paper Certificates (which are secured by the TRANs) in an amount greater than \$150 million would require an additional letter of credit or an increase under the existing Letter of Credit. The District could enter into additional agreements to obtain credit facilities in excess of the \$150 million under the Letter of Credit to support its Commercial Paper Certificates program. As of the date of this Official Statement, the District does not have any expectation to obtain such additional credit facilities. Notwithstanding the foregoing, there can be no guarantee that the District will be able to renew the Letter of Credit or obtain similar credit facilities in the future to support a commercial paper program such as the Commercial Paper Certificates.

See the caption “POTENTIAL INVESTMENT CONSIDERATIONS—Secondary Market” for a discussion on the risks with respect to the availability of a secondary market for the Commercial Paper Certificates.

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 estimated population increased by approximately 8.8% between April 1, 2010 and July 1, 2018 to a total of approximately 1,938,000. Of the approximately 320,000 acre-feet of water used in the County on average annually, the District estimates that approximately 50 percent of water use is residential, approximately 20 percent is commercial, approximately 10 percent is industrial, approximately 10 percent is agricultural, approximately 5 percent is public water use and approximately 5 percent of the water is lost through pipeline leakage or other means. The 320,000 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 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.

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

Treated Water and Other Charges. The groundwater charge per acre-foot for water other than agricultural water becomes the basic user charge per acre-foot for treated water delivered pursuant to 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 that is purchased and delivered in addition to certain fixed or minimum deliveries under the contract is charged at a non-contract rate per acre-foot. Surface water deliveries of District water to users are charged at variants of these rates. In the southern portion of the County, rates are charged for usage of recycled water produced by the South County Regional Wastewater Authority and sold by 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 portion of the Santa Clara Subbasin 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 through the SWP tax, within the framework of the groundwater charge setting process. The Water Utility Taxing and Pricing Policy, Resolution No. 99-21 and legal requirements, guide staff in the development of the overall structure for such charges. The water charge setting process is conducted consistent with Board Resolution 12-10.

Under the Law, an annual PAWS report is to be filed with the Clerk of the Board on or before the first Tuesday in April. A noticed public hearing must be held on or before the fourth Tuesday in April. In addition, all well owners on record are notified of the public hearing at least 45 days in advance. Groundwater production charges must be determined for the ensuing fiscal year prior to July 1. For each 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.

In August 2019, the District completed a preliminary study of the conjunctive use of various sources of water to evaluate whether the existing groundwater charge zones reflect the areas receiving benefits from the District's groundwater management activities. On August 27, 2019, the study was presented to the Board in order to consider revisions to the zones of benefit. On October 8, 2019, the Board authorized the preparation of a metes and bounds description of modified groundwater benefit zones W-2 and W-5 and two new zones W-7 (Coyote Valley) and W-8 (below Uvas and Chesbro Reservoirs) recommended by staff. The metes and bounds description of the modified and new zones is expected to be presented to the Board for consideration and adoption in a public hearing in January of 2020. If approved by the Board, the modified and new zones will become effective on July 1, 2020.

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, raw surface water, and recycled water, rather than treated water. See the caption “DISTRICT FACILITIES—Groundwater Subbasins” for a description of the groundwater basins managed by the District.

**HISTORICAL WATER RATES
(DOLLARS (\$) PER ACRE-FOOT)⁽¹⁾**

<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>
2014-15 ⁽²⁾	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 ⁽²⁾	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
2017-18	W-2	1,175.00	25.09	1,225.00	1,275.00	1,208.36	58.45	-	-
	W-5	418.00	25.09	-	-	451.36	58.45	398.00	48.88
2018-19	W-2	1,289.00	27.02	1,339.00	1,389.00	1,324.93	62.94	-	-
	W-5	450.00	27.02	-	-	485.93	62.94	430.00	54.41

⁽¹⁾ The agricultural rates for groundwater, surface water and reclaimed water were set at 6% of the Zone W-5 non-agricultural (municipal and industrial) groundwater rate for per prior Board action. The agricultural rates for surface water and reclaimed water include certain surcharges.

⁽²⁾ 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.

Projected 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, based on the 2019 PAWS Report. The Fiscal Year 2019-20 water charges shown in the table below are in effect as of July 1, 2019.

**PROJECTED WATER RATES
(DOLLARS PER ACRE-FOOT)⁽¹⁾**

<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>
2019-20 ⁽²⁾⁽³⁾	W-2	\$1,374.00	\$28.86	\$1,574.00	\$1,474.00	\$1,411.50	\$66.36	-	-
	W-5	481.00	28.86	-	-	518.50	66.36	\$461.00	\$52.89
2020-21	W-2	1,465.00	30.84	1,515.00	1,565.00	1,504.15	70.02	-	-
	W-5	514.00	30.84	-	-	553.15	70.02	494.00	54.88
2021-22	W-2	1,561.00	33.00	1,611.00	1,661.00	1,601.87	73.87	-	-
	W-5	550.00	33.00	-	-	590.87	73.87	530.00	57.01
2022-23	W-2	1,664.00	35.28	1,714.00	1,764.00	1,706.67	77.95	-	-
	W-5	588.00	35.28	-	-	630.67	77.95	568.00	59.29
2023-24	W-2	1,774.00	37.68	1,824.00	1,874.00	1,818.80	82.52	-	-
	W-5	628.00	37.68	-	-	672.80	82.52	608.00	61.72

(1) The projected agricultural rates shown for groundwater, surface water and reclaimed water are 6% of the projected Zone W-5 non-agricultural (municipal and industrial) groundwater rates and includes certain surcharges for surface water and reclaimed water.

(2) Due to full groundwater basin levels, non-contract treated water rate was set higher than the contract rate to incentivize retail customers to pump more groundwater.

(3) Water charges currently in effect as of July 1, 2019.

Source: District.

With the exception of Fiscal Year 2019-20, the projected water charges set forth above have not been approved by the Board and as described above, under the caption “—*Water Charge Setting Process*,” the Board has authorized the preparation of a metes and bounds description of modified groundwater benefit zones W-2 and W-5 and two new zones for water charges. If the modified and new zones are approved by the Board as described above, under the caption “—*Water Charge Setting Process*,” the modified and new zones will be effective July 1, 2020. The District has not yet developed projected water charges resulting from such modifications, however, the District does not believe that such modifications will have a material adverse impact on its financial operations or its ability to pay debt service on the 2019 Bonds.

Historical Water Deliveries and Sources of Water Delivered. The District records the volume of water delivered by the District. The following tables present a summary of historical water deliveries by fiscal year and the sources of water supply by calendar year for the five most recent years. The tables below do not include natural groundwater infiltration, SFPUC managed water, recycled water produced by Palo Alto, Sunnyvale or South Bay Water Recycling, or San Jose Water Company or Stanford local surface water. The District estimates that natural groundwater infiltration between 2014 and 2018 provided an average of approximately 48,000 acre-feet of water per year.

HISTORICAL WATER DELIVERIES AND SOURCES OF WATER DELIVERED
(In acre-feet)⁽¹⁾

Deliveries

<i>Fiscal Year Ending June 30</i>	<i>Municipal & Industrial</i>	<i>Agriculture</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2014	256,056	28,729	284,785	2.56%
2015 ⁽²⁾	210,422	26,577	236,999	(16.78)
2016 ⁽²⁾	174,464	25,902	200,366	(15.46)
2017	189,574	25,785	215,359	7.48
2018	199,300	26,900	226,200	5.03

Sources

<i>Calendar Year</i>	<i>Local Surface Water⁽³⁾</i>	<i>Central Valley Project⁽⁴⁾</i>	<i>SFPUC Intertie⁽⁵⁾</i>	<i>State Water Project⁽⁶⁾</i>	<i>Other⁽⁷⁾</i>	<i>Total</i>
2014	15,400	69,400	(60)	40,000	2,000	126,740
2015	40,400	49,600	(600)	65,800	2,400	157,600
2016	97,800	104,600	90	68,700	2,000	273,190
2017 ⁽⁸⁾	515,400	70,900	960	45,000	1,900	634,160
2018	36,000	107,700	(80)	77,100	2,000	222,720

⁽¹⁾ Certain amounts reflect adjustments made subsequent to the relevant year.

⁽²⁾ Decrease primarily a result of State and locally mandated reductions in water use in response to drought conditions. See the caption "FACTORS AFFECTING WATER SUPPLIES — California Drought Management."

⁽³⁾ Reservoir inflows plus supplies from storage, which may include flood releases, spills, and flows to the environment that may not be used for water supply within the County.

⁽⁴⁾ Sum of all CVP imports, plus exchanges, sales, reschedules, adjustments, transfers, State Water, etc., delivered through the San Felipe Project in the County.

⁽⁵⁾ Reflects the net difference between SFPUC water taken less water provided to SFPUC via the intertie.

⁽⁶⁾ Sum of all SWP imports, plus Article 21, Buy, Sale, Reschedule, Pool A, etc. delivered in the County.

⁽⁷⁾ Includes recycled water produced by South County Regional Wastewater Authority.

⁽⁸⁾ Calendar year 2017 was one of the wettest hydrological years on record, which resulted in substantially increased local surface water inflows. The District estimates that approximately 400,000 acre-feet of supplies was released to the environment or flowed to the San Francisco Bay.

Source: District.

District water sources in 2014 and 2015 were below historical averages as a result of Statewide drought conditions. Water supply conditions improved in 2016 and 2017 due to above-average hydrology. Drought conditions affect local surface water runoff as well as CVP and SWP allocations. During drought years, the District offsets certain reductions in CVP and SWP allocations through exchanges, transfers, and other supplemental supplies. See the caption "FACTORS AFFECTING WATER SUPPLIES — California Drought Management."

Differences in water deliveries and sources may vary significantly from one year to the next. Factors such as voluntary and mandatory water use reductions, hydrologic conditions, environmental conditions, new development, operations of the SWP and the CVP and the economy affect water delivery volume. Water source volume is generally affected by hydrology and State water regulations. During years of wet hydrological conditions, 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 Subbasins” and “SANTA CLARA COUNTY WATER SUPPLY.”

Projected Water Deliveries and Sources of Water Delivered. The following tables present a summary of projected water deliveries by fiscal year and sources of water supply by calendar year for the next five years. The tables below do not include natural groundwater infiltration, SFPUC managed water, recycled water produced by Palo Alto, Sunnyvale, or South Bay Water Recycling, or San Jose Water Company or Stanford local surface water. The District estimates that natural groundwater infiltration will provide an average of approximately 54,500 acre-feet of water per year based on the long-term average presented in the 2016 Groundwater Management Plan.

PROJECTED WATER DELIVERIES AND SOURCES OF WATER DELIVERED

(In acre-feet)

Deliveries

<i>Fiscal Year Ending June 30</i>	<i>Municipal & Industrial</i>	<i>Agricultural</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2019 ⁽¹⁾	181,500	26,200	207,700	(8.18)%
2020	211,800	27,590	239,390	15.26
2021	223,800	27,590	251,390	5.01
2022	223,800	27,590	251,390	0.00
2023	224,720	27,590	252,310	0.37

Sources

<i>Calendar Year⁽²⁾</i>	<i>Local Surface Water</i>	<i>Central Valley Project⁽²⁾</i>	<i>State Water Project⁽²⁾</i>	<i>Other⁽³⁾</i>	<i>Total</i>
2019	217,100	130,700	83,700	2,100	433,600
2020	78,600	109,600	61,400	2,600	252,200
2021	78,600	109,600	61,400	2,600	252,200
2022	78,600	109,600	61,400	2,600	252,200
2023	78,600	109,600	61,400	2,600	252,200

⁽¹⁾ Based on unaudited actual amounts.

⁽²⁾ Projected supplies in calendar year 2019 include carryover and transfers. These supplies may include flows to the environment. CVP and SWP sources for calendar years 2020 through 2023 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⁾ Other sources include recycled water produced by South County Regional Wastewater Authority (SCRWA).
Source: District.

Projected deliveries in Fiscal Years 2019-20 through 2022-23 assume 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 and Sources of Water Delivered*,” 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 for which audited financial statements are available.

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>
2014	\$84,308,271	\$86,385,838	\$1,679,357	\$172,373,466	10.70%
2015	77,094,928	76,798,888	925,457	154,819,273	(10.18)
2016	61,128,400	89,375,182	731,735	151,235,317	(2.31)
2017	67,936,832	122,212,497	747,007	190,896,336	26.22
2018	97,482,517	132,476,810	1,040,878	231,000,205	21.01

Source: District.

Projected Sales Revenues. The following table shows the annual water sales revenues projected by the District for Fiscal Year 2018-19 (based on unaudited actual amounts) and the following four fiscal years. The projections reflect an assumption by District staff that the water charges will be increased for each fiscal year from 2020-21 through 2022-23 through the rate setting process described under the caption “—Primary Sources of Revenues” and the projected deliveries under the caption “—*Projected Water Deliveries and Sources of Water Delivered*” above. Such increases would be required to be approved by the Board and there can be no assurance that such increases will be implemented as currently projected.

PROJECTED SALES REVENUES

<i>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>
2019 ⁽¹⁾	\$ 81,923,000	\$143,998,000	\$1,758,000	\$227,679,000	(1.44%)
2020	105,036,000	169,519,000	2,821,000	277,376,000	21.83
2021	128,638,000	179,948,000	3,005,000	311,591,000	12.34
2022	137,175,000	191,065,000	3,203,000	331,443,000	6.37
2023	146,751,000	203,935,000	3,413,000	354,099,000	6.84

⁽¹⁾ Based on unaudited actual amounts.

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 “situated” growth in assessed value (due to new construction, change of ownership, or a 2% inflation allowance allowed under Article XIII A of the State Constitution) prorated among the jurisdictions which serve the tax rate area within which the growth occurs. Tax rate areas are groups of parcels which are taxed by the same taxing entities. Cities, counties, special districts and school districts share the growth of “base” revenues from each tax rate area. Assessed valuation growth is cumulative, i.e., each year’s growth in property value becomes part of each agency’s allocation in the following year. Notwithstanding the foregoing, counties could also broadly reassess properties (i.e. during economic recessions) and adjust property values downwards.

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

Under 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 generally allows valuation growth or decline of State-assessed unitary property to be shared by all jurisdictions within a county.

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

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

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.

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

There can be no assurance that the property tax revenues 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 any potential 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 2017-18, the District allocated \$7,087,504 (approximately 7.5%) to the Water Utility System. Based on unaudited actual amounts, for Fiscal Year 2018-19, the District estimates that it received \$107,845,000 in one-percent ad valorem property tax, of which \$8,124,105 was allocated to the Water Utility System. The District budgeted an allocation of \$7,451,232 (approximately 7.3%) to the Water Utility System for Fiscal Year 2019-20.

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>
2014	\$68,381,000	3.91%
2015	74,700,000	9.24
2016	80,797,165	8.16
2017	88,907,774	10.04
2018	94,491,000	6.28

Source: District.

Property taxes levied by the District to pay State Water Project contract costs are not pledged to the payment of the 2019 Bonds and other Bonds and Contracts, 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 underlying groundwater subbasins, (ii) local surface water runoff that enters District reservoirs, (iii) water imported by the District through SWP facilities, and (iv) water imported by the District through CVP facilities. 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 Silicon Valley Advanced Water Purification Center (“SVAWPC”) to the City of San Jose. See the caption “DISTRICT FACILITIES—Water Treatment and Water Purification—*Silicon Valley Advanced Water Purification Center.*”

The District receives revenue from the sale of treated water produced by its three water treatment plants, revenue from untreated surface water sales, a small amount of revenue from recycled water at the SCRWA Reclamation Facility, and revenue from a groundwater production charge. Some of the water retailers within 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 discussion.

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

Approximately 45% of the County's water supply comes from local sources. Such sources are heavily dependent upon rainfall and runoff. The remaining 55% 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 for the last five calendar years:

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>
2014 ⁽¹⁾	40,000	69,400	47,000	22,000	16,700	51,000	246,100
2015 ⁽¹⁾	65,800	49,600	43,000	20,000	45,100	38,000	261,500
2016 ⁽¹⁾	68,700	104,600	43,000	19,000	105,400	52,000	392,700
2017 ⁽¹⁾	45,000	70,900	47,000	17,000	517,300	56,000	753,200
2018 ⁽²⁾	77,100	107,700	46,000	18,000	44,200	43,000	336,000

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

⁽²⁾ Based on unaudited estimated amounts.

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.

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 145 years (1874-2018) of rainfall data from two rainfall gauges in central San Jose shows that the average (or mean) annual rainfall is approximately 14 inches. An analysis of the last 10 years (2009-2018) of rainfall data from the National Weather Service's rainfall gauge (Station 86), shows that the average (or mean) annual rainfall is approximately 12 inches. This period includes a drought which occurred between 2012 and 2016. Station 86, located at the Norman Y. Mineta San Jose International Airport (the "San Jose International Airport") since 2007 but previously co-located with Station 31, has been in use since 1874 and is currently operated by the City of San Jose in cooperation with the National Weather Service. Another rainfall gauge that is owned by the City of San Jose but maintained by the District has been located at Station 31 at the northwest corner of North San Pedro Street and West Mission Street (currently the City of San Jose's main police complex) since 1992 after having been originally installed nearby at the San Jose International Airport in 1986. There is variability in rainfall, with many years of above normal rainfall and many years of below normal rainfall. The District stores water from wetter years for use during drier years.

Surface Water

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

The District operates ten surface water reservoirs, with a total capacity of about 166,000 acre-feet, which generally provide seasonal storage for downstream releases to percolation facilities. Historically, Anderson Reservoir, the largest of the District's reservoirs, provided carryover storage from one year to the next. The Board directed staff in 2017 to operate Coyote and Anderson reservoirs according to the 40% inflow exceedance rule curve, which has significantly impacted the ability of Anderson Reservoir to carryover storage. Groundwater storage is also available in the County's two groundwater subbasins and is used for both seasonal and carryover storage. See the caption "DISTRICT FACILITIES—Local Reservoirs."

The total amount of surface water flowing into the County does not necessarily represent local water supply yield. The yield of the major tributary drainage area is defined as that portion of the historical surface water that can, on a long-term basis, be put to beneficial use through surface diversions and/or groundwater recharge, considering the available storage, recharge, and conveyance capacities of the distribution facilities. The remaining water is released to San Francisco Bay or Monterey Bay. Based on 2012 through 2016 data, between 4,000 acre-feet and 23,000 acre-feet of water per year was released to the bays. The average release was about 11,000 acre-feet per year.

Groundwater Recharge

Recharge to the groundwater subbasins consists of natural groundwater recharge and managed recharge with local and imported surface water. Natural groundwater recharge includes recharge from rainfall, net leakages from pipelines, seepage from the surrounding hills, seepage into and out of the basin, and net irrigation return flows to the groundwater subbasins. Managed recharge is controlled recharge that occurs due to District releases 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 the imported water supply in the County; however, the District does not receive revenue for the SFPUC water supply.

The District started importing SWP water 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 halting permanent land surface subsidence due to groundwater overdraft by about 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 and ensure groundwater sustainability.

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 Water Treatment Plants (“WTPs”), but can also be used to supply the Santa Teresa WTP. The SWP Contract provides for a maximum of 100,000 acre-feet of water annually 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 maximum annual amount under the SWP Contract. As of December 31, 2018, the District had received delivery of approximately 3,668,000 acre feet of water through the SWP Contract. Based on a June 19, 2019 announcement by the California Department of Water Resources (“DWR”), the District’s current SWP allocation under its SWP Contract for 2019 is 75 percent of its maximum annual contract amount. The allocation for 2019 is subject to revision by DWR throughout the year. See the caption “WATER UTILITY SYSTEM — Primary Sources of Revenues — *Historical Water Deliveries and Sources of Water Delivered.*” SWP water deliveries began in 1965 and are generally 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 2019 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 and the State Water Project contractors held a series of 23 public negotiating sessions between May 2013 and June 2014 relating to the renewal of the State Water Project contracts. Such negotiating sessions resulted in an “Agreement in Principle” to amend the existing State Water Project contracts to extend them through December 31, 2085 and to make certain changes relating to the billing process under such contracts. The District, other State Water Project contractors and DWR are parties to the Agreement in Principle as a means to start the environmental review process required under the California Environmental Quality Act (CEQA). The Agreement in Principle does not represent a commitment by the District, other State Water Project contractors or DWR to extend the State Water Project contracts but to analyze the proposed extensions through the preparation of an environmental impact report under CEQA. The notice of preparation of the environmental impact report relating to the proposed extension was issued on September 12, 2014. As required under State law, the Joint Legislative Budget Committee held a hearing on the contract renewal on September 11, 2018. On November 13, 2018, DWR certified the final environmental impact report, which concluded that the proposed extensions would not result in any physical environmental impacts. On December 12, 2018, the District’s Board determined that DWR’s final environmental impact report is adequate for the District’s use to authorize the execution of the proposed contract renewal. In early December 2018, DWR filed an action to validate the proposed extension of the State Water Project contracts, including the District’s SWP Contract. The District filed its answer to the complaint on February 25, 2019. The timing and outcome of the validation action cannot be predicted by the District at this time.

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 April 16, 2019, relating to its Central Valley Project Water System Revenue Bonds Series BA (“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 <https://emma.msrb.org/>. DWR disclosure documents and annual reports should be reviewed for information pertaining to water supply matters. DWR has not entered into any contractual commitment with the District, the Trustee or the Owners of the 2019 Bonds to provide Department of Water Resources Information to the District or the Owners of the 2019 Bonds. The District has not incorporated by reference the information filed by DWR described above and neither the District nor the Underwriter 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 2019 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 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.

On June 14, 2019, USBR announced updated allocations for 2019. For CVP contractors south of the Bay-Delta, including the District, the allocations were 75 percent of contracted amounts for agricultural water and 100 percent of historic use for M&I water. Such allocations will be subject to revision by the USBR. In 2018, for CVP contractors south of the Bay-Delta, including the District, the allocations were 50 percent of contracted amounts for agricultural water and the greater of 75 percent of historic use or public health and safety needs for M&I water. See the caption “WATER UTILITY SYSTEM — Primary Sources of Revenues — *Historical Water Deliveries and Sources of Water Delivered.*” 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 of 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.

Under the provisions of the Water Infrastructure Improvements for the Nation Act ("WIIN Act"), the District may be eligible to convert the CVP Contract from a water service contract to a repayment contract. Under the WIIN Act, the District would prepay CVP construction costs allocated to the District as a condition of such conversion. The District is currently considering the advisability of converting the CVP Contract from a water service contract to a repayment contract for allocated construction costs of the in-basin CVP facilities under the provisions of the WIIN Act. If undertaken, the District does not expect that the prepayment costs described above would have a material adverse impact on the ability of the District to pay principal of and interest on the 2019 Bonds. No assurances can be made that the District will undertake such conversion or if such conversion is undertaken, the final terms of the repayment contract to be entered into between the District and USBR.

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

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 three water treatment plants. Water from the Anderson/Coyote and the Almaden/Calero Reservoir systems can be delivered to the water treatment plants.

The following table lists the significant features of 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 at Capacity (acres)</i>	<i>Approximate Dam Height (feet)</i>
Almaden	1,586	1,472	1935	59	105
Anderson**	89,278	51,766	1950	1,253	240
Calero	9,738	4,414	1935	346	98
Chesbro*	7,967	7,967	1955	271	95
Coyote	22,541	11,843	1936	633	138
Guadalupe	3,415	2,218	1935	74	129
Lexington*	18,534	18,534	1952	409	195
Stevens Creek*	3,056	3,056	1935	90	120
Uvas*	9,688	9,688	1957	287	118
Vasona*	463	463	1935	52	30
Total	166,266	111,421		3,474	

Sources: SCVWD Urban Water Management Plan 2015 and the 2019 PAWS Report for areas and capacities of Almaden and Guadalupe reservoirs. Area-capacity surveys were performed in 2016 for Anderson, Calero, Coyote, and Stevens Creek reservoirs. Chesbro and Uvas reservoirs were surveyed in 2017. Lexington and Vasona reservoirs were surveyed in 2018. Capacities and surface areas above reflect most current survey results.

*Indicates Division of Safety of Dams restriction is not applicable to reservoir.

** An interim reservoir restriction of 589.5 feet (NGVD 1929) was approved by the Division of Safety of Dams on May 8, 2017 for Anderson Reservoir. This elevation translates to a storage capacity of 51,766 acre-feet.

Source: District.

The District monitors, collects, and analyzes seepage and vertical and horizontal movement data monthly and reports the information to the DWR Division of Safety of Dams ("DSOD"). DSOD has an annual dam inspection program. In addition, 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 third of the total surface storage capacity. See the caption "CAPITAL IMPROVEMENT PROGRAM" for a discussion of a potential acquisition and expansion of the Pacheco Reservoir, a surface water reservoir located outside of the County.

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 water management 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 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 approximately Metcalf Road in the south. The Santa Clara Subbasin is bounded on the west by the Santa Cruz Mountains and on the east by the Diablo Range. The Santa Clara Plain portion of the Santa Clara Subbasin covers a surface area of approximately 280 square miles. The northern and central area of the Santa Clara Plain is underlain with a laterally extensive aquitard comprised of low-permeability sediments, resulting in confined aquifer conditions. The southern area and eastern and western edges comprise the unconfined area or recharge area where higher-permeability gravel and sand sediments are more predominant. The District recharge of local and imported surface water occurs in various off-stream and in-stream facilities within the recharge area. 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, permanent subsidence may resume 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 approximately Metcalf Road in the north to Cochrane Road in the south. The Coyote Valley portion of the Santa Clara Subbasin covers approximately 17 square miles. Groundwater in the Coyote Valley is generally unconfined, with no laterally extensive layers of clays or silts. The District conducts in-stream managed recharge within the Coyote Valley. The estimated operational storage capacity for the Coyote Valley is between 23,000 and 33,000 acre-feet.

Llagas Subbasin

The Llagas Subbasin extends from near Cochrane Road in the north to the Pajaro River at the southern border of the County. This subbasin covers approximately 88 square miles, and is bounded by the Santa Cruz Mountains to the west and the Diablo Range to the east. Laterally-extensive clay and silt layers are present in the central and southern portion of the subbasin, resulting in confined aquifer conditions. The District's managed groundwater recharge activities occur in various off-stream and in-stream facilities in the northern unconfined area, or recharge area, of this subbasin. Bulletin Number 7 by DWR estimates the 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 surface water into the groundwater subbasins. In 2017, it was estimated that the amount of managed recharge into the groundwater subbasins by the District was 101,000 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 Surface Area (in acres)*</i>	<i>Miles of Stream**</i>	<i>Average Annual Recharge Quantity (acre-feet per year)***</i>
Westside	2	3	28	7,000
Los Gatos	27	71	11	20,000
Guadalupe	20	80	17	14,000
Penitencia	24	21	2	3,000
Coyote	2	40	14	20,000
Upper Llagas	21	25	9	9,000
Lower Llagas	<u>3</u>	<u>25</u>	<u>9</u>	<u>10,000</u>
Total	99	265	90	83,000

* Approximate pond water surface area based on ArcGIS layer.

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

*** Average Annual Recharge Quantity is based generally on recharge averaged over calendar years 2013 through 2017. 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 and water treatment plants and then delivers the remaining water to recharge systems on an ability-to-convey basis. The major components of this conveyance system consist of the Central Pipeline, the Rinconada Force Main, the Almaden Valley Pipeline, the Calero Pipeline, and the Cross Valley Pipeline. Another facility, the Stevens Creek Pipeline, tees off of the Rinconada Force Main and conveys water to west side recharge facilities. 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 pipelines.

The District also owns and operates the Vasona Pumping Plant, with a total power capacity of 1,200 horsepower, which is located at the juncture of the Central Pipeline, the Rinconada Force Main, and the Almaden Valley Pipeline. The Vasona Pumping Plant can boost the water pressure in any of these three pipes. The District also operates two pumping plants on the San Felipe Project: the Pacheco Pumping Plant and Coyote Pumping Plant, with a combined capacity of 36,000 horsepower. In addition, 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.

RAW WATER 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: 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 water system intertie and/or groundwater if Santa Teresa WTP is shut down. The water retailers served by Rinconada WTP can use groundwater or SFPUC water to replace Rinconada water during low flow season if the treatment plant is shut down. In general, the major water retailers within the County can acquire either SFPUC water or groundwater to replace District treated water if necessary.

In 1995, the State governor signed Assembly Bill 733 into law, which requires fluoridation of any public water system with at least 10,000 customers if sufficient funds to cover capital and any associated costs necessary to install such a system were made available. Local health officials advocated for large-scale fluoridation to be applied to maximize the public health benefits and minimize the cost of treatment at municipal water supplies. Fluoridation at the District's three drinking water treatment plants was identified as the most cost-effective means of providing fluoride to Santa Clara Valley. In November 2011, the Board adopted a policy to add fluoride to the District's water treatment plants. A project to provide fluoridation facilities at both Santa Teresa WTP and Penitencia WTP began construction in May 2016 and was completed in July of 2017. As a result, the fluoridation systems at Santa Teresa WTP and at Penitencia WTP are now on-line. Rinconada WTP is expected to begin fluoridating with the anticipated completion of the Rinconada Water Treatment Plant Reliability Improvement Project in 2023. See the caption "LITIGATION— Rinconada Water Treatment Plant Upgrade" for a description of a contractor dispute with respect to the Rinconada WTP.

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. In December 2016, the fluoridation system at Santa Teresa WTP was commissioned and Santa Teresa WTP became the first of the three District's treatment plants to provide

fluoridated water to the customers. Drinking water from the plant serves most of the southern portion of the City of San Jose (Almaden Valley, Blossom Valley, Santa Teresa), supplying water to both residential and commercial users.

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

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

Rinconada Water Treatment Plant. First operated in 1968, the Rinconada WTP is the oldest of the three surface water treatment plants in the 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, as well as the fluoridation system. The Rinconada WTP is also expected to provide fluoridated water to the customers by the completion of such upgrade. See the caption “LITIGATION— Rinconada Water Treatment Plant Upgrade” for a description of a contractor dispute with respect to the Rinconada WTP.

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

Silicon Valley Advanced Water Purification Center. The Silicon Valley Advanced Water Purification Center is 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 recycled 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.

The District and the City of San Jose entered into a ground lease and property use agreement (the “Ground Lease”) with respect to the City of San Jose-owned site on which the SVAWPC is located. In addition, the District and the City of San Jose have entered into an integration agreement (the “Integration Agreement”) with respect to the operation of the SVAWPC. The District and the City of San Jose each have the annual option to terminate the Integration Agreement on or after June 30, 2020 in accordance with its terms. The Ground Lease provides that if the Integration Agreement is terminated, the Ground Lease will

simultaneously terminate and upon such termination, the District would be required to surrender the facilities of the SVAWPC to the City of San Jose. The District and the City of San Jose have not had any formal negotiations with respect to such termination provisions. See the caption “CAPITAL IMPROVEMENT PROGRAM —Future Water Utility System Improvements.”

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 Penitencia and Rinconada WTPs. These programs targeted the need to define necessary non-structural or minor structural improvements. The required improvements have been completed.

Additional studies completed in 1993 and 1994 defined the faults and fault systems most likely to generate destructive earthquakes, and the level of movement expected at 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. (This voluntary restriction was subsequently increased to approximately 55 ft. from the crest of dam (42% storage capacity lost) in 2017.)
Almaden	2012	Embankment dam meets modern seismic design criteria. However, seismic retrofit of intake structure, spillway improvements, and dam raise are required. Interim operating restriction of 10 ft from crest of dam (7% storage capacity lost) implemented pending capital improvements.
Calero	2012	Seismic retrofit of dam is required. Interim operating restriction of 25 ft. from crest of dam (54% storage capacity lost) implemented pending seismic retrofit project.
Guadalupe	2012	Seismic retrofit of dam is required. Interim operating restriction of 25 ft. from crest of dam (35% storage capacity lost) implemented pending seismic retrofit project.
Lenihan	2013	Embankment dam meets modern seismic design criteria. No restrictions necessary.
Stevens Creek	2013	Embankment dam meets modern seismic design criteria. No restrictions necessary.

Source: District.

The seismic evaluations of Chesbro, Coyote, and Uvas Dams commenced in 2015 and are currently ongoing. The District estimates that the earliest such evaluations will be completed is in 2024. The District's Water Utility Dam Safety and Capital Delivery 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

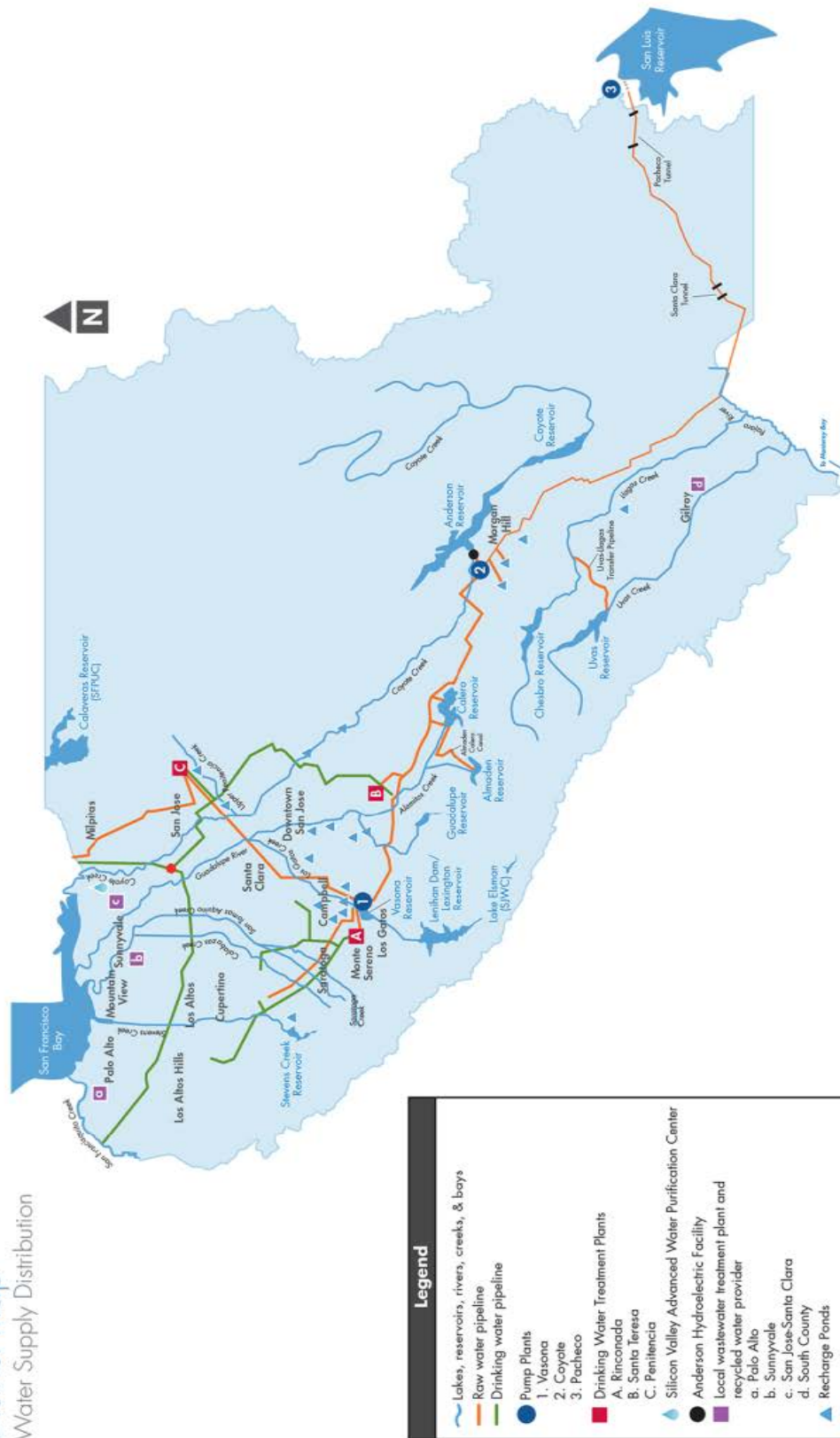
minimizing loss of water and impacts to level of service. Recent independent studies indicate that some District facilities might be subject to damage from fault displacement or moderate earthquakes on faults previously thought to be low-risk. The District conducts periodic engineering studies, inspections 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 map illustrates the District's water distribution system components that are utilized to serve the water demands of the County. In general, the District's distribution system, in conjunction with the SFPUC, can deliver the total projected water needs of the County.

District map Water Supply Distribution



Water Usage

The District receives revenue from the 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 zones 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)⁽¹⁾

	<i>Fiscal Year 2016-17</i>			<i>Fiscal Year 2017-18</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	32,823	68,064	100,887	41,121	65,354	106,475
Santa Clara, City of	10,952	4,409	15,361	12,134	4,525	16,659
California Water Service	2,793	7,638	10,431	5,096	7,256	12,352
San Jose, City of	438	10,726	11,164	550	11,630	12,180
Great Oaks Water Co.	9,136	-	9,136	10,248	-	10,248
Sunnyvale, City of	164	7,815	7,979	112	8,537	8,649
Gilroy, City of	7,253	-	7,253	7,883	-	7,883
Morgan Hill, City of	6,427	-	6,427	7,071	-	7,071
Milpitas, City of	-	3,227	3,227	-	3,165	3,165
Cupertino, City of	449	1,808	2,257	141	2,452	2,593
Mountain View City of	125	899	1,024	115	984	1,099
West San Martin Water Co.	306	-	306	352	-	352
New Avenue Mutual Water	12	-	12	10	-	10
Subtotals Water Retailers	70,878	104,586	175,464	84,833	103,903	188,736
Other Groundwater Revenue Accounts	38,222	-	38,222	40,248	-	40,248
Total	109,100	104,586	213,686	125,081	103,903	228,984

⁽¹⁾ Certain water usage reflects adjustments made subsequent to the relevant Fiscal Year.

Source: District.

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

<i>Fiscal Year Ended June 30</i>	<i>Groundwater</i>		<i>Treated Water</i>	<i>Surface Water</i>	<i>Recycled Water</i>	<i>Total</i>
	<i>Agricultural</i>	<i>Non-Agricultural</i>				
2014	26,985	141,797	111,551	3,558	894	284,785
2015	25,700	119,126	90,673	607	893	236,999
2016	25,380	81,951	89,915	967	2,153	200,366
2017	24,938	84,162	104,586	1,399	802	215,887
2018	26,547	98,534	103,903	1,784	658	231,426

⁽¹⁾ Certain water usage reflects 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 2016-17</i>			<i>Fiscal Year 2017-18</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	\$35,161,202	\$79,342,203	\$114,503,405	\$48,250,848	\$83,326,580	\$131,577,428
Santa Clara, City of	9,328,115	5,142,889	14,471,004	14,257,427	5,769,962	20,027,389
San Jose, City of	311,961	12,571,341	12,883,302	463,343	14,828,454	15,291,797
California Water Service	2,993,592	8,938,450	11,932,042	5,987,777	9,251,604	15,239,381
Sunnyvale, City of	176,140	9,151,084	9,327,224	131,800	10,884,458	11,016,258
Great Oaks Water Co	5,568,862	-	5,568,862	7,445,910	-	7,445,910
Milpitas, City of	-	3,779,760	3,779,760	-	4,035,095	4,035,095
Gilroy, City of	2,850,256	-	2,850,256	3,295,228	-	3,295,228
Cupertino, City of	481,124	2,119,878	2,601,002	165,581	3,126,568	3,292,149
Morgan Hill, City of	2,525,897	-	2,525,897	2,955,682	-	2,955,682
Mountain View, City of	134,440	1,166,892	1,301,332	134,831	1,254,089	1,388,920
West San Martin Water Co	120,451	-	120,451	147,011	-	147,011
New Avenue Mutual Water	4,598	-	4,598	4,368	-	4,368
Subtotals Water Retailers	\$59,656,638	\$122,212,497	\$181,869,135	\$83,239,806	\$132,476,810	\$215,716,616
All Others	5,056,719	-	5,056,719	8,100,533	-	8,100,533
Individual groundwater customers	3,223,475	-	3,223,475	6,142,178	-	6,142,178
Total	\$67,936,832	\$122,212,497	\$190,149,329	\$97,482,517	\$132,476,810	\$229,959,327

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 a wholly-owned subsidiary of SJW Group, a public traded company. For the fiscal year ended June 30, 2018, the District received approximately \$131.6 million in charges for treated water and groundwater from San Jose Water Company consisting of approximately 60% 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, and Saratoga, the Town of Los Gatos, and adjacent unincorporated territory, all in the County.

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

None of San Jose Water Company, SJW Group or any of SJW Group's subsidiaries is an obligor with respect to the 2019 Bonds. The 2019 Bonds are obligations of the District payable from the District's Net Water Utility System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS," herein. References made herein to San Jose Water Company and SJW Group are for informational purposes only. The District makes no representations as to the accuracy or the adequacy of any of the filings of SJW Group with the Securities Exchange Commission (the "Commission") described below. The filings described below are strictly those of SJW Group and not of the District and such filings are not incorporated by reference herein.

SJW Group is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Commission. The Annual Report on Form 10-K (the "Form 10-K") for the year ended December 31, 2018, has been filed by SJW Group with the Commission. The Form 10-K and other annual and periodic reports of the SJW Group (including financial

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

FACTORS AFFECTING WATER SUPPLIES

General

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

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 current UWMP was 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 updated water demand projections based upon increases in population and job growth to 2040 as projected by local water retailers. The 2015 UWMP also presented water supply projections and included the District's Water Shortage Contingency Plan to address dry year objectives and operations. Completion of UWMP updates allows the District to remain eligible for state water bank assistance and for state grant funding. The next UWMP update cycle is scheduled for development and completion by July 2021.

A key finding of the 2015 UWMP was 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 were described in the District's 2012 Water Supply and Infrastructure Master Plan (the "2012 Plan"), which included 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.

In addition to baseline investments described in the 2012 Plan, additional investments will likely be necessary to achieve the District's updated water supply reliability 'level of service' goal, as approved by the District on January 14, 2019. The District is in the process of updating the 2012 Plan with the Water Supply Master Plan 2040 (the "Water Supply Master Plan"), with a target completion in December 2019. The process of developing the Water Supply Master Plan has involved 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 projects and programs considered in the Water Supply Master Plan 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 provided in the Water Supply Master Plan. The objectives of the 2012 Plan were incorporated into the District's Capital Improvement Program and the new objectives and projects in the completed Water Supply Master Plan are 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 Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Plan and the Delta Conveyance Project (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 DWR via the SWP and by the United States Bureau of Reclamation 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 have come to final resolution and constituted 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 related 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.

While the litigation was ongoing, the SWP and CVP have been operating under a 2008 BO regarding Delta smelt and a 2009 BO regarding salmonids since they were issued. 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 2019 Bonds.

Re-Initiation of Consultation on Coordinated Long-Term Operations of the SWP and CVP. On August 2, 2016, the USBR and DWR requested re-initiation of consultation for coordinated long-term operations due to new information learned after multiple years of drought, low populations for listed species and new scientific information. USBR and DWR submitted their Biological Assessment to the federal fish and wildlife agencies on February 5, 2019. While a Presidential Order directed the federal fish agencies to complete formal consultation by June 2019, this deadline has been extended several times and new biological opinions are now anticipated in October 2019. They will not be implemented until USBR completes environmental review under NEPA in early 2020. Separately, DWR has begun the process to renew its permits to operate the SWP under the California Endangered Species Act. At this time it is unknown whether

and to what extent these processes will impact the District's water supply, but early drafts of the documents indicate that the new permits will not have a material impact on the District's ability to pay debt service on the 2019 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 agricultural users in the Central Valley and the San Felipe Division of the CVP. However, decades of competing demands have taken a toll on the Bay-Delta. Regulatory actions to protect threatened or endangered fisheries have reduced the reliability of Bay-Delta water supplies. During dry periods, water quality can be degraded, making it difficult and expensive to meet drinking water standards. In addition, the vulnerability of Delta levees to seismic and flooding failures threatens both the infrastructure and the quality of California's water supply.

The State Water Resources Control Board (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 including establishing flow objectives for priority tributaries to the Bay-Delta to protect beneficial uses in the Bay-Delta watershed. These updates are occurring in phases. Phase 1 of this work involves developing flow objectives for the Lower San Joaquin River and its major salmon bearing tributaries and updating the southern Delta salinity objectives included in the Bay-Delta Plan. Phase 2 involves other comprehensive changes to the Bay-Delta Plan to protect beneficial uses not addressed in Phase 1 (i.e., Delta outflows, Sacramento River and other major tributary flows, export limits, reverse flows, etc.). Phase 3 will involve changes to water rights and other measures to implement changes to the Bay-Delta Plan from Phases 1 and 2.

On December 12, 2018, the SWRCB adopted new water quality objectives for the San Joaquin River's major tributaries for the protection of fish and wildlife (the "Phase 1 Amendments"). The new objectives increase flow on the San Joaquin River and its tributaries to a range of 30 to 50 percent of the unimpaired flow levels, with a starting point of 40 percent of unimpaired flow from February through June. The SWRCB has defined unimpaired flow as the water production of a river basin, unaltered by upstream diversions, storage, or by export or import of water to or from other watersheds. These new objectives will not be implemented until the SWRCB assigns responsibilities through water rights proceedings during Phase 3.

On January 11, 2019, the District filed a lawsuit in the Santa Clara County Superior Court against the SWRCB. The lawsuit generally relates to the effect on the groundwater basins managed by the District and the supplemental imported water supplies available to the District in the event that the Phase 1 Amendments and the accompanying SED are implemented by the SWRCB. The District can make no predictions on the timing or outcome of this lawsuit or the effect such outcome may have on the Phase 1 Amendments to the Bay-Delta Plan, the SED, the groundwater basin underlying the District or supplemental imported water supplies available to the District.

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 draft SBR identifies the science that will be relied on in considering potential changes to the Bay-Delta Plan to enhance flows in and out of the Sacramento River basin and within the Bay-Delta to protect fish and wildlife. The SBR was finalized in October 2017 and analyzes possible effects of modified requirements for fish and wildlife protection on other beneficial uses of water, including alternatives and economic impacts.

In July 2018, the SWRCB released a Framework for the Sacramento/Delta Update to the Bay-Delta Plan (Phase 2 Framework) that described changes SWRCB staff intended to propose in 2019 through a formal proposal and supporting environmental document. The proposed changes include unimpaired flow requirements for the Sacramento River and its salmon-bearing tributaries that range between 45 and 65 percent, with a starting point of 55 percent, a new narrative cold water habitat objective, and new objectives for fall Delta outflows and interior Delta flows. A decision on Phase 2 will not be made until SWRCB staff has completed their draft staff report and the SED and the public has been provided an opportunity to comment.

On December 12, 2018, during the SWRCB hearing to consider adoption of the Phase 1 Amendments, the Directors of the DWR and the California Department of Fish and Wildlife presented a framework for a Voluntary Agreement between the Departments, water users in the San Joaquin and Sacramento watersheds, SWP and CVP contractors, and members of the conservation community that would provide more modest additional flows for fish and wildlife combined with commitments to contribute substantial funding for structural habitat improvements and scientific investigations. At the hearing the SWRCB directed its staff to provide appropriate technical and regulatory information to assist the California Natural Resources Agency in completing the agreement as a potential alternative for a future Bay-Delta Plan update.

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

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

In February 2019, Governor Gavin Newsom announced his support for a revised Bay-Delta plan which includes one tunnel as opposed to two-tunnels with respect to the diversion facilities and revised the name of the project from “California Water Fix” to “Delta Conveyance” project. In response to such announcement, DWR issued a project memorandum which rescinded the Notice of Determination approving the California Water Fix project and all other DWR approvals related to the California Water Fix project based on such Notice of Determination. The project memorandum also announced that DWR would develop a notice of preparation under CEQA to begin the environmental review process for the Delta Conveyance project.

On May 8, 2018, the Board authorized the District to be a member of the Delta Conveyance Design and Construction Joint Powers Authority (“DCA”). The DCA was originally formed for the purpose of implementing the design and construction of the California Water Fix project and currently is participating in the implementation of the Delta Conveyance project. The Board also authorized the District’s participation in the Delta Conveyance Finance Authority (the “Financing JPA”) on July 6, 2018. While the District has joined the DCA and the Financing JPA, the District has not made any financial commitments with respect to the California Water Fix or the Delta Conveyance project other than \$1,092,975 interim funding to DWR for the District’s share of preconstruction work, a \$200,000 administrative fee to DCA paid in Fiscal Year 2018-19, and annual administrative fees of \$80,000 and \$50,000 paid to the Financing JPA with respect to the periods ended on June 30, 2019 and ending on June 30, 2020, respectively.

On September 24, 2019, the District Board of Directors declared its support for the development of a single tunnel Delta Conveyance project and approved guiding principles for the District's involvement in the Delta Conveyance project. The District cannot make any predictions with respect to the timing of the environmental review for the Delta Conveyance Project. The District also cannot predict at this time what additional financial commitments to the Delta Conveyance project will be made.

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

Water Banking

The District's 2012 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. The 2012 Plan is being updated with the Water Supply Master Plan which has a target completion of December 2019.

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-five years, the District has stored about 588,000 acre-feet of water in Semitropic Groundwater Banking Program and withdrawn about 248,000 acre-feet of supply. As of August 31, 2019, the District had approximately 340,000 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 the San Luis Reservoir and is available, deliveries from the Semitropic Groundwater Banking Program could be accomplished through the San Felipe Division.

In compliance with the State Sustainable Groundwater Management Act (the "SGMA"), Semitropic Water Storage District formed a groundwater sustainability agency (the "Semitropic GSA"). The Semitropic GSA is coordinated at the sub-basin level by the Kern Groundwater Authority (the "KGA"), which includes other neighboring groundwater sustainability agencies. The Semitropic GSA, under the KGA basin-wide effort, is required to submit to DWR by the end of 2019, a groundwater sustainability plan (the "GSP"). While the District does not currently expect that enactment of the SGMA or the activities of the Semitropic GSA or the KGA resulting therefrom will have a material adverse effect on the District's ability to pay principal and interest on the 2019 Bonds, the District is monitoring the Semitropic GSA's and the KGA's activities with respect to SGMA. The District cannot predict what effect, if any, Semitropic GSA or KGA activities with respect to the SGMA will ultimately have on the water currently stored, or water which may be stored or withdrawn in the future, by the District in the Semitropic Groundwater Banking Program. See the caption "POTENTIAL INVESTMENT CONSIDERATIONS—Risks Related to Water Utility System Facilities and Operation—*Sustainable Groundwater Management Act*."

District's Local Water Right Permit and Licenses

In July of 1996, the Guadalupe Coyote Resources Conservation District ("GCRCD") filed a complaint with the SWRCB alleging that 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 then-17 local appropriative water right licenses (the District has since acquired three additional water right licenses unrelated to those subject to the GCRCD complaint) and an appropriative water right permit to establish flow schedules sufficient for the protection of fish and wildlife resources and the development and implementation of a restoration plan.

In 1997, the District commenced settlement negotiations with GCRCD as well as with National Marine Fisheries Service ("NMFS"), U.S. Fish and Wildlife Service, 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 initiated by the Settlement Parties, which set forth a pathway to resolve the water rights complaint. This settlement agreement, entitled, Settlement Agreement Regarding Water Rights of the Santa Clara Valley Water District on Coyote, Guadalupe, and Stevens Creeks ("FAHCE Settlement Agreement") committed 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. Since 2003, 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. Since 2015, because of past and likely ongoing protracted negotiations with NMFS, the District prioritized addressing state regulatory requirements. The District is working on a Fish Habitat Restoration Plan and the associated environmental document in support of District's water rights change petitions before the SWRCB. Once these state requirements are addressed, the District will need to implement the FAHCE Restoration Program, while pursuing federal incidental take coverage of Steelhead Trout either through Section 7 or Section 10 of the ESA. During this process, GCRCD could pursue a ruling for increased in-stream uses of the District's local water rights for aquatic fisheries, which would lead to decreased water supply availability, and increased cost for protecting local water rights and for increased water uses.

Under the terms of the FAHCE Settlement Agreement, the District conditionally agreed to undertake restoration measures at a cost not to exceed \$42 million for each of three consecutive 10-year phases (for a total of \$126 million over the three 10-year phases). Costs for activities to complete the conditions precedent, including environmental review and permitting, do not count against this cap. Actual costs for the restoration measures over these 30 years could exceed \$126 million if the projects are expanded to accomplish additional District goals. Beyond the end of the third phase, the District is obligated to continue the benefits obtained from the restoration measures for as long as the District is diverting water under its appropriative water right licenses and permit. The first phase will begin after completion of all conditions precedent and execution of the FAHCE Settlement Agreement by all Settlement Parties. The District's financial forecasts integrate these cost estimates and the District expects to pay for the costs of the FAHCE Restoration Program and the FAHCE Settlement Agreement through rates and charges of its Water Utility System. Rate projections in the 2019 PAWS Report include planned funding of costs over the next ten years for implementation of the FAHCE Restoration Program and the FAHCE Settlement Agreement, including \$42 million for phase one restoration measures. Although the FAHCE Settlement Agreement limits the District's contribution to the FAHCE Restoration Program at \$126 million, the District may be required to expend additional amounts to satisfy state and federal regulatory requirements that may be imposed in the future to operate and maintain District water utility facilities in the Coyote and Stevens Creeks, and Guadalupe River watersheds.

At the end of 2018, the District determined a need to merge FAHCE for Coyote Creek Watershed with the Anderson Dam Seismic Retrofit ("ADSR") project. Anderson Dam is located within the Coyote Creek Watershed and the ADSR project is to address seismic safety deficiencies, a top priority capital project for the District. The Federal Energy Regulatory Commission, the federal lead agency, identified the need to address post-operations that would accommodate releases for Steelhead Trout in the permitting process. The District has been evaluating different reservoir operation scenarios for Anderson Reservoir as a part of the FAHCE program. After much deliberation, merging Coyote Creek FAHCE measures into ADSR Project became necessary to ensure health and safety issues are addressed as expeditiously as possible. As a result of the merger, the cost for implementing related Coyote Creek FAHCE measures could become a part of Anderson Dam operations to resolve issues arising under state and federal laws concerning its operational impacts on the beneficial uses of Coyote Creek.

For the measures contained in FAHCE for both Guadalupe and Stevens Creek watersheds, the District is working to clarify the path forward. Depending on how the path evolves, the cost for implementing related measures could become part of dam operations. Any potential increases in the costs related to the FAHCE program will be integrated into the District's financial forecasts and will be paid from any eligible District funding sources including but not limited to the rates and charges of its Water Utility System.

On May 6, 2018, the Santa Clara County Creeks Coalition filed a complaint before the SWRCB alleging various Fish and Game Code and public trust violations as a result of the District's operation of its Alamitos Drop Structure, which includes a seasonal flashboard dam, in the Guadalupe River. The complaint requests (1) an interim flow regime for the local water rights diverted at the Alamitos Drop Structure, and 2) an order from the SWRCB directing the District to develop within one year a feasibility study analyzing alternative design and/or operating protocols for the Alamitos Drop Structure. District appropriative water right licenses 2205, 2206, 2837 and 6943 are implicated by the complaint. These water rights allow the

District to divert up to 9,627.3 acre-feet of water each year from the Guadalupe River watershed. The District filed an answer on May 8, 2018 stating that the Alamitos Drop Structure has been remediated as part of early implementation of a FAHCE measure to enable fish passage past this structure. The District's answer also states that the District is working with state and federal wildlife agencies to develop flow regimes not only in the Guadalupe River watershed, but the Stevens Creek and Coyote Creek watersheds where the District has other appropriate water rights.

The Santa Clara County Creeks Coalition complaint may result in a hearing before the SWRCB. If the District is unsuccessful in its defense of the complaint, the District could be required to provide increased environmental in-stream uses of the District's Guadalupe River watershed water rights, which may decrease a corresponding amount of water supply available for groundwater recharge and other beneficial uses.

California Drought Management

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

During the drought, 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 were 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") due to continued dry conditions. 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. On February 8, 2017, the SWRCB modified and extended the emergency water conservation regulation for another 270 days.

While the 2016 SWRCB Regulation did not require the District, as a wholesaler, to develop a conservation standard, the District was required to calculate the volume of water it expected to deliver to each urban water supplier in the following three years, under the assumptions set forth in the 2016 SWRCB Regulation, and to post this calculation and 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: <http://www.valleywater.org>.

On April 7, 2017, the Governor issued an executive order (the "2017 Executive Order") which terminated the January 17, 2014 executive order discussed above (except with respect to certain counties within the State) and rescinded the 2015 Executive Order. In effect, the 2017 Executive Order declared the California drought period (which started in 2013) over following record precipitation in early 2017. However, the 2017 Executive Order continues to require DWR and the SWRCB to develop standards for urban water suppliers to set water use efficiency targets and restrict wasteful water use, as provided in the 2016 Executive Order.

Following the drought period, water use by major water retailers in calendar year 2018 was reduced by approximately 20%, as compared with water use in calendar year 2013. Although target reductions were being achieved, 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." As such, the District continues to review and balance water use and conservation targets with financial planning. 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 AND SOURCES OF PAYMENT FOR THE 2019 BONDS—Rate Covenant."

In May 2018, the Governor signed Senate Bill 606 and Assembly Bill 1668 into law to establish State-wide water efficiency standards. These two pieces of new legislation will require increased water conservation as compared to the State's existing 20% reduction by December 31, 2020 water conservation target, along with several additional metrics to be established by both retail and wholesale agencies. Such legislation will authorize the SWRCB to adopt water use variances to account for climate and local conditions, and are intended to better prepare California for future dry year and drought conditions. Long-term water use efficiency targets will be intended to be customized to the unique conditions of each water agency with a goal to establish specific targets that will generate increased conservation. The standards will be strengthened to include: indoor residential per capita water use; outdoor irrigation incorporating new satellite imagery data; commercial water use; and water loss through leaks. The District believes that the actions it has taken described under the caption "*—District Drought Response Actions and Impact*" below will achieve the reductions required by Senate Bill 606 and Assembly Bill 1668. The District's projections set forth under the captions "WATER UTILITY SYSTEM —Primary Sources of Revenues —*Projected Water Deliveries and Sources of Water Delivered*" and "FINANCIAL INFORMATION OF THE DISTRICT —Historical and Projected Operating Results and Debt Service Coverage" reflect the conservation targets that the District has set to meet the requirements of Senate Bill 606 and Assembly Bill 1668.

District Drought Response Actions and Impact. The District projects that it will be able to meet existing demands for at least the next three years even if dry conditions return, provided retailers continue to achieve high levels of water savings. The District is currently calling for a voluntary 20% water use reduction and to promote a drought-resilient water supply portfolio, the District is expanding their water conservation-related activities such as outreach to the community and customers, operating the Water Waste Inspector program, providing water conservation rebates and technical assistance, and working with local agencies and retailers on ordinance development. The District will continue augmenting local supplies by using water from the Semitropic Groundwater Banking Program, purchasing supplemental water supplies, and pursuing potential legislation, and developing potable reuse. The District is also in the process of updating its Water Supply Master Plan to identify the programs and projects that are needed to further ensure a reliable water supply. See the caption "FACTORS AFFECTING WATER SUPPLIES—General" for more information.

QUALITY OF DISTRICT'S WATER

Groundwater

Groundwater in the County is generally of high quality, except for elevated nitrate which primarily affects domestic water supply wells in the southern portion of the County (Coyote Valley and Llagas Subbasin). Water retailers within the County distribute groundwater directly to their end user customers. Retailers typically do not have to treat pumped groundwater, other than disinfection. The retailers are responsible for monitoring and reporting the quality of water they serve.

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 any action needed to protect groundwater quality. Elevated nitrate concentrations in domestic wells in the southern portion of the County resulting from rural and

agricultural land use pose an ongoing groundwater protection challenge. The District continues to implement various efforts to monitor nitrate occurrence, reduce consumer exposure to nitrate in drinking water, and reduce nitrate concentrations in groundwater. The District continues to promote a nitrate treatment system rebate program for residential well owners with high nitrate in their water. The District also conducts outreach on groundwater protection through workshops and meetings with well users, groundwater fact sheets, and website information. The District's well construction and destruction programs help ensure wells and other deep excavations are constructed, maintained, and destroyed such that they will not cause groundwater contamination.

The District also engages in policy and project review with land use agencies on activities that may affect groundwater quality. Similarly, the District also provides technical input to regulatory agencies, such as the Regional Water Quality Control Board, the Department of Toxic Substances Control, and the EPA for certain cleanup sites and 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. Cleanup is progressing well, with fewer than ten domestic wells requiring replacement water as of June 2019. The District also participates in Perchlorate Community Advisory Group meetings. In addition, staff is working closely with the Central Coast Regional Board, to ensure that the long-term corrective action plan meets the community's interests for water supply and groundwater cleanup.

On November 22, 2016, the Board adopted the 2016 Groundwater Management Plan to comply with the Sustainable Groundwater Management Act. This plan documents the District goals, strategies, programs, and performance metrics to continue to sustainably manage local groundwater resources and ensure their long-term viability.

Surface Water

The District relies heavily on imported surface water from the SWP, which is operated by DWR, and the CVP, operated by 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. In addition to disinfection precursors, the District's imported and local supplies can contain taste and odor compounds, particularly in the late summer or fall, when taste and odor-producing algae typically bloom. Two of the most common compounds responsible for tastes and odors are geosmin and 2-methylisoborneol (MIB), which result in earthy and musty taste and odor. Even though these compounds are harmless, the human senses can detect them in the water at concentrations as low as 5 parts per trillion.

Increased water temperatures because of climate change can cause harmful algal blooms (HABs) to occur within the reservoirs. Some of the algal blooms may release cyanotoxins that can be detrimental and deadly to the native wildlife, pets, and even people. HABs can also lead to taste and odor issues. The District and state government agencies are working together to control or reduce the impact of algal blooms to water quality.

Increased water temperatures could also provide favorable conditions for invasive species like quagga and zebra mussels to establish themselves, which can pose a significant threat to existing infrastructure and water supply, and result in enormous economic costs. To protect against invasive species, the District has a

Mussel Prevention Plan which covers extensive mussel monitoring in the District's reservoirs, as well as a Vessel Inspection Program in partnership with Santa Clara County Parks.

In August 2019, the California Office of Environmental Health Hazard Assessment (OEHHA) (a department within the California Environmental Protection Agency) recommended a notification level for perfluorooctanoic acid ("PFOA") and perfluorooctanesulfonic acid ("PFOS") at the lowest levels at which such substances can be reliably detected in drinking water using currently available and appropriate technologies. The Division of Drinking Water of the SWRCB subsequently set the notification levels at 6.5 parts per trillion for PFOS and 5.1 parts per trillion for PFOA.

Sampling of PFOA and PFOS in wells used by large public water systems was required by the US EPA under the Unregulated Contaminant Monitoring Rule Round 3 (UCMR 3) between 2013 and 2015. There were no detections of PFOA, PFOS, or other per- and poly-fluoroalkyl substances in groundwater in Santa Clara County as part of UCMR 3 above the required reporting limits, which were 40 parts per trillion for PFOS and 20 parts per trillion for PFOA.

In March 2019, the SWRCB ordered testing of PFOA and PFOS at wells throughout the state located near airports, landfills, or known detections of PFOA or PFAS. Testing of three District-owned wells in the Campbell wellfield has not detected PFOS or PFOA above the notification levels. Some water retailers within the District that pump from the groundwater basin have begun to test certain wells for PFOS and PFOA in accordance with SWRCB requirements. To date, the District is not aware of any water retailer within the District that has detected PFOS or PFOA above the applicable notification levels. The District does not believe at this time that the new notification level for PFOA and PFOS implemented by the Division of Drinking Water will result in a material reduction in pumping of groundwater within the District's service area. The District cannot, however, predict the extent of the impact of groundwater pumping within the District's service area as a result of the new notification level.

Treated Water

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

Over time, the EPA has enacted, and California has subsequently adopted, new drinking water regulations affecting the treatment of surface waters. These key regulations are the Interim Enhanced Surface Water Treatment Rule (IESWTR), the Long Term 1 and Long Term 2 Surface Water Treatment Rules (LT1 and LT2), and the Stage 1 and Stage 2 Disinfectant/Disinfection By-Products Rules (DDBPR). The regulations were enacted in segments with the IESWTR and the DDBPR (Stage 1) going into effect by 2001 and the LT2 and DDBPR (Stage 2) becoming effective in January of 2006. In order to assure compliance with these regulations 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 was completed in 2002. The TWIP2 was implemented at two treatment plants and was completed in 2006. The third plant (Rinconada WTP) is incorporating upgrades of the TWIP2 into a larger project known as the Reliability Improvement Project (RIP) that is targeted for completion in 2023.

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. The improvements ensure that the District continues producing 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. In 2016, the District started adjusting the fluoride level of drinking water to prevent tooth decay. The Santa Teresa WTP and Penitencia WTP began fluoridation on December 2016 and on July 2017, respectively. The Rinconada WTP is slated to begin fluoridating in 2023.

CAPITAL IMPROVEMENT PROGRAM

Future Water Utility System Improvements

The report on the capital improvement program for Fiscal Years 2019-20 through 2023-24 was approved by the Board on May 14, 2019. The District currently expects to undertake approximately \$1.3 billion of improvements to the Water Utility System from Fiscal Years 2019-20 through 2023-24. Such improvements would be funded with approximately \$628 million of additional debt issuance, and approximately \$672 million from other non-financing sources.

With regards to investments to expand its water supply portfolio, the District is developing a Countywide Water Reuse Master Plan in collaboration with recycled water producers, wholesalers, retailers, and other interested stakeholders that will evaluate and recommend potable and non-potable reuse projects that are projected to produce at least 24,000 acre-feet per year of purified water for potable reuse by 2028 consistent with the Water Supply Master Plan. The Countywide Water Reuse Master Plan is scheduled for completion in summer 2020. This effort is consistent with the District's earlier response to prior droughts which was to evaluate the production of purified water for potable water reuse to expand the County's water supply (the "Expedited Purified Water Program").

In April 2018, the District pre-qualified entities for a public-private partnership delivery method of the Expedited Purified Water Program through a request for qualification process. Discussions with regional wastewater and water agencies on the attainability and economics of treated wastewater and desalinated water, and resulting decisions to be made by the Board, will ultimately determine the scope and costs of the Expedited Purified Water Program and could significantly impact the level of necessary funding in the future.

The District is currently considering undertaking or participating in three water storage projects, which include two projects being developed by other public agencies (the Sites Reservoir Project and the Los Vaqueros Reservoir expansion) and one project (the Pacheco Reservoir expansion) being developed by the District.

The Sites Reservoir Project is a proposed reservoir of approximately 1.8 million acre-feet to be located in Colusa County. The District is currently exploring the advisability of being a member of the joint exercise of powers authority in connection with the proposed expansion of the Los Vaqueros Reservoir expansion. The Board has authorized up to \$960,000 and \$355,000 for preliminary costs in 2019 for the Sites Reservoir Project and the Los Vaqueros Reservoir expansion, respectively.

In addition to the two water storage projects described above, the District has undertaken initial steps to develop an expansion of the Pacheco Reservoir (the "Pacheco Reservoir Expansion Project") to be owned and operated by the District. The Pacheco Reservoir Expansion Project is planned to expand storage capacity of the existing reservoir (currently owned by the Pacheco Pass Water District) on the north fork of Pacheco Creek from approximately 6,000 acre-feet to approximately 140,000 acre-feet. The Pacheco Reservoir Expansion Project is expected to be a partnership among the District, the Pacheco Pass Water District, the San Benito County Water District and the Grasslands Water District. On July 25, 2019, the District released the draft environmental impact statement/draft environmental impact report for the Pacheco Reservoir Expansion Project. The comment period for the draft environmental impact statement/draft environmental impact report ended on September 24, 2019. The District is currently exploring various financing sources for the Pacheco Reservoir Expansion Project, including financing from the State as described below.

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

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

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 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, 2018 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. District 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. District 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 2013-14 through Fiscal Year 2017-18. 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, 2018." Except as otherwise expressly noted herein, all financial information derived from the District's audited financial statement reflect the application of GAAP.

Fiscal Year 2017-18 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 2017-18:

- Net position of the Water Enterprise fund at the end of Fiscal Year 2017-18 was approximately \$692.8 million, an increase of approximately \$10.1 million from Fiscal Year 2016-17.
- Operating revenues increased by approximately \$44.2 million or 23.1% from Fiscal Year 2016-17, reflecting increased billing rates and increased water sales.
- Operating expenses increased by approximately \$31.9 million or 20.5% from Fiscal Year 2016-17, reflecting higher water supply and treatment costs.
- Net non-operating revenues were approximately \$2.3 million compared to \$6.7 million in Fiscal Year 2016-17. Collectively, property tax, investment income, and operating grants revenue were \$3.1 million higher in Fiscal Year 2017-18 than in Fiscal Year 2016-17. Interest paid on long-term debt and fiscal agent fees were \$1.5 million lower in Fiscal Year 2017-18 than in Fiscal Year 2016-17.

For further information with respect to the District's operating results for Fiscal Year 2017-18, see Appendix A "— AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018." The District expects to present the Fiscal Year 2018-19 Comprehensive Annual Financial Report, which will include the District's audited financial statements for such Fiscal Year, to the Board for acceptance in December 2019 or January 2020.

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

	2013-14	2014-15	2015-16	2016-17	2017-18
Water Utility System Revenues					
Groundwater Charges	\$84,308	\$77,095	\$61,128	\$67,937	\$97,483
Treated Water Charges	86,386	76,799	89,375	122,212	132,477
Surface and Recycled Water Charges	1,680	925	732	747	1,041
Property Taxes ⁽²⁾	5,104	5,634	6,095	6,682	7,088
Investment Income ⁽³⁾	1,624	1,621	2,925	979	1,267
Operating Grants/Intergovernmental Services	1,232	2,149	2,074	2,037	4,396
Transfers In ⁽⁴⁾	2,562	1,880	22,436	4,282	3,252
Other ⁽⁵⁾	<u>2,233</u>	<u>1,879</u>	<u>1,883</u>	<u>3,023</u>	<u>7,173</u>
Total Revenues	\$185,129	\$167,982	\$186,648	\$207,899	\$254,177
Maintenance and Operation Costs					
Sources of Supply ⁽⁶⁾	\$53,812	\$68,294	\$73,982	\$63,885	\$76,272
Water Treatment	31,843	29,941	34,044	33,807	37,772
Transmission and Distribution					
Raw Water	9,322	9,585	11,101	13,139	15,197
Treated Water	1,868	1,539	1,743	1,414	1,631
Administration and General ⁽⁷⁾	21,313	21,556	20,497	17,334	30,078
Transfers Out ⁽⁸⁾	<u>2,834</u>	<u>13,286</u>	<u>4,244</u>	<u>699</u>	<u>11,477</u>
Total Operating Expenses	\$120,992	\$144,201	\$145,611	\$130,278	\$172,427
Net Water Utility System Revenues	\$64,137	\$23,781	\$41,037	\$77,621	\$81,750
Debt Service on Senior Obligations					
Series 2006 Bonds	\$6,373	\$6,515	\$2,992	\$1,777	\$1,781
Series 2007 Installment Payments	7,751	7,981	6,621	6,880	2,082
DWR Loan ⁽⁹⁾	<u>401</u>	<u>401</u>	<u>401</u>	<u>-</u>	<u>-</u>
Total Senior Debt Service	\$14,525	\$14,897	\$10,014	\$8,657	\$3,863
Transfers to (-)/from (+) Rate Stabilization Fund ⁽¹⁰⁾	-	-	-	-	-
Transfers from Special Purpose Funds ⁽¹⁰⁾	-	-	-	-	-
Net Water Utility System Revenues Available for Parity Obligations Debt Service	\$49,612	\$8,884	\$31,023	\$68,964	\$77,887
Debt Service on Parity Obligations					
2016 Bonds	-	-	\$1,448	\$8,545	\$8,545
2016 Installment Purchase Agreement	-	-	624	3,682	8,332
2017A Bonds	-	-	<u>-</u>	<u>220</u>	<u>4,336</u>
Total Parity Debt Service	-	-	\$2,072	\$12,447	\$21,213
Parity Obligations Debt Service Coverage	-	-	14.97	5.54	3.67
Debt Service on Subordinate Obligations					
Commercial Paper ⁽¹¹⁾	-	60	185	-	358
Total Debt Service on Senior, Parity and Subordinate Obligations	\$14,525	\$14,957	\$12,271	\$21,104	\$25,434
Revenues Remaining for Capital Improvements	\$49,612	\$8,824	\$28,766	\$56,517	\$56,316
Senior Debt Service Coverage	4.42	1.60	4.10	8.97	21.16
Senior, Parity and Subordinate Obligations Debt Service Coverage	4.42	1.59	3.34	3.68	3.21

⁽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) Includes market value adjustments per GAAP. Fiscal Year 2015-16 includes \$1.04 million 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) Includes transfers from the General Fund and Watershed Fund for the open space credit provided for agricultural rates and charges. Fiscal Year 2016-17 includes a transfer back in of \$1.68 million from the State Water Project Fund for reserves funded the prior fiscal year. Fiscal Year 2015-16 includes transfers from the Safe, Clean Water Fund for the Anderson Dam Seismic Retrofit project (\$14.0 million), the Watershed Fund for the sale of excess property (\$2.4 million), and from the Watershed and General Funds for water conservation landscape rebates (\$3.2 million and \$400,000, respectively).
- (5) Includes well permit fees, rental income, reimbursements relating to the San Felipe Division, and reversal of market value adjustments recognized under Investment Income.
- (6) Increases in Fiscal Years 2014-15, 2015-16, and 2017-18 are a result of supplemental water purchases. Decrease in Fiscal Year 2016-17 is a result of the availability of significantly higher than normal local surface water and groundwater infiltration. See the caption "WATER UTILITY SYSTEM—Primary Source of Revenues—*Historical Water Deliveries and Sources of Water Delivered.*"
- (7) Includes letter of credit fees and other banking costs and certain adjustments for OPEB costs and accrued compensated absences. Decrease in Fiscal Year 2016-17 is due primarily to reversal of \$7.4 million in prior periods' judgment liability costs that were incurred prior to the reversal of a trial court's judgment (see discussion under the caption "LITIGATION—Great Oaks Matter"). Increase in Fiscal Year 2017-18 is primarily due to higher pension costs and increased salary and benefit costs as a result of negotiated increases that became effective July 2017.
- (8) Includes transfers to the General Fund to support the drought emergency response project. Fiscal Year 2015-16 includes an interfund loan transfer of \$1.68 million to the State Water Project Fund to fund reserves. Fiscal Year 2017-18 includes a transfer of \$11.38 million to the Safe, Clean Water and Natural Flood Protection Program Fund for the Main and Madrone Pipeline Rehabilitation project.
- (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 authorized the designation of the Rate Stabilization Fund and Special Purpose Funds. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Rate Stabilization Fund" and "— Special Purpose Funds."
- (11) Constitutes interest only on 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 2018-19 through Fiscal Year 2022-23 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. Unless otherwise specified below, amounts shown for Fiscal Year 2018-19 are based on unaudited actual results and amounts shown for Fiscal Year 2019-20 are based on the adjusted budget for such year.

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⁾

	2018-19 ⁽²⁾	2019-20 ⁽²⁾	2020-21	2021-22	2022-23
Water Utility System Revenues					
Groundwater Charges ⁽³⁾	\$ 81,923	\$ 105,036	\$ 128,638	\$ 137,175	\$ 146,751
Treated Water Charges ⁽⁴⁾	143,998	169,519	179,948	191,065	203,935
Surface and Recycled Water Charges ⁽⁵⁾	1,758	2,821	3,005	3,203	3,413
Property Taxes ⁽⁶⁾	8,124	7,451	7,801	8,074	8,356
Investment Income ⁽⁷⁾	8,074	2,800	2,178	2,591	3,111
Operating Grants/Intergovernmental Services	2,754	625	625	625	625
Transfers In ⁽⁸⁾	1,228	1,013	4,357	4,907	5,505
Other ⁽⁹⁾	<u>(1,682)</u>	<u>1,629</u>	<u>1,654</u>	<u>1,690</u>	<u>1,736</u>
Total Revenues	\$ 246,177	\$ 290,894	\$ 328,206	\$ 349,330	\$ 373,432
Maintenance and Operation Costs					
Sources Of Supply ⁽¹⁰⁾	\$ 57,055	\$ 76,978	\$ 84,391	\$ 89,096	\$ 97,395
Water Treatment ⁽¹¹⁾	38,871	40,213	43,501	45,279	47,321
Transmission And Distribution ⁽¹²⁾					
Raw Water	16,791	16,587	16,425	17,054	17,916
Treated Water	1,735	2,243	2,408	2,632	2,799
Administration and General ⁽¹³⁾	33,666	30,617	32,319	35,515	36,266
Transfers Out ⁽¹⁴⁾	<u>3,908</u>	<u>2,478</u>	<u>2,228</u>	<u>4,067</u>	<u>2,862</u>
Total Operating Expenses	\$ 152,026	\$ 169,116	\$ 181,272	\$ 193,643	\$ 204,559
Net Water Utility System Revenues	\$ 94,151	\$ 121,778	\$ 146,934	\$ 155,687	\$ 168,873
Debt Service on Senior Obligations					
Series 2006B Bonds	\$ 1,778	\$ 1,778	\$ 1,781	\$ 1,780	\$ 1,777
2007 Installment Purchase Agreement ⁽¹⁵⁾	<u>2,514</u>	<u>512</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Senior Debt Service	\$ 4,292	\$ 2,290	\$ 1,781	\$ 1,780	\$ 1,777
Transfers to (-)/from (+) Rate Stabilization Fund	-	-	-	-	-
Transfers from Special Purpose Funds	-	-	-	-	-
Net Water Utility System Revenues Available for Parity Obligations Debt Service	\$ 89,859	\$ 119,488	\$ 145,153	\$ 153,907	\$ 167,096
Debt Service on Parity Obligations					
2016 Bonds	\$ 8,545	\$ 8,545	\$ 8,545	\$ 8,545	\$ 8,545
2016 Installment Purchase Agreement	10,485	10,682	10,689	10,687	10,696
2017A Bonds	4,355	4,351	4,362	4,368	4,339
2019AB Bonds ⁽¹⁶⁾	364	5,495	5,495	5,497	5,492
2019C Bonds ⁽¹⁶⁾	-	1,961	2,716	2,960	2,978
Future Debt Issuances ⁽¹⁷⁾⁽¹⁸⁾	<u>-</u>	<u>3,559</u>	<u>9,685</u>	<u>17,314</u>	<u>31,832</u>
Total Parity Debt Service	\$ 23,749	\$ 34,593	\$ 41,492	\$ 49,371	\$ 63,882
Parity Obligations Debt Service Coverage	3.78	3.45	3.50	3.12	2.62
Debt Service on Subordinate Obligations					
Commercial Paper ⁽¹⁷⁾⁽¹⁹⁾	\$ 1,699	\$ 2,680	\$ 4,675	\$ 5,270	\$ 5,270
Total Debt Service on Senior, Parity and Subordinate Obligations⁽²⁰⁾	\$ 29,740	\$ 39,563	\$ 47,948	\$ 56,421	\$ 70,929
Revenues Remaining for Capital Improvements	\$ 64,411	\$ 82,215	\$ 98,986	\$ 99,266	\$ 97,944
Senior Debt Service Coverage	21.94	53.18	82.50	87.46	95.03
Senior, Parity and Subordinate Obligations Debt Service Coverage	3.17	3.08	3.06	2.76	2.38

⁽¹⁾ Amounts rounded to nearest thousand.

(Footnotes continued on following page)

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- (2) Fiscal Year 2018-19 is based on unaudited actual results and Fiscal Year 2019-20 is based on the adjusted budget.
- (3) Reflects compound annual growth rate of 11.8% per annum between Fiscal Year 2019-20 and Fiscal Year 2022-23. Assumes the water rates and charges set forth under the caption "WATER UTILITY SYSTEM—Primary Sources of Revenues—*Projected Rates and Charges*."
- (4) Reflects compound annual growth rate of 6.4% per annum between Fiscal Year 2019-20 and Fiscal Year 2022-23. Assumes the water rates and charges set forth under the caption "WATER UTILITY SYSTEM—Primary Sources of Revenues—*Projected Rates and Charges*."
- (5) Reflects compound annual growth rate of 6.6% per annum between Fiscal Year 2019-20 and Fiscal Year 2022-23. Assumes the water rates and charges set forth under the caption "WATER UTILITY SYSTEM—Primary Sources of Revenues—*Projected Rates and Charges*."
- (6) Reflects compound annual growth rate of 3.9% per annum between Fiscal Year 2019-20 and Fiscal Year 2022-23. Includes adjustments for homeowners' property tax relief and certain other property tax receipts not constituting Water Utility System Revenues.
- (7) Reflects projected interest earnings at a rate of 1.75% in Fiscal Year 2019-20, 2.00% in Fiscal Year 2020-21, 2.25% in Fiscal Year 2021-22 and 2.50% in Fiscal Year 2022-23. The projected interest earnings do not include any assumptions for market value adjustments.
- (8) Includes projected transfers in from the Watershed Stream Stewardship Fund and the General Fund for the open space credits provided for agricultural water rates.
- (9) Includes well permit fees, rental income, reimbursements relating to the San Felipe Division, and with respect to Fiscal Year 2018-19, a reversal of market value adjustments recognized under Investment Income.
- (10) Includes projected costs for only the SWP portion of the California Water Fix Project (does not include CVP portion). Projected costs reflecting further participation in the Delta Conveyance project are subject to Board approval. See the caption "FACTORS AFFECTING WATER SUPPLIES - California Water Policy Framework." Reflects compound annual growth rate of 8.2% between Fiscal Years 2019-20 and 2022-23.
- (11) Reflects compound annual growth rate of 5.6% per annum between Fiscal Year 2019-20 and Fiscal Year 2022-23.
- (12) Reflects compound annual growth rate of 2.6% for raw water and 7.7% for treated water between Fiscal Years 2019-20 and 2022-23. Increases to treated water transmission and distribution costs beginning in Fiscal Year 2019-20 are primarily the result of planned increases to the preventative maintenance and repair of pipelines.
- (13) Includes letter of credit fees and other banking costs. See the caption "DISTRICT EMPLOYEE RELATIONS" for information with respect to the District's pension and post-employment benefit liabilities and costs.
- (14) Fiscal Years 2018-19 and 2019-20 include projected transfers out for Information Technology upgrades. Fiscal Years 2020-21 to 2022-23 include transfers out for buildings and grounds improvements at the District's main campus.
- (15) The District expects to refund the 2007B Certificates with a portion of the proceeds of the 2019C Bonds.
- (16) Amounts for the 2019AB Bonds is based on actual debt service and not on the adjusted budget. Debt service on the 2019C Bonds is based on an estimated all-in true interest cost of 2.48% and a principal amount of \$38.8 million.
- (17) Assumes the issuance of new-money short-term (subordinate) debt projected at \$60 million in Fiscal Year 2019-20, \$71 million in Fiscal Year 2020-21, \$209 million in Fiscal Year 2021-22, and \$169 million in Fiscal Year 2022-23 and periodic issuance of long-term (parity) debt to refund the short-term debt.
- (18) Calculated assuming fixed interest rates ranging between 4.3% and 6.5% per annum between Fiscal Years 2019-20 and 2022-23.
- (19) Calculated assuming interest only payments on projected outstanding Commercial Paper Certificate balances at assumed rates ranging between 3.8% and 6.2% per annum between Fiscal Years 2019-20 and 2022-23.
- (20) Excludes letter of credit fees and other banking costs, which are paid as Maintenance and Operation Costs.

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 March 21, 2018, 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, 2018 and expire on December 31, 2021. The current agreements include across the board annual salary adjustments of 4.0% beginning July 2, 2018 and then the fourteenth bi-weekly pay period (late June or early July) in 2019, 2020 and 2021. 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 and the 2.0% @ 60 tier will pay 9.5% of their covered salary effective the first full pay period in July 2018, increasing to 11.0% of their covered salary effective the first full pay period in July 2021; and (2) employees participating in the 2% @ 62 tier will pay 50% of the normal cost as determined by CalPERS plus an additional 0.5% effective the first full pay period in July 2018, increasing to an additional 2.0% effective the first full pay period in July 2021. The current normal cost as determined by CalPERS was 10.059% for Fiscal Year 2018-19 and increases to 10.276% for Fiscal Year 2019-20.

Employees are eligible for the following retiree medical coverage: (1) an employee hired on or after July 1, 1988 and prior to March 1, 2007 is eligible for (a) medical coverage for the employee with a minimum of 10 years (20,800 hours) of continuous 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) an employee hired on or after March 1, 2007 is eligible for (a) medical coverage for the employee with 15 years (31,200 hours) of continuous 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 resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website (<https://www.calpers.ca.gov/>), however, the contents on such website are not incorporated by reference herein.

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.

See Note 11 to the District’s audited financial statements attached hereto as Appendix A for more information with respect to Plan’s provisions and benefits in effect at June 30, 2018.

Beginning with Fiscal Year 2017-18, CalPERS collects employer contributions towards the Plan’s unfunded liability as a dollar amount instead of the prior method of using a contribution rate. In July 2019, CalPERS released the actuarial valuation report of the District’s pension plan as of June 30, 2018. As set forth in such actuarial valuation report, in Fiscal Year 2020-21, the District’s unfunded liability dollar amount is

\$17,520,237. This amount will be collected along with the employer normal cost rate as a percentage of payroll of 10.911%. If the unfunded liability dollar amount was converted to a percentage of payroll and added to the normal cost rate of 10.911%, the resulting employer contribution rate would be approximately 28.923%. As set forth in the latest CalPERS actuarial valuation report delivered to the District in July 2019, the projected normal cost contribution is 10.9% in Fiscal Years 2021-22 through 2025-26 and the projected unfunded liability dollar contribution increases to \$23,697,000 in Fiscal Year 2025-26.

Employees Covered. As of the most recent CalPERS valuation report as of June 30, 2018, the following number of employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	781
Active employees	748

Contributions. California Government Code Section 20814(c) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. 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 required employer contributions for Fiscal Years 2017-18 through 2020-21. 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>
2016-17	10.249%	12.167%	22.416%
2017-18 ⁽¹⁾	9.985	13.638	23.623
2018-19 ⁽¹⁾	10.059	15.286	25.345
2019-20 ⁽¹⁾	10.276	16.837	27.113
2020-21 ⁽¹⁾	10.911	18.021	28.923

⁽¹⁾ As described above under “— *Benefits Provided*,” beginning with Fiscal Year 2017-18, CalPERS collects employer contributions toward the unfunded accrued liability as dollar amounts instead of a contribution rate. Therefore, the unfunded rates shown for Fiscal Years 2017-18, 2018-19, 2019-20 and 2020-21 are for illustrative purposes only.
Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2018.

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 Plan was most recently measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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, 2017 and June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2016	June 30, 2017
Measurement date	June 30, 2017	June 30, 2018
Actuarial cost method	Entry-age normal cost method	Entry-age normal cost method
Discount rate ⁽¹⁾	7.15%	7.00%
Inflation	2.75%	2.50%
Salary increases	Varies by entry age and service	Varies by entry age and service
Investment rate of return ⁽²⁾	7.0%	7.0%
Mortality rate table ⁽³⁾	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⁾ The discount rate, net of pension plan investment expenses (including inflation), is equal to the Investment Rate of Return noted in the table.

⁽²⁾ Net of pension plan investment expenses, including inflation. In December 2016, CalPERS' board voted to reduce the assumed investment rate of return to 7.0% by 2020. See the caption "— Discount Rate" below.

⁽³⁾ 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, 2017 and as of June 30, 2018.

Discount Rate

General. CalPERS reviews all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. In recent years, the CalPERS Board has lowered the investment rate of return (also referred to as the discount rate). 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 to CalPERS which may result therefrom to have a material adverse impact on its ability to pay debt service on the 2019 Bonds. CalPERS may adjust the discount rate in the future, which will require action by CalPERS' Board and proper stakeholder outreach.

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

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

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability (a)</i>	<i>Plan Fiduciary Net Position (b)</i>	<i>Net Pension Liability (c) = (a) – (b)</i>
Balance at 6/30/2017 ⁽¹⁾	\$ 787,529,110	\$ 557,322,464	\$ 230,206,646
Changes Recognized for the Measurement Period:			
Service Cost	16,022,730	-	16,022,730
Interest on Total Pension Liability	54,939,649	-	54,939,649
Changes of Assumptions	(8,125,682)	-	(8,125,682)
Difference between Expected and Actual Experience	(1,354,497)	-	(1,354,497)
Plan to Plan Resource Movement	-	(1,380)	1,380
Contribution from Employer	-	20,101,080	20,101,080
Contribution from Employees	-	7,030,182	(7,030,182)
Net Investment Income	-	47,227,283	(47,227,283)
Benefit Payments, including Refunds of Employee Contribution	(35,347,202)	(35,347,202)	-
Administrative Expense	-	(868,462)	868,462
Other Miscellaneous Income/Expenses	-	(1,649,224)	(1,649,224)
Net Changes During 2017-18	26,134,998	36,492,277	(10,357,279)
Balance at 6/30/2018 ⁽¹⁾	\$ 813,664,108	\$ 593,814,741	\$ 230,206,646

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

Source: GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2018.

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

Funding History. The following table sets forth the schedule of funding progress in connection with 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>
6/30/14	\$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
6/30/16	730,720,753	507,218,222	223,502,531	69.4	81,661,076
6/30/17	770,972,796	556,111,543	214,861,253	72.1	86,163,654
6/30/18	842,052,151	594,286,353	247,765,798	70.6	89,667,844

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2018.

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, 2018, the District recognized pension expense of \$33,215,000. At June 30, 2018, the District reported deferred outflows and 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	\$ 19,746,343	-
Change of assumptions	32,634,018	\$ (2,543,134)
Difference between actual and expected experience	-	(5,017,601)
Net differences between projected and actual earnings on plan investments	<u>7,367,346</u>	<u>-</u>
Total	\$ 59,747,707	\$ (7,560,735)

Source: Santa Clara Valley Water District and GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2017.

\$19,746,343 is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. This amount reflects what was paid in employer pension contributions to CalPERS in Fiscal Year 2017-18, and accounts for approximately 6.0% of District expenses (\$326,651,000) recognized in the same fiscal year. Based on unaudited actual results, the District paid \$25,409,359 in employer pension contributions to CalPERS in Fiscal Year 2018-19 and has budgeted \$28,067,000 for the employer contribution in Fiscal Year 2019-20. Other amounts reported as deferred outflows and 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>
2018-19	\$ 6,850,179
2019-20	18,256,516
2020-21	11,441,246
2021-22	<u>(4,107,312)</u>
Total	\$ 32,440,629

Source: GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2017.

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.

Other Post-Employment Benefits. The District provides post-employment health care benefits ("OPEB"), in accordance with the negotiated MOUs with employee groups adopted by the Board for retired employees and/or their surviving dependents who meet the eligibility requirements and elect the option. As of June 30, 2018, there were 711 retirees and surviving dependents receiving such benefits.

Governmental Accounting Standards Board ("GASB") published Statement No. 45 ("GASB 45"), requiring governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as 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.

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

and the components of the net OPEB liability. The District implemented GASB 75 beginning with its audited financial statements for Fiscal Year 2017-18.

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

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. The District's OPEB plan and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining groups. The annual contribution is based on the actuarially determined contribution ("ADC"). The ADC represents the annual employer contribution that along with member contributions and investment income is projected to fully fund the OPEB plan over a static 30 years beginning in Fiscal Year 2007-08. For the fiscal year ended June 30, 2018, the District's total contribution to the plan amounted to \$12.5 million. This amount reflects what was paid in employer OPEB contributions to the CERBT in Fiscal Year 2017-18, and accounts for approximately 3.8% of District expenses (\$326,651,000) recognized in the same fiscal year. Based on unaudited actual results, the District paid \$10,227,034 in OPEB contributions to the CERBT in Fiscal Year 2018-19 and has budgeted \$11,358,000 for the OPEB contribution in Fiscal Year 2019-20.

The District's net OPEB liability was measured on June 30, 2017 for reporting date June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

Discount Rate	7.28%
Inflation	3%
Salary Increases	3.25%
Investment Rate of Return	7.28%
Mortality Rate	Derived from CalPERS Study of Miscellaneous Public Agency Experience
Pre-Retirement Turnover ⁽¹⁾	Derived from CalPERS Study of Miscellaneous Public Agency Experience
Healthcare Trend Rate ⁽²⁾	6% grading to ultimate 4% for medical and flat for 3% for dental and vision

⁽¹⁾ Net of OPEB plan investment expenses, including inflation.

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

The discount rate of 7.28% is the expected long-term rate of return on District assets using investment "Strategy 1" within the CERBT. The projected cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The objective of the CERBT Strategy 1 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS board. See Note 12 to the District's audited financial statements attached hereto as Appendix A for a

description of the composition, as of June 30, 2018, of investment asset classes with respect to the District's OPEB plan.

The District's change in net OPEB liability for the Fiscal Year ended June 30, 2018, calculated and presented in accordance with GASB 75 are as follows:

Total OPEB Liability	June 30, 2018
Service Cost	\$ 2,913,500
Interest on Total OPEB Liability	12,017,600
Benefits Payment	<u>(8,471,200)</u>
Net Change in OPEB Liability	6,459,900
Total OPEB Liability, Beginning	<u>167,805,300</u>
Total OPEB Liability, Ending	<u>\$ 174,265,200</u>
 Plan Fiduciary Net Position	
Contributions	\$ 11,471,200
Benefits Payment	<u>(8,471,200)</u>
Net Investment Income	6,259,202
Investment Return – Differences between expected and actual experience	2,924,898
Administrative Expense	<u>(44,900)</u>
Net Change in Fiduciary Net Position	12,139,200
Plan Fiduciary Net Position, Beginning	<u>84,500,500</u>
Plan Fiduciary Net Position, Ending	<u>\$ 96,639,700</u>
 Net OPEB Liability, Ending	\$ 77,625,500

Source: District.

As of June 30, 2018, the District's OPEB plan fiduciary net position was 55.46% of total OPEB liability and the District net OPEB liability was 97.44% of covered payroll (\$79,663,700).

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, 2018, the District contributed \$1,058,411 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 2019 Bonds 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.

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.

See the caption "FACTORS AFFECTING WATER SUPPLIES—California Water Policy Framework" for a description of a lawsuit filed by the District with respect to the effect on the groundwater basins managed by the District and the supplemental imported water supplies available to the District in the event that the Phase 1 Amendments and the accompanying SED are implemented by the SWRCB.

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; and Cal. Supreme Court No. S231846 (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. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218." 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 California Court of Appeal for the Sixth Appellate District ("Court of Appeal").

During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, the District 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 an additional \$1,456,000 as liability for the post-judgment interest in Fiscal Years 2009-10 to 2013-14 at the rate of \$886.62 per day. No further liability was recorded after Fiscal Year 2013-14 due to the favorable judgement on March 26, 2015 by the Sixth District Court of Appeals discussed below. Based on the contemporaneous court decisions described below, the District reversed the total recorded liability in the aggregate amount of \$7,386,000 in its audited financial statements for Fiscal Year 2016-17.

On March 26, 2015, the 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; 16-CV-292097; 17-CV-308140; and 18-CV-327641).

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

Other water retailers including San Jose Water Company and the cities of Morgan Hill, Gilroy and Santa Clara, and the Los Altos Golf and Country Club and Stanford University, dispute 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 of the Great Oaks Case with the California Supreme Court on January 19, 2016, and on March 23, 2016 review was granted. The case was placed on hold pending resolution of the California Supreme Court's *City of Buenaventura v. United Water Conservation District* (UWCD) case. The UWCD case presents similar issues to the Great Oaks Case – namely whether Proposition 218 applies to groundwater charges.

On December 5, 2017, the California Supreme Court ruled on the UWCD case, and found that Proposition 218 does not apply to UWCD's groundwater charges, but that Proposition 26 does. After issuance of the UWCD decision, the California Supreme Court transferred the Great Oaks Case back down to the Court of Appeal on June 21, 2018 with instruction to vacate the Court of Appeal's prior decision and to reconsider the appeal in light of the principles the California Supreme Court laid out in its decision in the UWCD case. On November 8, 2018, the Court of Appeal reaffirmed its March 26, 2015 decision described above. On December 17, 2018, Great Oaks filed a petition for review of this decision with the California Supreme Court. On February 20, 2019, the California Supreme Court denied the petition for review and this order became final the same day. On February 21, 2019, the Court of Appeal issued a remittitur to the trial court, effectively notifying the trial court that the appellate court judgment is final and no further appeals are available.

The District can make no assurances as to whether Great Oaks will file a lawsuit in the future with respect to the District's groundwater charges based on different legal principles.

In order to streamline resolution of the remaining issues in the Great Oaks Case, along with similar issues in the later-filled pending cases brought by Great Oaks, including the filing of amended pleadings and the development of plans for resolving various legal issues that run across the cases, and the Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa cases, the District submitted a motion to consolidate these cases pending in the Superior Court and to have those cases designated complex for future handling. Great Oaks joined that motion, which was granted on June 30, 2017 (with each new case filed since then being added to the list by stipulation of the parties.) Great Oaks also agreed to file a single, omnibus complaint to supersede its prior pleadings, each of which approached Great Oaks' claims in a slightly different way and captured all its pending claims in a single pleading.

On May 21, 2019, the District filed a collection action against the Shatto Corporation for failure to pay groundwater charges from 2009 to 2014. The District estimates that the claim against Shatto Corporation is

approximately \$1 million. On or about August 22, 2019, the Shatto Corporation filed a cross complaint (19-CV-348413) against the District alleging among other things, that the groundwater charges sought by the District violate Proposition 26.

Flooding in the City of San Jose

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

As of the date of this Official Statement, the District has received 423 claims with respect to the flooding along Coyote Creek. Estimated damages are in excess of \$10,000,000; however the District cannot predict the final amount of any proven damages. Many of the claimants are also seeking recovery from the City of San Jose; therefore, a portion of the aggregate stated value of the claims may be apportioned to the City of San Jose.

A number of claimants have filed lawsuits in Santa Clara County Superior Court against the District and the City of San Jose alleging damage from the Coyote Creek flood event. Currently, 19 lawsuits have been filed and are pending against the District relating to the flood event. The District is evaluating all of such claims and lawsuits and cannot predict the outcomes or financial impacts of these or any future claims and lawsuits with respect to the Coyote flood event. The District intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek.

Of the 423 claims, 192 of the claimants have not filed an action in superior court. As to these 192 claims, the District settled 162 of such claims in September 2019 at a total cost of approximately \$666,700.

Rinconada Water Treatment Plant Upgrade

On May 26, 2015, the Board awarded a \$179,850,000 construction contract to Balfour Beatty Infrastructure, Inc. (“Balfour Beatty”) for the Rinconada Water Treatment Plant Reliability Improvement Project. Phase 2 of such project includes the construction of several new facilities for the upgraded treatment system at the Rinconada WTP, including flocculation/sedimentation, ozone generation, and washwater recovery facilities. Such project also includes the installation of an electrical control building and appurtenant wiring and control systems, significant underground piping, and installation of chemical feed systems.

The District’s contract with Balfour Beatty provided for the project to be built in five phases within a 5-year period. The existing Rinconada WTP is to remain operational during the entire construction period, with the newly-constructed facilities and upgrades integrated with plant operations at the end of each phase.

Balfour Beatty’s current estimated completion date of Phase 2 work is more than two and one-half years later than originally provided in the construction schedule. The District has advised Balfour Beatty of the District’s concerns regarding quality of the construction work, the failure to comprehensively remedy construction defects, and Balfour Beatty’s lack of diligence to ensure progress is made in a timely manner. The parties are engaged in ongoing discussions regarding remediating the defective work and obtaining a realistic schedule from Balfour Beatty.

On September 26, 2018, the District notified Balfour Beatty that the District was assessing liquidated damages of more than \$11 million for the lack of completion of both Phase 2 and Phase 3 construction milestones. The District began withholding liquidated damages from the progress payments to Balfour Beatty in October 2018 and continues withholding funds from monthly progress payments. To date, the District has withheld approximately \$7 million and assessed \$18 million in liquidated damages. Balfour Beatty had previously threatened to file suit if the District did not cease withholding liquidated damages by November 28, 2018. To date, Balfour Beatty has not yet filed such lawsuit against the District.

The District cannot predict the timeframe for the District and Balfour Beatty to resolve such issues. The District has not filed any formal claims against Balfour Beatty. The District does not believe the foregoing construction issues will have a material adverse impact on the operation of the Rinconada WTP.

POTENTIAL INVESTMENT CONSIDERATIONS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the 2019 Bonds. The investment considerations included in this section are not exhaustive and other events or factors could materially adversely affect the District's operations and financial condition.

Rate Covenant Not a Guarantee

The 2019 Bonds are payable from Net Water Utility System Revenues of the Water Utility System. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS." The District's ability to pay debt service with respect to the 2019 Bonds depends on its ability to generate Net Water Utility System Revenues at the levels required by the Parity Master Resolution. Although the District has covenanted in the Parity Master Resolution to impose rates and charges as more particularly described under the caption "—Rate Covenant" under "SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS," and expects that sufficient Net Water Utility System Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net Water Utility System Revenues in the amounts required by the Parity Master Resolution. No assurance can be made that revenues of the Water Utility System, estimated or otherwise, will be realized by the District in amounts sufficient to pay debt service on the 2019 Bonds. Among other matters, the availability of and demand for water, and changes in law and government regulations could adversely affect the amount of revenues realized by the District.

Water Utility System Expenses

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

The District is currently studying the implementation of significant capital projects which, if undertaken, would significantly increase Maintenance and Operation Costs and debt service after Fiscal Year 2022-23. These projects include participation in the Delta Conveyance project, the Expedited Purified Water Program, and certain water storage projects. See the caption "CAPITAL IMPROVEMENT PROGRAM—Future Water Utility System Improvements."

Statutory and Regulatory Compliance

Laws and regulations governing the treatment and delivery of water and the recharge of groundwater basins are enacted and promulgated by federal, State and local government agencies. Compliance with these

laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

The District is unaware of any claim against the District for failure to comply with applicable laws and regulations, other than the lawsuits described under the caption “LITIGATION—Great Oaks Matter” above. However, if such a claim were to be filed and be successful, such claim may be payable from assets of the District or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the District may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the District. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the District to generate Net Water Utility System Revenues sufficient to pay debt service with respect to the 2019 Bonds.

Limitations on Revenues

The ability of the District to generate Net Water Utility System Revenues sufficient to pay principal of and interest on the 2019 Bonds may be adversely affected by actions and events outside of the control of the District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.” Furthermore, the remedies available to the owners of the 2019 Bonds upon the occurrence of an event of default under the Parity Master Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Limitations on Remedies Available; Bankruptcy

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

No Obligation to Tax

The obligation of the District to pay debt service with respect to the 2019 Bonds, does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay debt service with respect to the 2019 Bonds, does not constitute a debt or indebtedness of any agency, the State of California or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the California electorate or Legislature will

not at some future time approve additional limitations that could reduce the revenues and adversely affect the security of the 2019 Bonds.

Constraints on SWP and CVP Water Deliveries

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

Risks Related to Water Utility System Facilities and Operation

The operation of the Water Utility System, and the physical condition of the Water Utility System facilities, are subject to a number of risk factors that could adversely affect the reliability of the District to provide water service, or increase the operating expenses of the Water Utility System. Prolonged damage to the Water Utility System facilities could interrupt the ability of the District to realize Net Water Utility System Revenues sufficient to pay principal of and interest on the 2019 Bonds, or require the District to increase expenditures for repairs significantly enough to adversely impact the District's ability to pay the principal of or interest on the 2019 Bonds. These factors could include, among others, the following:

Flooding and Other Natural and Man-Made Disasters. Flooding and other natural disasters, including without limitation flooding, seismic events, landslides, and fire, or man-made disasters or accidents could interrupt operation of the Water Utility System, result in liability claims against the District, or otherwise adversely impact the Water Utility System's ability to provide services or collect revenues. See "—Potential Impact of Climate Change." For example, major rainstorms in 2017 caused flooding in areas surrounding District-managed facilities, resulting in property damage and claims against the District. See the caption "LITIGATION—Flooding in the City of San Jose."

The area encompassed by the District as well as areas from where DWR and USBR provide water to the District, like that in much of California, may be subject to unpredictable seismic activity. The District and such DWR and USBR facilities are located within a regional network of several active and potentially active faults. If there were to be an occurrence of severe seismic activity in the District or affecting such DWR and USBR facilities, there could be an impact on the ability of residents to pay rates and charges for water service, diminishing Net Water Utility System Revenues, which could have an adverse effect on the District's ability to pay the principal of and interest on the 2019 Bonds.

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

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

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

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

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

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

SGMA requirements apply to all basins designated as “high” or “medium” priority basins by DWR. The prioritization is based on factors including population, groundwater reliance, and documented historical or current adverse impacts. SGMA requirements are the same for high and medium priority basins. DWR has designated the Santa Clara and Llagas groundwater subbasins as high priority basins and the North San Benito subbasin as a medium priority basin for purposes of groundwater management. The SGMA required groundwater sustainability agencies, or “GSAs” to be formed to manage each high and medium priority groundwater basin by June 30, 2017. A groundwater sustainability plan (“GSP”) must be submitted to DWR by January 31, 2020 for basins designated as critically over-drafted, or by January 31, 2022 for all other high and medium priority basins. Pursuant to California Water Code section 10733.6, local agencies could submit a prescribed alternative to a groundwater sustainability plan (the “Alternative Plan”), which could include a plan developed under Part 2.75 of Division 6 of the California Water Code or other law authorizing groundwater management, management pursuant to an adjudication action, or an analysis demonstrating that a groundwater basin has operated within its sustainable yield for at least 10 years. Such Alternative Plans were required to be submitted by January 1, 2017 and updated every five years thereafter. As SGMA continues to be implemented, basin priorities and boundaries may change. When periodic basin reprioritizations are finalized

by DWR, basins newly subject to SGMA must form GSAs within two years and adopt GSPs within five years (or submit an Alternative Plan within two years).

The District is the exclusive GSA for the Santa Clara and Llagas subbasins, which are entirely within the County. The District submitted an Alternative Plan prepared pursuant to authority granted by the SGMA and the Law to DWR on December 21, 2016. In July 2019, DWR approved the Alternative Plan for both the Santa Clara and Llagas subbasins. The District is also the exclusive GSA for the small portions of the North San Benito Subbasin within the County. The District is supporting the San Benito County Water District GSA efforts to submit a GSP for the entire North San Benito Subbasin by the January 31, 2022 statutory deadline. The District does not currently expect the enactment of the SGMA or the implementation of the Alternative Plan/GSP with respect to the Santa Clara, Llagas, or North San Benito groundwater basins described above to have a material adverse effect on the District's ability to pay principal of and interest on the 2019 Bonds.

Through the Semitropic Groundwater Banking Program, the District also stores a portion of imported water in a groundwater basin outside of the boundaries of the District in the San Joaquin Valley-Kern County groundwater subbasin, which has been designated by DWR as a high priority basin that is critically over-drafted. For a discussion of the activities of the Semitropic GSA, the KGA and the potential effects of the activities thereof on water currently stored by the District, and water which may be stored by the District in the future, see the caption "FACTORS AFFECTING WATER SUPPLIES—Water Banking." While the District does not currently expect that enactment of the SGMA or the activities of the Semitropic GSA or the KGA resulting therefrom will have a material adverse effect on the District's ability to pay principal and interest on the 2019 Bonds, the District is monitoring the Semitropic GSA's and the KGA's activities with respect to SGMA. The District cannot predict what effect, if any, Semitropic GSA or KGA activities with respect to the SGMA will ultimately have on the water currently stored, or water which may be stored or withdrawn in the future, by the District in the Semitropic Groundwater Banking Program.

Cybersecurity

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

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

Business Process Management Software/Enterprise Resource Planning Implementation

The current Enterprise Resource Planning (ERP) application (PeopleSoft) is the primary application used to manage the District's enterprise-wide functions, including financial data, purchasing and procurement, inventory, general ledger, accounts payable, and for managing human resources (HR), including benefits, timekeeping and payroll. The District is in the process of implementing a new cloud-based, integrated, proven and state-of-the-art ERP application, to replace the current out-of-date ERP application. Failure to implement the new ERP application could result in costs or interruptions in the District's administrative operations.

Potential Impact of Climate Change

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

District staff is conducting specific studies into a few of the issues above to look at climate change-related water supply risks and uncertainties into the late 21st century. Staff is evaluating risks and uncertainties related to climate-change related changes in: water demand, evaporative losses, changes in volume and timing of reservoir inflow, and degraded imported water reliability. Preliminary results indicate that climate change may result in increased water demand and overall decreased water supply reliability. Based on these preliminary studies and the results of literature reviews, the potential impacts of climate change on the Water Utility System are not expected to have a material adverse effect on the District's ability to pay debt service on the 2019 Bonds. District staff continues to monitor the available scientific information relating to climate change. The District's water supply planning studies are updated regularly and will consider new or changing climate information as it becomes available. The District is currently working on an agency-wide Climate Change Action Plan ("CCAP") that includes vulnerability and risk assessments. The CCAP will lay out strategies the District can employ now and consider in the future to reduce risks and continue to reduce greenhouse gas emissions, including strategies to guide water supply decisions to reduce water utility risks. The CCAP is anticipated to be complete in June 2020.

The effect of sea level rise on water utility assets has been, and continues to be, evaluated. The District's 2015 Infrastructure Reliability Plan considered the potential impact of sea level rise on the Water Utility System. The District's delivery of drinking water is dependent on imported water that is delivered through the San Francisco Bay Delta, which is vulnerable to sea level rise and storm surges. However, the District does not currently believe that the potential for sea level rise will have a material adverse effect on the District's ability to pay debt service on the 2019 Bonds.

Economic, Political, Social and Environmental Conditions

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

Change in Tax Law

As discussed under "TAX MATTERS," current and future legislative proposals, if enacted into law, or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, in whole or in

part, to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

Failure to Maintain Credit Ratings

Certain rating agencies have assigned ratings to the 2019 Bonds. The ratings issued reflect only the views of such rating agencies. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. See “RATINGS.” There is no assurance current ratings will continue for any given period or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings could be expected to have an adverse effect on the market price or the marketing of the 2019 Bonds. The District undertakes no obligation to maintain its current credit ratings on the 2019 Bonds or to oppose any such downward revision, suspension or withdrawal.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2019 Bonds or, if a secondary market exists, that the 2019 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

From time-to-time, the District issues Commercial Paper Certificates to finance projects to the Water Utility System. Due to the foregoing risks described above with respect to the availability of a secondary market for the 2019 Bonds, the District can make no assurances that there will continue to be a market such short-term obligations.

Uncertainties of Projections, Forecasts and Assumptions

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

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

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

not property-related fees or charges subject to Article 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 (and the State Supreme Court has held) that 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 2019 Bonds. Remedies available to beneficial owners of the 2019 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 2019 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 opinion 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 XIIC to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the

service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Based on the outcome of the Great Oaks Case described under the caption "LITIGATION—Great Oaks Matter" above, the District's believes that Proposition 26 applies to the District's groundwater charges and 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 XIIB, XIIC and XIID were adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting 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 2019 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 opinion of Bond Counsel (the form of which is attached as Appendix E), will be similarly qualified.

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2019 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code but interest on the 2019 Bonds is exempt from State of California personal income tax.

The amount by which a 2019 Bond Owner's original basis for determining gain or loss on sale or exchange of the applicable 2019 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which a 2019 Bond Owner may elect to amortize under Section 171 of the Code; such amortizable bond premium reduces the 2019 Bond Owner's basis in the applicable 2019 Bond (and the amount of taxable interest received), and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2019 Bond Owner realizing a taxable gain when a 2019 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019 Bond to the Owner. Purchasers of 2019 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Except for certain exceptions, the difference between the issue price of a 2019 Bond (the first price at which a substantial amount of the 2019 Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2019 Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the 2019 Bond Owner will increase the 2019 Bond Owner's basis in the 2019 Bond. Original issue discount will constitute taxable interest income to an Owner of the 2019 Bonds in accordance with the regular method of accounting. 2019 Bond Owners should consult their own tax advisor with respect to taking into account any original issue discount on the 2019 Bond.

In the event of a legal defeasance of a 2019 Bond, such bond might be treated as retired and "reissued" for federal tax purposes as of the date of the defeasance, potentially resulting in recognition of taxable gain or loss to the applicable Owner generally equal to the difference between the amount deemed realized from the deemed redemption and reissuance and the Owner's adjusted tax basis in such bond.

The federal tax and State of California personal income tax discussion set forth above with respect to the 2019 Bonds is included for general information only and may not be applicable depending upon a 2019 Bond Owner's particular situation. The ownership and disposal of a 2019 Bond and the accrual or receipt of interest with respect to the 2019 Bond 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 2019 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2019 Bonds.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the 2019 Bonds the rating of "____" (____ outlook) and Fitch Ratings, Inc. ("Fitch") has assigned the 2019 Bonds the rating of "____" (____ outlook). There is no assurance that any credit rating given to the 2019 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 2019 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 2019 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 2019 Bonds to file on EMMA, notices of any ratings changes on the 2019 Bonds. See the caption "CONTINUING DISCLOSURE UNDERTAKING" below and Appendix F. Notwithstanding such covenant, information relating to ratings changes on the 2019 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 2019 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 2019 Bonds after the initial issuance of the 2019 Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The District has covenanted in a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the 2019 Bonds to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2020, 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 enumerated events with respect to the 2019 Bonds are set forth in Appendix F "—FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter 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, the 2017A Bonds, the 2019AB Bonds 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. In 2018, the District filed two supplements to its continuing disclosure annual report for Fiscal Year 2016-17 to correct certain debt service coverage calculations with respect to the District's Flood Control System Obligations and obligations secured by revenues of the Water Utility System.

In order to implement a process for compliance with continuing disclosure undertakings under Rule 15c2-12, 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. The District has updated the Disclosure Procedures to include processes with respect to event notices relating to financial obligations, as required by the amendments to Rule 15c2-12 which became effective February 27, 2019. A copy of the Disclosure Procedures has been provided to the Underwriter and is available from the Treasury/Debt Officer of the District at 5750 Almaden Expressway, San Jose, California Telephone: (408) 265-2600.

UNDERWRITING

The 2019 Bonds are being purchased by Siebert Williams Shank & Co., LLC, as underwriter (the "Underwriter") pursuant to a Purchase Contract, dated November __, 2019, by and between the Underwriter and the District (the "Purchase Contract"). The purchase price of the 2019 Bonds is equal to \$_____, being the aggregate principal amount of the 2019 Bonds of \$_____, plus original issue premium of \$_____ and less an underwriter's discount of \$_____. The Purchase Contract provides that the Underwriter will purchase all of the 2019 Bonds, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions.

The initial public offering prices stated on the inside front cover of this Official Statement may, under certain circumstances, be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2019 Bonds to certain dealers (including dealers depositing 2019 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses. In addition, certain affiliates of the Underwriter are lenders, and in some cases agents or managers for the lenders, under credit and liquidity facilities.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

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 2019 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 certain fees of the Municipal Advisor for the 2019 Bonds is contingent upon the issuance thereof.

CERTAIN LEGAL MATTERS

Bond Counsel will render an opinion with respect to the 2019 Bonds substantially in the form set forth in Appendix E hereto. A copy of such opinion will be furnished to the Underwriter at the time of delivery of the 2019 Bonds. Certain legal matters will be passed upon for the District by Counsel to the District, Stan Yamamoto, Esq., for the Underwriter by its counsel, Schiff Hardin LLP and for the Trustee by its counsel. The payment of the fees of Bond Counsel and Underwriter's Counsel is contingent upon the issuance of the 2019 Bonds. Bond Counsel expresses no opinion to the owners of the 2019 Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2019 Bonds and expressly disclaims any duty to advise the Owners of the 2019 Bonds as to matters related to this Official Statement.

Bond Counsel represents the District in connection with the issuance of the 2019 Bonds. Bond Counsel may represent the Underwriter from time-to-time on other financings and matters unrelated to the District or the 2019 Bonds. Bond Counsel does not represent the Underwriter or any other party with respect to the issuance of the 2019 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 2019 Bonds, information with respect to the book-entry only system relating to the 2019 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.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Chief Executive Officer

Attest:

Clerk of the Board of Directors

APPENDIX A
AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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.

[TO BE PROVIDED BY BOND COUNSEL]

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.

DEFINITIONS

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

Bonds means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are on a parity with the payments due with respect to the District’s Water Utility System Refunding Revenue Bonds, Taxable Series 2006B, and which are secured by a pledge of and lien on the Net Water Utility System Revenues.

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

Certificate of the District means an instrument in writing signed on behalf of the District by the Chairman of the Board of Directors of the District, or by the General Manager of the District, or by any other officer of the District duly authorized by the Board of Directors of the District to sign documents on its behalf with respect to matters referred to therein.

Contracts means any installment purchase agreement and all contracts of the District previously or hereafter authorized and executed by the District, the payments under which are on a parity with the payments due with respect to the Installment Purchase Agreement, and which are secured by a pledge and lien on the Net Water Utility System Revenues, excluding contracts entered into for operation and maintenance of the Water Utility System.

Current Water Utility System Revenues means all gross income and revenue received or receivable by the District from the ownership or operation 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) and business interruption insurance proceeds received by the District for the Water Service and the other services of 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, and also including (1) all income from the deposit or investment of any money in the Water Utility System Revenue Fund and the Rate Stabilization Reserve Fund, (2) all income from the deposit or investment of money held in any Bond or Contract or any fund (including without limitation a 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; but excluding benefit assessments and proceeds of taxes, and excluding also any refundable deposits made to establish credit advances or contributions in aid of construction.

Debt Service means, for any period of calculation, the sum of: (1) the interest payable on all outstanding Bonds during such period, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that

such interest is capitalized), (2) those portions of the principal amount of all outstanding serial Bonds maturing in such period, (3) those portions of the principal amount of all outstanding term Bonds required to be prepaid or paid in such period, and (4) those portions of the Contracts required to be paid during such period, (except to the extent the interest evidenced and represented thereby is capitalized); but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts; provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest at a fixed rate equal to the higher of: (i) the actual rate on the date of calculation, or if such Contract or Bond is not yet outstanding, the initial rate (if established and binding), and (ii) the highest average variable rate borne over a 3 month period of the preceding 12 months by outstanding variable rate debt issued by the District or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued; provided further that if any series or issue of such Bonds or Contracts have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined for the period of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and provided further that if the Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the District with respect to such Paired Obligations; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

Defeasance Securities means and includes, if and to the extent the same are permitted by law, only such securities as are described in clauses (i), (ii) and (iii) below which will not be subject to redemption prior to their maturity other than at the option of the holder thereof, or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, as follows: (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies to the extent unconditionally guaranteed by the United States of America, including obligations issued pursuant to paragraph 21B(d)(3) of the Federal Home Loan Bank Act, as amended by paragraph 511(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, or any successor provisions to paragraph 21B of the Federal Home Loan Bank Act, as so amended; (ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in the Water Utility System Master Resolution, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or date thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) above which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; and (iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), provided that such obligations will be held in trust by a bank or trust company or a national banking association.

Delivery Date means the date on which a Series of Bonds is delivered to the original purchaser thereof.

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

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

Finance Manager means the Finance Manager of the District or his or her successor as designated by the Board of Directors of the District.

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

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

Installment Purchase Agreement means the Installment Purchase Agreement the dated as of September 1, 2007, by and between the District and the Santa Clara Valley Water District Public Facilities Financing Corporation.

Law means the Santa Clara Valley Water District Act (Chapter 1405 of Statutes of 1951, as amended), and all laws amendatory thereof or supplemental thereto.

Maintenance and Operation Costs means (i) costs spent or incurred for maintenance and operation of the Water Utility System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water Utility System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water Utility System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than Debt Service) required to be paid by it to comply with the terms of the Water Utility System Master Resolution or any other Bond or Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds or the execution of such Contract and (ii) all costs of water purchased or otherwise acquired for delivery by the Water Utility System (including any interim or renewed arrangement therefor), but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Net Water Utility System Revenues means, for any Fiscal Year or other period, the Water Utility System Revenues during such Fiscal Year or period less the Maintenance and Operations Costs during such Fiscal Year or period.

Opinion of Counsel means a written opinion of counsel of national reputation, generally recognized to be well qualified in the field of law relating to municipal bonds, retained by the District.

Rating Agency means Moody's Investors Service or Standard & Poor's Ratings Group or such other nationally recognized securities rating agencies as may be so designated in writing to the Trustee by an authorized representative of the District.

Series means one or more obligations issued at the same time, or sharing some other common term or characteristic, and designated as a separate Series under a Trust Agreement.

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

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

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

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

Water Utility System Reserve Fund means the fund by that name established pursuant to the Water Utility System Master Resolution.

Water Utility System Revenues means, with respect to any Fiscal Year, Current Water Utility System Revenues.

WATER UTILITY SYSTEM REVENUES

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

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

Allocation of Water Utility System Revenues. In order to carry out and effectuate the obligations of the District to pay Debt Service, the District has agreed and covenanted that all Current Water Utility System

Revenues received by it will be deposited when and as received in the Water Utility System Revenue Fund. The District will transfer or make payments from the Water Utility System Revenue Fund the amounts set forth below at the following times and in the following order of priority: (a) Such amounts at such times as the District will 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 applicable Bonds or Contracts or the resolutions, Trust Agreements, indentures or other instruments securing each Bond or Contract; (c) To each Trustee for deposit in the applicable Bond or Contract or reserve fund with respect to such Bonds or Contracts an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Bond or Contract reserve fund as and to the extent required by the applicable Bond or Contract or the resolutions, Trust Agreements, indentures or other instruments securing each Bond or Contract; (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; 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.

SEPARATE UTILITY SYSTEMS

Separate Utility Systems. The District may create, acquire, construct, finance, own and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of that separate utility system will not constitute Current Water Utility System Revenues and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand such separate utility system. Neither the Water Utility System Revenues nor the Net Water Utility System Revenues will be pledged by the District to the payment of any obligations of a separate utility system except with respect to the Net Water Utility System Revenues, on a basis subordinate to the lien of the Bonds and Contracts on the Net Water Utility System Revenues.

COVENANTS OF THE DISTRICT

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

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

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

Compliance with Contracts. The District will comply with, keep, observe and perform all material provisions of agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the purchase of water for, and the provision of water service from the Water Utility System and all other material provisions of contracts affecting or involving the Water Utility System to the extent that the District is a party thereto.

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

Insurance. The District will procure and maintain such insurance relating to the Water Utility System which it will deem advisable or necessary (based on the annual written report and approval of the District's risk manager or an independent insurance consultant) to protect its interests, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water Utility System; provided, the District will not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided, further, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with facilities, properties, structures and works similar to the Water Utility System. All policies of insurance required to be maintained under the Water Utility System Master Resolution will provide that each Trustee will be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records and Financial Statements. The District will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Water Utility System, which records will be available for inspection by each Trustee at reasonable hours and under reasonable conditions. The District will prepare and file with each Fiscal Agent annually within two hundred and ten (210) days after the close of each Fiscal Year financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the Independent Certified Public Accountant who examined such financial statements stating that nothing came to his or her attention in connection with such examination that caused him or her to believe that the District was not in compliance with any of the agreements or covenants contained the Water Utility System Master Resolution.

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

Collection of Rates, Fees and Charges. The District will charge and collect or cause to be collected the rates, fees and charges applicable to the Water Service and will not permit any part of the Water Utility System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any

public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may, without charge, use the Water Service.

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

MISCELLANEOUS

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

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

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

Investments. Any money held by the District in any of the funds provided in the Water Utility System Master Resolution will be invested in lawful investments of District funds, provided that money held in any fund established under a Trust Agreement with respect to Bonds and Contracts will be invested in lawful investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed to pay Bonds and Contracts.

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 2019 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 2019 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,
Taxable Series 2019C

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, Taxable Series 2019C (the “Bonds”), dated the date hereof, and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds are being issued in accordance with Resolution No. 16-10 adopted on February 23, 2016 by the Board of Directors of the District, as amended by Resolution No. 16-82 adopted on December 13, 2016 (the “Parity Master Resolution”) by the Board of Directors of the District, and an Indenture of Trust, dated as of November 1, 2019 (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 Parity Master Resolution) 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. Interest on the Bonds is exempt from State of California personal income tax.

4. 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 may at the election of owners of the Bonds be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"). Such amortizable bond premium reduces the Owner's basis in the applicable Bond (and the amount of taxable interest received) and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner.

The opinions expressed herein 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 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 2019 Bonds, the District proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

THIS CONTINUING DISCLOSURE AGREEMENT dated November __, 2019 (the “Disclosure Agreement”) is executed and delivered by the Santa Clara Valley Water District (the “District”) and U.S. Bank National Association, as dissemination agent (the “Dissemination Agent”), in connection with the issuance of the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2019C (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 19-__ adopted by the Board of Directors of the District on November __, 2019 (the “Resolution”) and an Indenture of Trust, dated as of November 1, 2019, by and between the District and U.S. Bank National Association, as trustee (the “Indenture”). The District and Dissemination Agent, covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and U.S. Bank National Association, as Dissemination Agent, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture and the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“EMMA” shall mean the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the World Wide Web at <https://emma.msrb.org/>.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“Official Statement” shall mean the Official Statement relating to the Bonds dated November __, 2019.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean EMMA, or a successor repository designated by the Municipal Securities Rulemaking Board.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than each April 1, commencing with the report due on April 1, 2020, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) Not later than fifteen (15) Business Days prior to said due date of each Annual Report, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send, or cause to be sent, a notice to the Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository, if any; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

(b) If not included in the audited financial statements, any change of the financial information and operating data with respect to the District, for only the most recent fiscal year of the District then ended, as described in the following tables in the Official Statement:

- | | |
|---------------|--|
| Indebtedness; | (i) DEBT STRUCTURE OF THE DISTRICT — Schedule of Long-Term |
| Acre-Foot); | (ii) WATER UTILITY SYSTEM — Historical Water Rates (Dollars (\$) per |
| | (iii) WATER UTILITY SYSTEM — Historical Sales Revenues; and |

(iv) FINANCIAL INFORMATION OF THE DISTRICT — Santa Clara Valley Water District Historical Operating Results & Debt Service Coverage; provided however if such operating results and debt service coverage can be derived from the audited financial statements required to be filed in section 4(a) above, failure to file a separate table under this section 4(b) shall not constitute a default hereunder.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes;
9. bankruptcy, insolvency, receivership or similar proceedings; and
10. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation, any of which reflect financial difficulties.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. modifications to the rights of Bond holders;

3. optional, unscheduled or contingent Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

7. appointment of a successor or additional trustee or the change of the name of a trustee; and

8. incurrence of a financial obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect Bond holders.

(c) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file, or cause to be filed, a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

(d) While the failure to file a notice of the occurrence of a Listed Event under Section 5(a)(8) shall constitute non-compliance with the terms hereof and may be required to be disclosed by the District in accordance with the Rule, failure shall not constitute an event of default hereunder if (i) the District did not receive written notice of such rating change from the respective rating agency, (ii) the rating change was a result of a change in the rating of a liquidity or credit enhancement and the market was generally aware of the change in the rating of such liquidity or credit enhancer or (iii) the rating agency filed a notice of such rating change with the Repository.

(e) For purposes of the events identified in subparagraphs (a)(10) and (b)(8), the term “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

SECTION 6. Termination of Reporting Obligation. The District’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give, or cause to be given, notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty

(30) days' written notice to the District; provided, however, that such resignation will not become effective until the District has secured a successor Dissemination Agent in accordance with the terms of this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to file an annual report under Section 4 hereof or to file a report of a significant event under Section 5 hereof, any Owners or Beneficial Owners of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to make such filing. Notwithstanding the foregoing, no action may be undertaken by Owners or Beneficial Owners of the Bonds with respect to the accuracy of the information contained in any such filing or otherwise without the approval in writing of Owners or Beneficial Owners of at least 50% of the aggregate principal amount of the Bonds. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

No Owners or Beneficial Owners may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as Owners or Beneficial Owners and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and no implied duties or obligations shall be read into this Disclosure Agreement against the Dissemination Agent, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees provided to the District and all expenses, legal fees and costs of the Dissemination Agent made or incurred by the Dissemination Agent in the performance of its

duties hereunder. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent has no power to enforce the nonperformance on the part of the District.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: November __, 2019

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: SANTA CLARA VALLEY WATER DISTRICT

Name of Obligations: SANTA CLARA VALLEY WATER DISTRICT WATER
SYSTEM REFUNDING REVENUE BONDS, TAXABLE SERIES
2019C

Date of Issuance: November __, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement executed by the District on the date of execution and delivery of the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

SANTA CLARA VALLEY WATER DISTRICT

By: [no signature required; form only]