

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER __, 2020

NEW ISSUE-Book Entry Only

See “RATINGS” herein.

\$97,415,000*
Santa Clara Valley Water District
Water System Refunding Revenue Bonds
Series 2020A and Taxable Series 2020B

\$122,830,000*
Santa Clara Valley Water District
Revenue Certificates of Participation
(Water Utility System Improvement Projects)
Series 2020C and Taxable Series 2020D

\$23,985,000*
Series 2020A

\$73,430,000*
Taxable Series 2020B

\$41,265,000*
Series 2020C

\$81,565,000*
Taxable Series 2020D

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

The proceeds of the 2020A Bonds and the 2020B Bonds (together, the “2020 Bonds”) are being issued to provide a portion of the money to (i) pay the principal portion of the currently outstanding Commercial Paper Certificates, Series A (Tax-Exempt) and Commercial Paper Certificates, Series B (Taxable) issued to finance projects for the Water Utility System; and (ii) pay costs of issuance of the 2020 Bonds, all as more fully described herein. Interest due on the 2020 Bonds is payable on each June 1 and December 1, commencing December 1, 2020.

The 2020 Bonds are being issued pursuant to Resolution No. 16-10 adopted by the Board of Directors of Valley Water on February 23, 2016 (as amended to the date hereof, the “Parity Master Resolution”) and an indenture of trust, dated as of August 1, 2020 (the “Indenture”) by and between Valley Water and U.S. Bank National Association, as trustee thereunder. **The 2020 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity as described in this Official Statement.**

The proceeds of the 2020C Certificates and the 2020D Certificates (together, the “Certificates”) will be used to (i) finance the cost of certain water utility system improvements, (ii) reimburse Valley Water for costs previously expended on certain water utility system improvements, and (iii) pay the costs of executing and delivering the Certificates. Interest represented by the Certificates is payable on each June 1 and December 1, commencing December 1, 2020.

The Certificates are being executed and delivered pursuant to a Trust Agreement (the “Trust Agreement”), dated as of August 1, 2020, by and among Valley Water, the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”), and U.S. Bank National Association, as trustee thereunder. The Certificates are secured by Installment Payments payable by Valley Water pursuant to the Installment Purchase Agreement dated as of August 1, 2020, by and between Valley Water and the Corporation and amounts on deposit in certain funds and accounts established under the Trust Agreement. **The Certificates are subject to optional, mandatory sinking fund and extraordinary prepayment prior to maturity as described in this Official Statement.**

The 2020 Bonds are being issued in fully registered form and the Certificates are being prepared as fully registered Certificates and, when each of the 2020 Bonds and the Certificates are delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2020 Bonds and the Certificates. Purchasers of beneficial interests will not receive certificates representing their interest in the 2020 Bonds or the Certificates. So long as Cede & Co. is the registered owner of the 2020 Bonds or Certificates, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the 2020 Bonds or the Certificates. Individual purchases of the 2020 Bonds and the Certificates will be made in book-entry form only in authorized denominations of \$5,000 or any integral multiple thereof. Principal of and interest on the 2020 Bonds and evidenced by the Certificates 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 2020 Bonds and the Certificates.

The principal and interest on the 2020 Bonds and the Installment Payments are secured by a pledge of and lien under the Parity Master Resolution on District Water Utility System Revenues and are payable from Net Water Utility System Revenues. 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 August 1, 2020, \$17,340,000 aggregate principal amount of Senior Obligations and which are payable prior to the 2020 Bonds. Valley Water 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 2020 Bonds and the Installment Payments are secured by Water Utility System Revenues and are payable from Net Water System Revenues on a parity with the obligation of Valley Water to pay debt service and to make installment payments on Bonds and Contracts outstanding, as of August 1, 2020, in the aggregate principal amount of \$440,700,000. The revenues of Valley Water’s flood control system and parcel tax revenue of the Safe, Clean Water Program, as well as property taxes levied by Valley Water to pay certain State Water Project costs, are not included in Water Utility System Revenues pledged to the payment of the 2020 Bonds or the Installment Payments. No reserve fund has been created or will be funded with respect to the 2020 Bonds or the Certificates.

The obligation of Valley Water to pay the principal of and interest on the 2020 Bonds and to make the Installment Payments does not constitute a debt of Valley Water or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

* Preliminary, subject to change.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, Bond Counsel and Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2020A Bonds and the portion of each Installment Payment constituting interest with respect to the 2020C Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel and Special Counsel, interest on the 2020 Bonds and the portion of each Installment Payment constituting interest is exempt from State of California personal income tax. See “TAX MATTERS — Tax-Exempt Obligations” and “TAX MATTERS — Taxable Obligations” herein with respect to tax consequences with respect to the 2020 Bonds and the Certificates.

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

The 2020 Bonds and the Certificates are offered when, as and if executed and delivered to the Underwriters, subject to the approval as to the legality of certain matters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel and Special Counsel, and certain other conditions. Certain legal matters will be passed upon for Valley Water and the Corporation by District Counsel, Stan Yamamoto, Esq., for the Underwriters by their counsel, Schiff Hardin LLP, and for the Trustee by its counsel. It is expected that the 2020 Bonds and the Certificates will be available for delivery in book-entry only form through the facilities of DTC on or about October 14, 2020.

Siebert Williams Shank & Co., LLC

Alamo Capital

Piper Sandler

Dated: September __, 2020

MATURITY SCHEDULES

\$97,415,000*

**Santa Clara Valley Water District
Water System Refunding Revenue Bonds
Series 2020A and Taxable Series 2020B**

\$23,985,000*

Series 2020A

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

\$ _____ % 2020A Term Bonds due June 1, 20__ – Yield ____% – Price _____

\$73,430,000*

Taxable Series 2020B

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

\$ _____ % 2020B Term Bonds due June 1, 20__ – Yield ____% – Price _____

* Preliminary, subject to change.

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\$122,830,000
Santa Clara Valley Water District
Revenue Certificates of Participation
(Water Utility System Improvement Projects)
Series 2020C and Taxable Series 2020D

\$41,265,000*
Series 2020C

| <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> |
|--|---|--|---------------------|---------------------|---------------------------------|
|--|---|--|---------------------|---------------------|---------------------------------|

\$81,565,000*
Taxable Series 2020D

| <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

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Rachael Gibson, Acting Chief of External Affairs
Michele L. King, CMC, Clerk of the Board

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Sacramento, California

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U.S. Bank National Association
San Francisco, California

MUNICIPAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

* *Garth Hall has announced that he will retire in September 2020.*

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates or the 2020 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 Certificates or the 2020 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 Valley Water, The Depository Trust Company, and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriters.

In reliance upon exemptions contained in such acts, the 2020 Bonds and the Certificates have not been registered under the Securities Act of 1933, as amended, nor has the Indenture and the Trust Agreement been qualified under the Trust Indenture Act of 1939, as amended. The registration or qualification of the Certificates or the 2020 Bonds in accordance with applicable provisions of securities laws of any state in which the Certificates or the 2020 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 Certificates or the 2020 Bonds or the accuracy or completeness of this Official Statement.

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

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

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

IN CONNECTION WITH THE OFFERING OF THE 2020 BONDS AND THE CERTIFICATES, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2020 BONDS AND CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Valley Water maintains a website, however, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates or the 2020 Bonds.

References to web site addresses other than Valley Water's website presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this 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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Water System Refunding Revenue Bonds
Series 2020A and Taxable Series 2020B

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(Water Utility System Improvement Projects)
Series 2020C and Taxable Series 2020D

\$23,985,000*
Series 2020A

\$73,430,000*
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\$41,265,000*
Series 2020C

\$81,565,000*
Taxable Series 2020D

INTRODUCTION

General

This Official Statement, including the cover page, inside cover page and Appendices, is provided to furnish certain information in connection with the offering of (i) \$97,415,000* aggregate principal amount of the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2020A (the “2020A Bonds”) and Taxable Series 2020B (the “2020B Bonds” and together with the 2020A Bonds, the “2020 Bonds”) and (ii) \$122,830,000* aggregate principal amount of Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C (the “2020C Certificates”) and Taxable Series 2020D (the “2020D Certificates,” and together with the 2020C Certificates,” the “Certificates”). The Santa Clara Valley Water District (“Valley Water”) is a multi-purpose special district organized and existing in accordance with the Santa Clara Valley Water District Act, Chapter 1405 of Statutes 1951 of the State of California, as amended.

Capitalized terms used herein with respect to the 2020 Bonds and the Certificates 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 2020 Bonds

General. The 2020 Bonds will be issued pursuant to Resolution No. 16-10, adopted by the Board of Directors of Valley Water on February 23, 2016 (as amended to the date hereof, the “Parity Master Resolution”) and an Indenture of Trust, dated as of August 1, 2020 (the “Indenture”) by and between Valley Water and U.S. Bank National Association, as trustee thereunder (the “Trustee”).

Purpose. The 2020 Bonds are being issued to (i) pay the principal portion of the currently outstanding Commercial Paper Certificates, Series A (Tax-Exempt) and Commercial Paper Certificates, Series B (Taxable) (together, the “Commercial Paper Certificates”) issued to finance projects for the Water Utility System and (ii) pay costs of issuance of the 2020 Bonds, all as more fully described herein. See the caption “PLAN OF FINANCE — The Refunding Plan.”

Security for the 2020 Bonds. The 2020 Bonds are secured by a pledge of the Water Utility System Revenues of Valley Water’s Water Utility System (as such terms are defined in the Parity Master Resolution and as more particularly described under the caption “SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — 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 Valley Water to pay principal of and interest on the 2020 Bonds is a special obligation of Valley Water payable solely from Net Water Utility System Revenues of the Water Utility System. Net Water Utility System Revenues of the Water Utility System of Valley Water include the Water Utility System Revenues remaining after payment of Operation and Maintenance Costs and 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

* Preliminary, subject to change.

Purpose Funds. Valley Water's obligation to pay debt service on the 2020 Bonds from Net Water Utility System Revenues is subordinate to Valley Water's obligation to pay debt service on the Senior Obligations and on a parity with Valley Water's obligation to make Installment Payments (as defined below) which secure the Certificates, and any obligations hereafter issued or incurred on a parity therewith subject to the terms and conditions of the Parity Master Resolution. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Pledge of Water Utility System Revenues" and "— Allocation of Water Utility System Revenues — *Senior Master Resolution*" and "DEBT STRUCTURE OF VALLEY WATER."

No Reserve Fund for the 2020 Bonds. No reserve fund has been created or will be funded with respect to the 2020 Bonds.

Redemption. The 2020 Bonds will be subject to optional, mandatory, and extraordinary redemption prior to maturity, as more fully described under the caption "THE 2020 BONDS."

The Certificates

General. The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2020 (the "Trust Agreement"), by and among Valley Water, the Santa Clara Valley Water District Public Facilities Financing Corporation, a California non-profit public benefit corporation (the "Corporation") and the Trustee. The Certificates represent a right to receive the installment payments (the "Installment Payments") payable by Valley Water under an Installment Purchase Agreement dated as of August 1, 2020 (the "Installment Purchase Agreement") by and between Valley Water and the Corporation.

Purpose. The proceeds of the Certificates will be used to (a) finance the acquisition and/or construction of certain water utility system improvements, (b) reimburse Valley Water for costs previously expended on certain water utility system improvements, and (c) pay the costs of executing and delivering the Certificates. See the caption "PLAN OF FINANCE — Water Treatment and Other Related Infrastructure Improvements."

Security for the Installment Payments. The Installment Payments are secured by a pledge of the Water Utility System Revenues of Valley Water's Water Utility System and amounts on deposit in certain funds and accounts established under the Parity Master Resolution and the Trust Agreement. The obligation of Valley Water to pay the Installment Payments is a special obligation of Valley Water payable solely from Net Water Utility System Revenues of the Water Utility System. Valley Water's obligation to make the Installment Payments from Net Water Utility System Revenues is subordinate to Valley Water's obligation to pay debt service on the Senior Obligations and on a parity with Valley Water's obligation to pay debt service on the 2020 Bonds, and any obligations hereafter issued or incurred on a parity therewith subject to the terms and conditions of the Parity Master Resolution. Valley Water's obligation to make the Installment Payments from Net Water Utility System Revenues is absolute and unconditional and Valley Water has covenanted to continue to make such payments whether or not the facilities financed from the proceeds of the Certificates (as more particularly described under the caption "PLAN OF FINANCE — Water Treatment and Other Related Infrastructure Improvements") is operating or operable. Such payments are not subject to annual appropriation or abatement in the event of loss or destruction of the Project. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Pledge of Water Utility System Revenues" and "DEBT STRUCTURE OF VALLEY WATER."

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

Prepayment. The Certificates will be subject to optional, mandatory, and extraordinary prepayment prior to maturity, as more fully described under the caption "THE CERTIFICATES."

Senior Obligations

Valley Water's obligation to pay debt service on the 2020 Bonds and to make Installment Payments from Net Water Utility System Revenues is subordinate to Valley Water's obligation to pay debt service on Valley Water's Water Utility System Refunding Revenue Bonds Taxable Series 2006B (the "2006B Bonds") outstanding as of August 1, 2020, in the principal amount of \$17,340,000. The 2006B Bonds are referred to in this Official Statement as the "Senior Obligations." The Senior Obligations were delivered pursuant to Resolution No. 94-58 adopted by the Board of Directors of Valley Water (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").

Valley Water 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 obligation of Valley Water to pay principal of and interest on the 2020 Bonds and to make the Installment Payments from Net Water Utility System Revenues is secured by a pledge of the Water Utility System Revenues and certain funds and accounts established under the Parity Master Resolution and are payable from Net Water Utility System Revenues on a parity with Parity Obligations (as defined below) outstanding as of August 1, 2020 in the principal amount of \$440,700,000 including: (i) the obligation of Valley Water to pay principal of and interest on Valley Water's Water System Refunding Revenue Bonds, Series 2016A (the "2016A Bonds") and Taxable Series 2016B (the "2016B Bonds" and together with the 2016A Bonds the, "2016 Bonds") in the aggregate principal amount of \$181,530,000; (ii) the obligation of Valley Water to make installment payments under an installment purchase agreement dated as of February 1, 2016 (the "2016 Installment Purchase Agreement") by and between Valley Water and the Corporation, which installment payments secure \$79,155,000 aggregate principal amount of Valley Water's Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2016C and Taxable Series 2016D (collectively, the "2016 Certificates"); (iii) the obligation of Valley Water to pay principal of and interest on Valley Water's Water System Refunding Revenue Bonds, Series 2017A (the "2017A Bonds") in the aggregate principal amount of \$49,630,000; (iv) the obligation of Valley Water to pay principal of and interest on Valley Water's Water System Refunding Revenue Bonds, Series 2019A (the "2019A Bonds") and Taxable Series 2019B (the "2019B Bonds" and together with the 2019A Bonds the, "2019AB Bonds") in the aggregate principal amount of \$93,395,000; (v) the obligation of Valley Water to pay principal of and interest on Valley Water's Water System Refunding Revenue Bonds, Series 2019C (the "2019C Bonds") in the aggregate principal amount of \$36,990,000; and (vi) the obligation of Valley Water to pay principal of and interest on any obligations hereafter issued or incurred on a parity therewith subject to the terms of the Parity Master Resolution (collectively, the "Parity Obligations").

See the captions "DEBT STRUCTURE OF VALLEY WATER" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Additional Bonds and Contracts."

Rate Covenants

Senior Obligations. Valley Water 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. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Rate Covenant” herein. **Defined terms used in the foregoing rate covenant under the Senior Master Resolution shall have the meanings set forth Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION” and differ in certain respects from similar definitions in the Parity Master Resolution.**

The rate covenant described above applies only to coverage of Debt Service of Senior Obligations and shall not be effective with respect to the 2020 Bonds and the Certificates on and after the date no Senior Obligations are outstanding.

Parity Obligations. Valley Water has covenanted under the Parity Master Resolution, to the fullest extent permitted by law, to fix and prescribe rates, fees and charges for Water Service at the commencement of each Fiscal Year, which, together with other Current Water Utility System Revenues or Net Water Utility System Revenues (as such terms are defined in the Parity Master Resolution), as the case may be, are reasonably expected to be at least sufficient to yield during each Fiscal Year (i) Current Water Utility System Revenues in an amount sufficient to meet the Maintenance and Operation Costs and the Debt Service for the then current Fiscal Year, and (ii) Net Water Utility System Revenues which are at least 1.25 times the sum of all Debt Service for such Fiscal Year. Debt Service under the Parity Master Resolution includes the principal of and interest on the 2020 Bonds and the Installment Payments.

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

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

Additional Parity Debt Test

The Parity Master Resolution provides for the incurring of Parity Obligations payable from Net Water Utility System Revenues on a parity with the Installment Payments and the 2020 Bonds upon satisfaction of certain conditions. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Additional Bonds and Contracts” and in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — WATER UTILITY MASTER RESOLUTION — Additional Bonds and Contracts.”

Rate Stabilization Fund

Valley Water has established a Rate Stabilization Fund under the Parity Master Resolution to be held by Valley Water. Valley Water may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Water Utility System Revenue Fund for application in accordance with the Parity Master Resolution. Amounts transferred from the Rate Stabilization Fund to the Water Utility System Revenue Fund may be taken into account as Water Utility System Revenues for purposes of the calculations for the rate covenant and the issuance of additional Bonds or Contracts under the Parity Master Resolution but not the Senior Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Rate Stabilization Fund.” As of June 30, 2020, approximately \$26.1 million was on deposit in the Rate Stabilization Fund.

Special Purpose Funds

The Parity Master Resolution authorizes Valley Water to establish Special Purpose Funds. Upon certain determinations made by the Board, Valley Water may withdraw all or any portion of the amounts in a Special Purpose Fund and transfer such amounts to the Water Utility System Revenue Fund for application in accordance with the Parity Master Resolution. Amounts transferred from a Special Purpose Fund to the Water Utility System Revenue Fund may be taken into account as Water Utility System Revenues for purposes of the calculations for the rate covenant and the issuance of additional Bonds or Contracts under the Parity Master Resolution but not the Senior Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Special Purpose Funds.” Valley Water has previously designated the Drought Reserve, the San Felipe Emergency Reserve, the Advanced Water Purification Center Reserve, Public-Private Partnership Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of June 30, 2020, there was approximately \$29.9 million in aggregate on deposit in such Special Purpose Funds.

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

Valley Water has executed and delivered two installment purchase agreements outstanding as of August 1, 2020 in the aggregate principal amount of \$65,495,000 (the “Flood Control System Obligations”) secured by revenues of Valley Water’s flood and storm water control system (the “Flood Control System”). No Water Utility System Revenues are pledged to payment of these installment purchase agreements and the revenues of the Flood Control System are not pledged to the payment of the 2020 Bonds.

Valley Water also receives parcel tax revenues in connection with its Safe, Clean Water program which are not pledged to the payment of the 2020 Bonds. On July 21, 2020, the Valley Water Board approved placing a ballot measure on the November 2020 general election to renew the authority to levy the parcel tax for the Safe, Clean Water program.

Valley Water levies property taxes to pay certain costs under Valley Water’s State Water Project contract. Such State Water Project contract costs are not Maintenance and Operation Costs of the Water Utility System. Such State Water Project property taxes are not pledged to the payment of the 2020 Bonds.

Limited Obligations

The obligation of Valley Water to pay principal of and interest on the 2020 Bonds and to make the Installment Payments described herein are secured by a pledge of and lien on, Valley Water’s Water Utility System Revenues and are payable from the Net Water Utility System Revenues (which remain after the payment of Maintenance and Operations Costs and the Senior Obligations). The obligation of Valley Water to pay the principal of and interest on the 2020 Bonds and to make Installment Payments does not constitute a debt of Valley Water or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Miscellaneous

Brief descriptions of the Senior Master Resolution, the Parity Master Resolution, the 2020 Bonds and the Certificates, the security and sources of payment for the 2020 Bonds and the Certificates and Valley Water are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definition of certain capitalized terms used herein with respect to the Parity Master Resolution 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 Valley Water at the address on the inside cover of this Official Statement.

Continuing Disclosure

Valley Water has covenanted in Continuing Disclosure Agreements for the benefit of the holders and beneficial owners of the 2020 Bonds and of the Certificates to provide certain financial information and operating data relating to Valley Water by not later than each April 1, commencing April 1, 2021, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and the notices of material events will be filed by Valley Water with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system or any successor repository prescribed by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth hereto in Appendix G — "FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2020 BONDS" with respect to the 2020 Bonds and in Appendix H — "FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE CERTIFICATES" with respect to the Certificates. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

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

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

Forward-Looking Statements

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

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

PLAN OF FINANCE

The Refunding Plan

A portion of the proceeds of the 2020 Bonds will be applied to pay the principal portion of the outstanding Commercial Paper Certificates issued to finance projects for the Water Utility System. Valley Water currently has outstanding \$129.3 million aggregate principal amount of Commercial Paper Certificates, \$99.3 million of which were issued to finance projects for the Water Utility System. Pursuant to the Indenture, Valley Water will transfer a portion of the proceeds of the 2020 Bonds to U.S. Bank National Association, as paying agent, which, together with certain amounts transferred by Valley Water, will be sufficient to pay on the date of delivery of the 2020 Bonds, \$99.3 million principal amount and accrued interest of such Commercial Paper Certificates to be refunded.

The estimated sources and uses of funds with respect to the 2020 Bonds are set forth below.

Table 1
SANTA CLARA VALLEY WATER DISTRICT
Estimated Sources and Uses of Funds – The 2020 Bonds

| <u>Sources</u> | <u>2020A Bonds</u> | <u>2020B Bonds</u> |
|---|--------------------|--------------------|
| Principal Amount of 2020 Bonds | \$ | \$ |
| Plus Original Issue Premium | | |
| Valley Water Contribution ⁽¹⁾ | | |
| TOTAL | <u>\$</u> | <u>\$</u> |
| <u>Uses</u> | | |
| Transfer to Paying Agent for the Commercial Paper Certificates ⁽²⁾ | \$ | \$ |
| Costs of Issuance ⁽³⁾ | | |
| TOTAL | <u>\$</u> | <u>\$</u> |

⁽¹⁾ Equals the interest due on the Commercial Paper Certificates being refunded.

⁽²⁾ Equals the outstanding principal amount of the Commercial Paper Certificates being refunded and the interest thereon.

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

Water Treatment and Other Related Infrastructure Improvements

Valley Water expects to apply a portion of the proceeds of the Certificates to finance and reimburse Valley Water for costs of acquiring and/or construction of various capital improvements included in the Fiscal Year 2021 capital improvement program (the "Project"). The Project includes, but is not limited to, improvements to: water supply projects for storage, transmission, treatment and recycled water facilities.

Environmental approvals for the Project have been prepared or are being prepared. Certificate proceeds will be expended on certain planning/design costs which do not require environmental approvals and on components of the Project which require environmental approvals after such approvals are in place. Valley Water expects that substantially all Certificate proceeds deposited in the acquisition funds under the Installment Purchase Agreement will be expended within three years.

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

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

| <u>Sources</u> | <u>2020C Certificates</u> | <u>2020D Certificates</u> |
|---|---------------------------|---------------------------|
| Principal Amount of Bonds | \$ | \$ |
| Plus Original Issue Premium | | -- |
| TOTAL | <u>\$</u> | <u>\$</u> |
| <u>Uses</u> | | |
| Deposit to Acquisition and Construction Fund (Tax-Exempt) | \$ | -- |
| Deposit to Acquisition and Construction Fund (Taxable) | -- | \$ |
| Costs of Issuance ⁽¹⁾ | | |
| TOTAL | <u>\$</u> | <u>\$</u> |

⁽¹⁾ Includes fees for the Trustee, Municipal Advisor's fees, legal fees, printing costs, rating agency fees, underwriter's discount and other costs of delivery.

THE 2020 BONDS

Terms of the 2020 Bonds

The 2020A Bonds will be issued in the aggregate principal amount of \$23,985,000* and the 2020B Bonds will be issued in the aggregate principal amount of \$73,430,000*. The 2020 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 December 1, 2020 (each, an "Interest Payment Date"), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2020 Bonds will be computed on the basis of a 360 day year of twelve 30 day months.

The 2020 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 2020 Bonds. Ownership interests in the 2020 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 2020 Bonds are payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the office of the Trustee in St. Paul, Minnesota, California (the "Office of the Trustee"). Interest on the 2020 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 2020 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 2020 Bonds will be payable in lawful money of the United States of America.

Interest on any 2020 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

* Preliminary, subject to change.

Date, in which case interest thereon will be payable from such Interest Payment Date, or unless such date is on or before November 15, 2020, in which case interest thereon will be payable from the date of initial delivery.

Redemption of 2020A Bonds

Optional Redemption. The 2020A 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 Valley Water provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after June 1, 20__ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2020A Bonds with stated maturities on June 1, 20__ and June 1, 20__ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20__ and June 1, 20__, respectively, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the date fixed for redemption, without premium, in accordance with the following schedules:

| <i>Redemption Date</i> <i>(June 1)</i> | <i>Principal</i> <i>Amount</i> |
|---|-----------------------------------|
|---|-----------------------------------|

*

* Final Maturity.

| <i>Redemption Date</i> <i>(June 1)</i> | <i>Principal</i> <i>Amount</i> |
|---|-----------------------------------|
|---|-----------------------------------|

*

* Final Maturity.

Redemption from Insurance or Eminent Domain Proceeds. The 2020A 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 Valley Water provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 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 — Covenants of Valley Water—Eminent Domain and Insurance Proceeds” for a description of the circumstances under which the 2020A Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

Selection of 2020A Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2020A Bonds, other than sinking fund redemption, the Trustee will select the 2020A Bonds for redemption as a whole or in part on any date as directed by Valley Water and by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture.

Redemption of 2020B Bonds

Optional Redemption. The 2020B Bonds with stated maturities on or after June 1, 20__ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by Valley Water 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, 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 2020B Bonds shall be subject to redemption prior to June 1, 20__ at the option of Valley Water, as a whole or in part on any Business Day in the order of maturity as directed by Valley Water 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 Valley Water, is the greater of (1) 100% of the principal amount of the 2020B 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 2020B Bonds to be redeemed, not including any portion of those payments of interest thereon accrued and unpaid as of the date on which the 2020B Bonds are to be redeemed, discounted to the date on which the 2020B 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 2020B Bonds to be redeemed on the date of redemption.

The term “Applicable Spread” means, (i) with respect to the 2020B Bonds maturing on June 1, 20__, through June 1, 20__, inclusive, __ basis points; and (ii) with respect to the 2020B Bonds maturing on June 1, 20__, through June 1, 20__, inclusive, __ basis points.

Mandatory Sinking Fund Redemption. The 2020B Bonds with stated maturities on June 1, 20__ and June 1, 20__ (the “2020B Term Bonds”) are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20__ and June 1, 20__, respectively, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the date fixed for redemption, without premium, in accordance with the following schedules:

| <i>Redemption Date (June 1)</i> | <i>Principal Amount</i> |
|--|------------------------------------|
|--|------------------------------------|

*

* Final Maturity.

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

***Principal
Amount***

*

* Final Maturity.

Redemption from Insurance or Eminent Domain Proceeds. The 2020B Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by Valley Water in a Written Request provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in the Parity Master Resolution, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. See Appendix B under the caption “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — Covenants of Valley Water—Eminent Domain and Insurance Proceeds” for a description of the circumstances under which the 2020B Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

Selection of 2020B Bonds for Redemption. If the 2020B Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of such 2020B Bonds, if less than all of the 2020B Bonds of a maturity are called for prior redemption, the particular 2020B Bonds or portions thereof to be redeemed will be allocated on a *pro rata pass-through distribution of principal* basis in accordance with DTC procedures, provided that, so long as the 2020B Bonds are held in book-entry form, the selection for redemption of such 2020B Bonds will be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the 2020B Bonds will be selected for redemption, in accordance with DTC procedures, by lot and in integral multiples of \$5,000.

Valley Water intends that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither Valley Water nor the Underwriters can provide any assurance that DTC, DTC’s direct and indirect participants or any other intermediary will allocate the redemption of 2020B Bonds on such basis.

In connection with any repayment of principal, including payments of scheduled mandatory sinking fund payments with respect to the 2020B Term Bonds, the Trustee will direct DTC to make a pass-through distribution of principal to the holders of the 2020B Term Bonds. A Pro Rata Pass-Through Distribution of Principal table is included as Appendix I to this Official Statement and reflects the current schedule of mandatory sinking fund redemptions applicable to the 2020B Term Bonds and the factors applicable to such redemption amounts and remaining 2020B Term Bond balances, which is subject to change upon certain optional redemption. See Appendix I – “PRO RATA PASS-THROUGH DISTRIBUTION OF PRINCIPAL TABLE.”

For purposes of calculation of the “pro rata pass-through distribution of principal,” “pro rata” means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective 2020B Term Bonds where (a) the numerator of which is equal to the principal amount of 2020B Term Bonds to be repaid on a payment date, and (b) the denominator of which is equal to the total original par amount of the respective 2020B Term Bond.

If the 2020B Term Bonds are no longer registered in book-entry-only form, each Owner of a 2020B Term Bond will receive an amount of 2020B Term Bond equal to the original face amount then beneficially held by that Owner, registered in such Owner’s name. Thereafter, any redemption of less than all of the 2020B

Term Bonds of any maturity will continue to be paid to the Owner of such 2020B Term Bonds on a pro-rata basis, based on the portion of the original face amount of any such 2020B Term Bonds to be redeemed.

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 2020 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 2020 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 2020 Bonds of any such maturity are to be redeemed, the serial numbers of the 2020 Bonds of such maturity to be redeemed by giving the individual number of each 2020 Bond or by stating that all 2020 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2020 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 2020 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 2020 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 2020 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 2020 Bond. Notice of redemption of 2020 Bonds shall be given by the Trustee at the expense of Valley Water.

With respect to any notice of optional redemption of 2020 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 2020 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 2020 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 2020 Bond of each maturity and series will be issued in the principal amount of the 2020 Bonds of such maturity and series. Such 2020 Bond will be registered in the name of Cede & Co. and will be deposited with DTC.

Valley Water may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2020 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

Valley Water cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2020 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 – “BOOK-ENTRY SYSTEM” for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system described above is abandoned, the 2020 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2020 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 2020 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 2020 Bond for transfer, the Trustee is to issue a new 2020 Bond or 2020 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 2020 Bond issued upon any transfer. The Trustee may require the payment by any 2020 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 2020 Bonds, the Trustee will cancel and destroy the 2020 Bonds it has received.

2020 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2020 Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new 2020 Bond issued upon any exchange except in the case of any exchange of temporary 2020 Bonds for definitive 2020 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 2020 Bonds, the Trustee will cancel and destroy the 2020 Bonds it has received.

The Trustee is not required to register the exchange or transfer of any 2020 Bond during the period in which the Trustee is selecting 2020 Bonds for redemption for any 2020 Bond which the Trustee has selected for redemption.

THE CERTIFICATES

Terms of the Certificates

The 2020C Certificates will be executed and delivered in the aggregate principal amount of \$41,265,000* and the 2020D Certificates will be executed and delivered in the aggregate principal amount of \$81,565,000*. The Certificates will be dated the date of initial delivery thereof, will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable on each June 1 and December 1, commencing December 1, 2020, and will mature on the dates set forth on the inside cover page hereof. Interest on the Certificates will be computed on the basis of a 360 day year of twelve 30 day months.

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

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

Prepayment of 2020C Certificates

Optional Prepayment. The 2020C Certificates with Certificate Payment Dates on or after June 1, 20__ are subject to optional prepayment prior to their respective Certificate Payment Dates by Valley Water on any date on or after June 1, 20__, upon notice as provided in the Trust Agreement, as a whole or in part in such

* Preliminary, subject to change.

order of maturity as Valley Water may determine, in integral multiples of five thousand dollars (\$5,000), from any source of available funds, at a prepayment price equal to 100% of the principal amount to be prepaid, plus interest, if any, accrued with respect thereto to the date of prepayment, without premium.

Extraordinary Prepayment From Insurance or Condemnation Proceeds. The 2020C Certificates are subject to extraordinary prepayment by Valley Water on any date prior to their respective Certificate Payment Dates, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each Certificate Payment Date, in such order of prepayment as Valley Water may determine, in integral multiples of Authorized Denominations, from payments made by Valley Water from the net proceeds received by Valley Water due to the damage, destruction or condemnation of all or any portion of the Water Utility System under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and in the Installment Purchase Agreement, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the 2020C Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Selection of 2020C Certificates for Prepayment. If less than all Outstanding 2020C Certificates maturing by their terms on any one date are to be prepaid at any one time, and no other method of selection is specified in the Trust Agreement, the Trustee will select the 2020C Certificates of such maturity date to be prepaid in any manner that it deems appropriate and fair. For purposes of such selection, 2020C Certificates shall be deemed to be composed of \$5,000 multiples and any such multiple may be separately prepaid or redeemed. In the event the 2020C Term Certificates are designated for prepayment, Valley Water may designate which sinking account payments are allocated to such prepayment.

Prepayment of 2020D Certificates

Optional Prepayment. The 2020D Certificates with Certificate Payment Dates on or after June 1, 20__ are subject to optional prepayment prior to their respective Certificate Payment Dates by Valley Water on any date on or after June 1, 20__, upon notice as provided in the Trust Agreement, as a whole or in part in such order of maturity as Valley Water may determine, in integral multiples of five thousand dollars (\$5,000), from any source of available funds, at a prepayment price equal to 100% of the principal amount to be prepaid, plus interest, if any, accrued with respect thereto to the date of prepayment, without premium.

Optional Prepayment With Make-Whole Payment. The 2020D Certificates shall be subject to prepayment prior to June 1, 20__ at the option of Valley Water, as a whole or in part on any Business Day in the order of maturity as directed in a Written Request of Valley Water provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date at the “Make-Whole Prepayment Price.” The “Make-Whole Prepayment Price,” as determined by Valley Water, is the greater of (1) 100% of the principal amount of the 2020D Certificates to be prepaid; or (2) the sum of the present value of the remaining scheduled payments of principal of and interest to the maturity date on the 2020D Certificates to be prepaid, not including any portion of those payments of interest with respect thereto accrued and unpaid as of the date on which the 2020D Certificates are to be prepaid, discounted to the date on which the 2020D Certificates are to be prepaid on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus the Applicable Spread, in each case plus accrued and unpaid interest on the 2020D Certificates to be prepaid on the Prepayment Date.

The term “Applicable Spread” means, (i) with respect to the 2020D Certificates maturing on June 1, 20__, through June 1, 20__, inclusive, __ basis points; and (ii) with respect to the 2020D Certificates maturing on June 1, 20__, through June 1, 20__, inclusive, __ basis points.

Extraordinary Prepayment From Insurance or Condemnation Proceeds. The 2020D Certificates are subject to extraordinary prepayment by Valley Water on any date prior to their respective Certificate Payment Dates, upon notice as provided in the Trust Agreement, as a whole or in part, in such order of prepayment as Valley Water may determine, in integral multiples of Authorized Denominations, from

payments made by Valley Water from the net proceeds received by Valley Water due to the damage, destruction or condemnation of all or any portion of the Water Utility System under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and in the Installment Purchase Agreement, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the 2020D Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Selection of 2020D Certificates for Prepayment. If the Series 2020D Certificates are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Series 2020D Certificates, if less than all of the Series 2020D Certificates of a maturity are called for prior optional prepayment, the particular Series 2020D Certificates or portions thereof to be prepaid shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the Series 2020D Certificates are held in book-entry form, the selection for prepayment of such Series 2020D Certificates shall be made in accordance with the operational arrangements of DTC then in effect and if the DTC operational arrangements do not allow prepayment on a *Pro Rata* Pass-Through Distribution of Principal basis, the Series 2020D Certificates will be selected for prepayment in accordance with DTC procedures by lot and in integral multiples of \$5,000.

Notice of Prepayment

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

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

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

Effect of Prepayment. If notice of prepayment has been duly given as aforesaid and money for the payment of the prepayment price of the Certificates called for prepayment is held by the Trustee, then on the

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

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES

Pledge of Water Utility System Revenues

Pursuant to the Parity Master Resolution, Valley Water has continued and agreed to maintain, so long as any Bonds or Contracts remain outstanding, the Water Utility System Revenue Fund. Valley Water has covenanted that all Water Utility System Revenues received by Valley Water will be deposited in the Water Utility System Revenue Fund. 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 Valley Water.

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

The 2020 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, Valley Water will transfer Net Water Utility System Revenues from the Water Utility System Revenue Fund to the Trustee to pay the principal of and interest on the 2020 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 2020 Bonds.

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

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

than Current Water Utility System Revenues, less (iii) any Current Water Utility System Revenues transferred from the Water Utility System Revenue Fund to the Rate Stabilization Fund.

Current Water Utility System Revenues are defined by the Parity Master Resolution to be, for any Fiscal Year or other period, (1) all gross income and revenue of the Water Utility System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees, contributions in aid of construction legally available for Debt Service, and charges and standby or water availability charges), amounts allocated to Valley Water pursuant to Article XIII A of the Constitution of the State of California and Section 95 et seq. of the California Revenues and Taxation Code (or any successor or supplementary provisions) and allocated by the Board of Directors of Valley Water to the Water Utility System and all other income and revenue howsoever derived by Valley Water from the ownership or operation of the Water Utility System or arising from the Water Utility System, (2)(a) all income from the deposit or investment of any money in the Water Utility System Revenue Fund and the Rate Stabilization Fund and (b) all income from the investment of money held in any construction or acquisition fund established pursuant to a Trust Agreement to the extent such income is required to be deposited in the Water Utility System Revenue Fund, and (3) deposits to the Water Utility System Revenue Fund from amounts on deposit in Special Purpose Funds made in accordance with the Parity Master Resolution; but excluding benefit assessments and proceeds of taxes, including but not limited to proceeds of taxes levied to pay costs with respect to the State Water Project, and excluding also any refundable deposits made to establish credit and advances or contributions in aid of construction.

Net Water Utility System Revenues are defined by the Parity Master Resolution to be, for any Fiscal Year or other period, the Water Utility System Revenues during such Fiscal Year or period less the Maintenance and Operation Costs and less the principal and interest with respect to Senior Obligations payable during such Fiscal Year or period. The obligation of Valley Water to pay the principal of and interest on the 2020 Bonds and to make Installment Payments from Net Water Utility System Revenues is absolute and unconditional.

THE OBLIGATION OF VALLEY WATER TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2020 BONDS AND TO MAKE THE INSTALLMENT PAYMENTS WITH RESPECT TO THE CERTIFICATES IS A LIMITED OBLIGATION OF VALLEY WATER PAYABLE SOLELY FROM NET WATER UTILITY SYSTEM REVENUES OF VALLEY WATER'S WATER UTILITY SYSTEM AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF VALLEY WATER, THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED FOR THE PAYMENT OF THE 2020 BONDS AND THE INSTALLMENT PAYMENTS. THE OBLIGATION OF VALLEY WATER TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2020 BONDS AND TO MAKE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DO NOT CONSTITUTE INDEBTEDNESS OF VALLEY WATER IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION.

Allocation of Water Utility System Revenues

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

Senior Master Resolution. So long as the Senior Obligations are outstanding, Valley Water 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 Valley Water shall require to provide for the payment of Maintenance and Operation Costs;

(b) To each Trustee to pay Debt Service at the times and in the amounts required by the Senior Obligations;

(c) To each Trustee for deposit in the reserve funds created with respect to Senior Obligations an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Senior Obligations reserve funds as and to the extent required by the applicable Senior Obligation;

(d) On any date prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the Water Utility System (including payment of the principal of and interest on the 2020 Bonds and the payment of the Installment Payments); 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 Valley Water.

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

Parity Master Resolution. On and after the date no Senior Obligations are outstanding, Water Utility System Revenues will be allocated only as provided in the Parity Master Resolution to the following purposes, at the following times and in the following order of priority:

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

(b) to pay Debt Service at the times and in the amounts required by applicable Bonds or Contracts or the trust agreements securing each Bond or Contract;

(c) to each trustee for deposit in the applicable reserve fund with respect to such Bonds or Contracts, if any, an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Bond or Contract reserve fund as and to the extent required by the applicable Bond or Contract or the resolutions, trust agreements, indentures or other instruments securing each Bond or Contract;

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

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

Rate Covenant

Senior Obligations. Valley Water has covenanted in the Senior Master Resolution to fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield during each Fiscal Year (i) Current Water Utility System Revenues in an amount sufficient to meet the Maintenance and Operation Costs and the Debt Service for the then current Fiscal Year, and (ii) Net Water Utility System Revenues shall be at least 1.25 times the sum of all Debt Service and Net Water Utility System Revenues shall be at least 1.10 times the sum of all Debt Service on all Bonds and Contracts plus all debt service on all obligations subordinate to Bonds and Contracts; but, in any event such Net Water Utility System Revenues shall be sufficient in each Fiscal Year to

make all of the allocations, transfers and payments to pay Debt Service on Bonds and Contracts and to replenish any reserve fund established with respect to such Bonds and Contracts. **Defined terms used in the foregoing rate covenant under the Senior Master Resolution shall have the meanings set forth Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION” and differ in certain respects from similar definitions in the Parity Master Resolution.**

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

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

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

So long as Valley Water has complied with 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 2020 Bonds and Certificates

No reserve fund has been created with respect to the 2020 Bonds or with respect to the Certificates.

Rate Stabilization Fund

The Parity Master Resolution establishes a special fund designated as the “Rate Stabilization Fund” to be held by Valley Water in trust. Valley Water 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 Valley Water 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 2020 Bonds and the Installment Purchase Agreement; provided that amounts on deposit in the Rate Stabilization Fund may be apportioned for such purposes as are expressly permitted in the Parity Master Resolution. Such pledge constitutes a first lien on amounts on deposit in the Rate Stabilization Fund for the payment of Contracts and Bonds in accordance with the terms of the Parity Master Resolution.

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

Under certain circumstances, moneys received in one Fiscal Year may be required or permitted by generally accepted accounting principles applicable to governmental agencies such as Valley Water to be recorded as revenue in a subsequent Fiscal Year, regardless of whether such moneys have been deposited in the Rate Stabilization Fund. See “Appendix A — AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019 AND COMPLIANCE LETTER.”

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, 2020, there was approximately \$26.1 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 Valley Water.

All amounts on deposit in Special Purpose Funds and the Special Purpose Funds are irrevocably pledged to the payment of the Bonds and Contracts, including the 2020 Bonds and the Installment Purchase Agreement, as provided in the Parity Master Resolution; provided that amounts on deposit in the Special Purpose Funds there may be apportioned for such purposes as are expressly permitted therein. Such pledge constitutes a first lien on amounts on deposit in the Special Purpose Funds for the payment of Contracts and Bonds in accordance with the terms of the Parity Master Resolution.

Valley Water may withdraw all or any portion of the amounts on deposit in a Special Purpose Fund and transfer such amounts to the Water Utility System Revenue Fund upon a determination by resolution of the Board of Directors of Valley Water substantially to the effect that (a) (i) non-routine expenditures resulting from extraordinary events, including but not limited to droughts and natural disasters, are reasonably expected to be incurred, and (ii) reduced Current Water Utility System Revenues have resulted from such an extraordinary event, (b) application of amounts on deposit in one or more Special Purpose Funds to the payment of such expenditures is financially prudent and necessary, and (c) the Board of Directors has adopted a budget amendment, if necessary, to reflect such expenditures and the transfer of such amounts from Special Purpose Funds to the Water Utility System Revenue Fund. Amounts transferred from Special Purpose Funds to the Water Utility System Revenue Fund during or within 270 days after the end of a Fiscal Year, may be taken into account as Current Water Utility System Revenues for purposes of the calculations to issue additional Bonds or execute additional Contracts and for the calculations described under “—Rate Covenant” above.

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.

Valley Water has designated the Drought Reserve, the San Felipe Emergency Reserve, the Advanced Water Purification Center Reserve, the Public-Private Partnership Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of June 30, 2020, there was approximately \$29.9 million on deposit in such Special Purpose Funds.

Additional Bonds and Contracts

No Senior Obligations. Valley Water 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. Valley Water may at any time incur or issue additional Bonds or Contracts (that is, obligations the payments of which are payable from the Water Utility System Revenues on a parity with the 2020 Bonds and the Installment Purchase Agreement), provided:

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

(b) The estimated Net Water Utility System Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project, as evidenced by a certificate of an Authorized Officer of Valley Water on file with Valley Water, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Water Utility System Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for the Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of an Authorized Officer on file with Valley Water, shall produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

Notwithstanding the foregoing, Bonds may be issued or Contracts may be executed to refund outstanding Bonds, 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.

As of July 1, 2020, Valley Water has tax and revenue notes ("TRANS") outstanding in the amount of \$360,000,000 securing the Commercial Paper Certificates which are payable from Net Water Utility System Revenues subordinate to the 2020 Bonds and other Bonds and Contracts. After the issuance of the 2020 Bonds and the execution and delivery of the Certificates and payment of the Commercial Paper Certificates issued to finance projects for the Water Utility System, Valley Water will have approximately \$30,000,000 in Commercial Paper Certificates issued to finance projects for the Safe, Clean Water program outstanding. See the caption "DEBT STRUCTURE OF VALLEY WATER—Short-Term Indebtedness" below for a description of the letter of credit which supports Valley Water's commercial paper program.

Subordinate Obligations. Valley Water may incur obligations secured by a pledge of Water Utility System Revenues, the Water Utility System Revenue Fund and all amounts on deposit in the Water Utility System Revenue Fund 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 2020 Bonds and the Installment Payments.

DEBT SERVICE SCHEDULE

Set forth below is a schedule of debt service with respect to the 2020 Bonds, the Installment Payments with respect to the Certificates and the schedule debt service of 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 August 1, 2020 for Senior Obligations and Other Parity Obligations)

| Year Ending June 30 | Senior Obligations ⁽²⁾ | Bonds | | | | | Installment Payments | | | | | Other Parity Obligations ⁽³⁾ | Total |
|---------------------------|--------------------------------------|----------------|-----------------|----------------|-------|-----------------|----------------------|-----------------|----------------|-------|----------------|--|-------|
| | Series 2020A | | Series 2020B | | Total | Series 2020C | | Series 2020D | | Total | | | |
| | Principal \$ | Interest \$ | Principal \$ | Interest \$ | | Principal \$ | Interest \$ | Principal \$ | Interest \$ | | | | |
| 2021 | \$1,781,101 | | | | | | | | | | \$ 31,865,367 | \$ | |
| 2022 | 1,780,418 | | | | | | | | | | 32,118,215 | | |
| 2023 | 1,777,344 | | | | | | | | | | 32,115,901 | | |
| 2024 | 1,776,880 | | | | | | | | | | 32,095,992 | | |
| 2025 | 1,778,760 | | | | | | | | | | 32,088,969 | | |
| 2026 | 1,782,718 | | | | | | | | | | 32,084,345 | | |
| 2027 | 1,778,490 | | | | | | | | | | 32,067,655 | | |
| 2028 | 1,776,339 | | | | | | | | | | 32,060,833 | | |
| 2029 | 1,776,002 | | | | | | | | | | 32,054,912 | | |
| 2030 | 1,777,211 | | | | | | | | | | 32,052,131 | | |
| 2031 | 1,779,702 | | | | | | | | | | 32,040,621 | | |
| 2032 | 1,408,210 | | | | | | | | | | 28,615,205 | | |
| 2033 | 1,407,387 | | | | | | | | | | 28,604,549 | | |
| 2034 | 1,408,378 | | | | | | | | | | 28,600,049 | | |
| 2035 | 1,405,915 | | | | | | | | | | 27,439,888 | | |
| 2036 | -- | | | | | | | | | | 26,597,753 | | |
| 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 | \$25,194,855 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ 715,388,884 | \$ | |

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

⁽²⁾ 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, the 2019AB Bonds and the 2019C Bonds and the outstanding installment payments under the 2016 Installment Purchase Agreement. See the caption "DEBT STRUCTURE OF VALLEY WATER."

VALLEY WATER

Organization, Purpose and Powers

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

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

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

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

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

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

Some of the water retailers within Valley Water’s service area also receive supplies from the San Francisco Public Utilities Commission through the Bay Division Pipelines (“SFPUC” or “Hetch Hetchy”). Additional storage and supply is provided by San Jose Water Company, which owns and operates two small surface water reservoirs, Williams and Elsmar, and two small water treatment plants within the County. Some local governmental agencies operate water reclamation projects. Valley Water does not receive revenue from

the sale of water from the SFPUC water source, San Jose Water Company local water sources or wastewater reclamation sources other than the Gilroy Reclamation Facility.

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

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

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

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

John L. Varela (District 1): Mr. Varela was reelected 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. 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 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 Valley Water. During her tenure at Valley Water, she first progressed through the engineering career path from Assistant Engineer to Senior Engineer to one of Valley Water's Chief Operating Officers. In such capacity, Ms. Hsueh was responsible for managing and implementing Valley Water's capital improvement program to support its water supply, flood protection and environmental stewardship missions. Ms. Hsueh is a registered civil engineer in California and received her bachelor's degree in agricultural engineering from National Taiwan University and her master's degree in hydraulic engineering from the University of Iowa. District 5 includes portions of Cupertino, San Jose, Saratoga and Sunnyvale.

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

Gary Kremen (District 7): Mr. Kremen was reelected to the Board in 2018. Mr. Kremen is an engineer with more than 30 years of experience starting and mentoring companies that change people's lives. He invented online dating (founding Match.Com), founded Clean Power Finance (now Spruce Finance), and co-founded Pace Avenue. Mr. Kremen is the incubator, founding investor, and Chairman of the County's leading water conservation company, WaterSmart Software. Mr. Kremen 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 Valley Water, Gary has also served as President of the Board of Directors of Purissima Hills Water District. He was appointed as a member of the Proposition 39, California Clean Energy Jobs Act Citizen's Oversight Board. He has an MBA from Stanford University as well as degrees in Electrical Engineering and Computer Science from Northwestern University. District 7 includes Palo Alto, Los Altos, Los Altos Hills, Mountain View, Monte Sereno, Los Gatos, and the southernmost portion of San Jose.

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

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

Melanie Richardson, Assistant Chief Executive Officer, Operations. Ms. Richardson was appointed as Assistant Chief Executive Officer, Operations in July 2020. Prior to such role, Ms. Richardson was the Chief Operating Officer for Watersheds at Valley Water. She has been with Valley Water for 28 years in the following roles: Associate Civil Engineer, Assistant Operating Officer of Water Supply, Deputy Administrative Officer of Corporate Business Services, and Deputy Operating Officer of Watersheds Design & Construction. Ms. Richardson is a registered Civil Engineer in California and has served as one of the two Designated Engineers for Valley Water.

Stan Yamamoto, District Counsel. Mr. Yamamoto joined Valley Water 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.

Garth Hall, Interim Chief Operating Officer – Water Utility Enterprise. Mr. Hall was hired by Valley Water in April 2014, with over 29 years of experience working with various agencies and companies. Mr. Hall was appointed Deputy Operating Officer of the Water Supply Division in October 2014. Recently he has taken on the role of Acting Chief Operating Officer of the Water Utility Enterprise. Mr. Hall holds a Ph.D. in civil engineering (water resources planning) from South Africa and also earned three graduate degrees from Stanford University. He is a registered civil engineer in California.

Mr. Hall has announced that he will retire in September 2020. District staff is currently screening potential candidates to be appointed as Chief Operating Officer – Water Utility Enterprise after Mr. Hall retires.

Darin Taylor, Chief Financial Officer. Mr. Taylor became Valley Water's Chief Financial Officer effective December 19, 2016, after 15 years as a senior project manager with Valley Water. Mr. Taylor has more than 17 years of governmental financial planning and management experience with Valley Water. Mr. Taylor holds a bachelor's degree in economics from Claremont McKenna College, and a master's degree

in business administration from San Jose State University. Mr. Taylor is a Certified Public Financial Officer, a certification designated by the Government Finance Officers Association.

Sue Tippets, Interim Chief Operating Officer – Watersheds. Ms. Tippets began her career at Valley Water in 1983 in Special Projects working on small capital projects, followed by a long stint in the Community Projects Review Unit reviewing external projects that affect both Water Utility and Watershed facilities. Ms. Tippets was promoted to the Deputy Operating Officer for Watersheds Operations and Maintenance in 2016. Ms. Tippets has a Bachelor's of Science degree in Civil Engineering from San Jose State University and is a registered Civil Engineer.

Tina Yoke, Chief Operating Officer - Information Technology and Administrative Services. Ms. Yoke joined Valley Water in August 2017. Ms. Yoke has over 20 years of experience working in public service. As Chief Operating Officer – 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.

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

Valley Water is undertaking a recruitment process for a permanent Chief of External Affairs. The application process for this position is scheduled to close on August 28, 2020.

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

In June 2020, the Board established two new management positions – the Assistant Chief Executive Officer, Operations and the Assistant Officer, Emergency Security and Safety. The Assistant Chief Executive Officer, Operations will be responsible for representing the Chief Executive Officer and Valley Water in interactions with the public and other organizations, serving as Chief Executive Officer in the absence of the Chief Executive Officer and overseeing and implementing divisional programs, projects and policies. As described above, in July 2020, the Board appointed Melanie Richardson as the Assistant Chief Executive Officer, Operations.

The Assistant Officer, Emergency, Security and Safety is responsible for providing additional support and oversight to Valley Water's Emergency Services & Security Unit and the Environmental, Health & Safety Unit. As of August 1, 2020, such position has not yet been filled.

In response to a May 27, 2020, third-party complaint alleging two Board members engaged in harassment and discrimination of a Valley Water executive, the Valley Water Board Chair authorized the District Counsel to conduct an investigation into the matter in accordance with Valley Water's Governance Policy. Upon the conclusion of the investigation, the Board Chair must make a determination as to whether it is complete. Upon a determination that the investigation is complete, the Board Chair shall provide the Board with any findings and recommendations, and following such findings and recommendations, any individual Board member will have a right to file a request for admonition, sanction or censure. Valley Water cannot predict the timing or outcome of the investigation, and currently does not anticipate any material financial impact arising from the investigation.

Insurance

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

Under this program, Valley Water is responsible for the first \$2,000,000 per occurrence for all General Liability claims. Valley Water also purchases general liability insurance with limits of not less than \$50,000,000 per occurrence and aggregate in excess of its \$2,000,000 self-insured retention.

Valley Water maintains a risk management information system to track claims, litigation and establish claims reserves which are used to derive self-insurance fund requirements. These funding requirements are reviewed by outside actuaries biannually. The last biannual review was completed in October 2018. An updated review is planned for completion before the end of 2020.

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

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

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

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

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

Cyber Liability Insurance. Since June 1, 2015, Valley Water 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—Cybersecurity.”

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

Budgeting Process

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

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

The current budget for Fiscal Year 2020-21 was approved by the Board on May 26, 2020. The Board may consider a mid-year increase in certain rates and charges in September 2020. See the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues— *Water Charge Setting Process.*”

On August 11, 2020 the Board provided direction to implement a rolling biennial operating and capital budget process to be implemented after the completion of the Valley Water enterprise resource planning system upgrades from Peoplesoft to INFOR (see “POTENTIAL INVESTMENT CONSIDERATIONS—Business Process Management Software/Enterprise Resource Planning Implementation”). The two-year rolling biennial budget process is currently expected to be implemented starting in Fiscal Year 2022-23. When the biennial budget process is implemented, the Board will adopt the first year budget and approve a forecast for the following year. In the second year, the Board will adopt the budget for the next new Fiscal Year and a forecast for the following year such that the budget process will continue to “roll” forward with a budget and forecast to be approved by the Board annually. The annual approval of the rolling biennial budget process is in compliance with the District Act, Valley Water Policies and State guidance. Valley Water believes the implementation of a rolling biennial operating and capital budget process is conducive to long-term planning while remaining responsive to the dynamic and ever-changing needs of the organization.

PAWS Report

In compliance with the Law, Valley Water prepares an Annual Report on the Protection and Augmentation of Water Supplies which provides an analysis of Valley Water’s present and future water requirements and supply reliability, programs to promote reliability and an overview of Valley Water’s future capital improvements, maintenance and operating requirements. This report also generally forms the basis on which Valley Water proposes its groundwater production and water charges for the next fiscal year. See

caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Water Charge Setting Process*” for more information with respect to Valley Water’s rate-setting process.

On February 28, 2020, Valley Water released its Annual Report on the Protection and Augmentation of Water Supplies for 2020 (the “2020 PAWS Report”). On February 20, 2020, the Federal Energy Regulatory Commission issued a directive (the “FERC Directive”) requiring Valley Water to immediately lower the elevation of Anderson Reservoir to 565 feet and to further lower the reservoir to 488 feet starting on October 1, 2020. Such elevations are based on and relative to a standard point of reference (the North American Vertical Datum) and 488 feet equates to approximately 2,820 acre-feet of volume for Anderson Reservoir. See the caption “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive.” As a result of the required timing for the release of the 2020 PAWS Report, the report did not account for the effect of the FERC Directive. As described below under “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive,” Valley Water does not expect compliance with the FERC Directive to have a material adverse effect on its ability to pay debt service on the 2020 Bonds or the Installment Payments.

In addition, to mitigate the impact of federal, State and local actions with respect to the COVID-19 pandemic on the communities within Valley Water’s service area (see the caption “INVESTMENT CONSIDERATIONS— COVID-19 Pandemic”), the Board did not adopt the Fiscal Year 2020-21 rate increases to groundwater production and other water charges included in the 2020 PAWS Report. See “WATER UTILITY SYSTEM—Primary Sources of Revenues— *Water Charge Setting Process*.”

Copies of the 2020 PAWS Report may be obtained from Valley Water’s website, however, the contents of the 2020 PAWS Report are not incorporated by reference herein.

DEBT STRUCTURE OF VALLEY WATER

Long-Term Indebtedness

Valley Water's long-term debt outstanding as of August 1, 2020, consisted of the following:

SCHEDULE OF LONG-TERM INDEBTEDNESS (Dollars In Thousands) (as of August 1, 2020)

| <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 | <u>\$ 17,340,000</u> |
| Total Senior Water System Obligations | | <u>\$ 17,340,000</u> |
| Water Utility System Parity Obligations: | | |
| Water System Refunding Revenue Bonds, Series 2016A and Taxable Series 2016B | 2046 | \$181,530,000 |
| Revenue Certificates of Participation(Water Utility System Improvement Projects), Series 2016C and Taxable Series 2016D | 2029 | 79,155,000 |
| Water System Refunding Revenue Bonds, Series 2017A | 2037 | 49,630,000 |
| Water System Refunding Revenue Bonds, Series 2019A and Taxable Series 2019B | 2049 | 93,395,000 |
| Water System Refunding Revenue Bonds, Series 2019C | 2036 | <u>36,990,000</u> |
| Total Parity Water System Obligations | | <u>\$440,700,000</u> |
| All Other Debt Not Secured by Water Utility System Revenues: | | |
| 1994 Installment Purchase Agreement ⁽¹⁾ | 2030 | \$ 21,015,000 |
| 1995 Installment Purchase Agreement ⁽²⁾ | 2030 | <u>44,480,000</u> |
| Total Other Debt | | <u>\$ 65,495,000</u> |
| Total Long-Term Indebtedness | | <u>\$523,535,000</u> |

⁽¹⁾ Installment payments under the Installment Purchase Agreement dated as of June 15, 1994 (the "1994 Installment Purchase Agreement"), by and between Valley Water and the Corporation, secure Valley Water's Refunding and Improvement Certificates of Participation Series 2012A (the "2012A Certificates") and a portion of Valley Water's Refunding and Improvement Certificates of Participation, Series 2017A (the "2017A Certificates"). Proceeds of the 2012A Certificates and 2017A Certificates were used to finance and refinance Valley Water's Flood Control System facilities.

⁽²⁾ Installment payments under the Installment Purchase Agreement dated as of June 27, 1995 (the "1995 Installment Purchase Agreement"), by and between Valley Water and the Corporation, secure a portion of the 2017A Certificates.

Source: Valley Water.

Short-Term Indebtedness

Valley Water may issue from time to time TRANs to secure Valley Water'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 Valley Water for the then-current Fiscal Year and which are lawfully available for the payment of current expenses and other obligations of Valley Water. The obligation of Valley Water to make payments of principal and interest on the TRANs is a general obligation of Valley Water. Valley Water has additionally pledged Net Water Utility System Revenues on a subordinate basis to Bonds and Contracts (as defined in the Parity Master Resolution), in accordance with the Parity Master Resolution.

The current TRANs in the aggregate principal amount of \$360 million, which secure the Commercial Paper Certificates, are dated July 1, 2020 and mature on October 1, 2021. As of August 15, 2020, Valley

Water had \$129.3 million in Commercial Paper Certificates outstanding which were issued to finance the following projects: \$99.3 million for Water Utility System projects and \$30.0 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 \$360 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. Valley Water could enter into additional agreements to obtain credit facilities in excess of the \$150 million under the Letter of Credit to support its Commercial Paper Certificates program. As of the date of this Official Statement, Valley Water does not have any expectation to obtain such additional credit facilities. Notwithstanding the foregoing, there can be no guarantee that Valley Water will be able to renew the Letter of Credit or obtain similar credit facilities in the future to support a commercial paper program such as the Commercial Paper Certificates. 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.

Valley Water has solicited and received proposals from banking institutions with respect to a Certificate Purchase and Reimbursement Agreement (the “Reimbursement Agreement”) pursuant to which Valley Water could issue Revolving Commercial Paper Certificates (the “Revolving Certificates”) to the banking institution selected. Valley Water currently expects to enter into the Reimbursement Agreement for the Revolving Certificates in late 2020. If the Reimbursement Agreement is executed and delivered, the TRANs is expected to also secure the Revolving Certificates and certain amounts payable under the Reimbursement Agreement. No assurances can be made that Valley Water will enter into the Reimbursement Agreement or with respect to final terms of the Reimbursement Agreement, if entered into.

WATER UTILITY SYSTEM

Service Area

Valley Water’s service area encompasses all of Santa Clara County, one of nine counties that make up the San Francisco Bay area. The service area is approximately 1,330 square miles and constitutes a major portion of “Silicon Valley.” According to the U.S. Census Bureau, the County’s estimated population increased by approximately 8.2% between April 1, 2010 and July 1, 2019 to a total of approximately 1,928,000. Of the approximately 320,000 acre-feet of water used in the County on average annually, Valley Water estimates that approximately 50 percent of water use is residential, 20 percent is commercial, 10 percent is industrial, 10 percent is agricultural, 5 percent is public water use, and 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 Valley Water, local groundwater pumped by the water retailers and individual well owners, water provided by the SFPUC, local surface water, and recycled water.

Primary Sources of Revenues

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

Groundwater Charges. The Board has the power to, and does, levy and collect a groundwater charge for the production of water from the groundwater supplies within zones of Valley Water that will benefit from the recharge of groundwater supplies or the distribution of imported water in such zones. Prior to July 1, 2020, Valley Water set and levied groundwater charges within two zones (one in the northern area of the County and one in the southern area). As described under the caption “*Water Charge Setting Process*” below, effective July 1, 2020, Valley Water modified the zone in the northern area of the County and partitioned the zone in the southern area of the County into three zones. Valley Water prepares an annual PAWS report supporting the basis for the groundwater charges that are adopted. The charges are levied upon the production of groundwater from all water-producing facilities, 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.

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

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

Under the Law, an annual PAWS report is to be filed with the Clerk of the Board on or before the first Tuesday in April. A noticed public hearing must be held on or before the fourth Tuesday in April. In addition, all well owners on record are notified of the public hearing at least 45 days in advance. Groundwater production charges must be determined for the ensuing fiscal year prior to July 1. For each 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 Valley Water’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 Valley Water activities to protect and augment groundwater supplies in the applicable zone. As provided for in the annual PAWS report, staff describes those benefits and costs which are apportioned to the zones of benefit by customer class.

To mitigate the impact of the COVID-19 pandemic on the communities within Valley Water’s service area (see the caption “INVESTMENT CONSIDERATIONS— COVID-19 Pandemic”), the Board did not adopt any increases to groundwater production and other water charges for Fiscal Year 2020-21. The Board

did adopt the following rate decreases for Fiscal Year 2020-21: (i) with respect to the non-agricultural groundwater production charge in Zone W-5, the Board approved a 2.9% rate decrease to \$467 per acre-foot; (ii) with respect to the non-agricultural groundwater production charge in Zone W-8, the Board approved a 32% rate decrease to \$327 per acre-foot; (iii) with respect to the non-agricultural surface water charge in Zone W-5, the Board approved a 2.7% rate decrease to \$504.50 per acre-foot; (iv) with respect to the non-agricultural surface water charge in Zone W-8, the Board approved a 29.7% rate decrease to \$364.50 per acre-foot; and (v) with respect to the non-agricultural reclaimed water charge in Zone W-5, the Board approved a 3.0% rate decrease to \$447.00 per acre-foot. See the caption “—*Projected Rates and Charges*” below. Valley Water expects that the currently approved rates and charges for Fiscal Year 2020-21 will produce Current Water Utility System Revenues and Net Water Utility System Revenues as required to satisfy the rate covenants described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES—Rate Covenant.”

The projected operating results under the caption “FINANCIAL INFORMATION OF VALLEY WATER—Historical and Projected Operating Results and Debt Service Coverage” for Fiscal Year 2020-21 are based on the adopted Fiscal Year 2020-21 budget, which reflects the adopted rate adjustments described above. The projected operating results for Fiscal Years 2021-22 through 2023-24 reflect the effect of the forecasted rate increases in the 2020 PAWS Report for such Fiscal Years, however, no assurances can be made that the Board will adopt rates increases consistent with the 2020 PAWS Report for such Fiscal Years.

The Board is expected to make a decision by the end of September 2020 as to whether any actions need to be taken to address the budgetary impact of the rate action for Fiscal Year 2020-21 described above. The possible actions to address such impact include: (1) a mid-year rate increase for Fiscal Year 2020-21 that would become effective on January 1, 2021; (2) postponement of certain capital expenditures or reductions to the operating and capital budget to offset the financial impact of not increasing rates in Fiscal Year 2020-21; or (3) larger rate increases in Fiscal Year 2021-22 and beyond to recoup the revenue lost due to foregoing the rate increase in Fiscal Year 2020-21. The Board may decide to take other actions to adjust revenues and expenditures during Fiscal Year 2020-21 and/or future years to address the effect of the budgetary impacts of the rate action for Fiscal Year 2020-21. Depending on the action taken, if any, actual debt service coverage levels could vary from the debt service coverage levels set forth in the projected operating results under the caption “FINANCIAL INFORMATION OF VALLEY WATER—Historical and Projected Operating Results and Debt Service Coverage” and such variance could be material.

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 (which were based on the configuration of such zones prior to the adjustments effective July 1, 2020 as described above under the caption “—*Water Charge Setting Process*”). The treated water deliveries are all for municipal and industrial water use. The non-contract treated water may be available at the discretion of Valley Water to encourage more treated water use and reduce groundwater pumping to maintain local aquifer storage. The water charges for the northern area of the County are higher than the southern area because the three water treatment plants and most of the distribution system service the northern area of the County. The southern area depends solely on groundwater, raw surface water, and recycled water, rather than treated water. See the caption “VALLEY WATER FACILITIES—Groundwater Subbasins” for a description of the groundwater basins managed by Valley Water.

**HISTORICAL WATER RATES
(DOLLARS (\$) PER ACRE-FOOT)⁽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> |
| 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 |
| 2019-20 ⁽²⁾ | W-2 | 1,374.00 | 28.86 | 1,574.00 | 1,474.00 | 1,411.50 | 66.36 | - | - |
| | W-5 | 481.00 | 28.86 | - | - | 518.50 | 66.36 | 461.00 | 56.26 |

⁽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 per prior Board action. The agricultural rates for surface water include certain surcharges.

⁽²⁾ Due to lower surface water supplies, non-contract treated water rates were higher than contract rates in Fiscal Years and 2015-16 and 2019-20 to incentivize retail customers to not take more water than their contract allotment.

Source: Valley Water.

Projected Rates and Charges. The water charges listed in the following table are the approved agricultural and non-agricultural water charges by Valley Water for Zones W-2, W-5, W-7 and W-8 for Fiscal Year 2020-21 and projected charges for Fiscal Years 2021-22 through 2023-24 based on the 2020 PAWS Report. With the exception of Fiscal Year 2020-21, the projected water charges set forth below have not been approved by the Board. As described under the caption “—*Water Charge Setting Process*” above, effective July 1, 2020, the area that was within Zone W-5 has been partitioned into three zones.

**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> |
| 2020-21 ⁽²⁾⁽³⁾ | W-2 | \$1,374.00 | \$28.86 | \$1,574.00 | \$1,474.00 | \$1,411.50 | \$66.36 | - | - |
| | W-5 | 467.00 | 28.86 | - | - | 504.50 | 66.36 | \$447.00 | \$56.26 |
| | W-7 | 481.00 | 28.86 | - | - | 518.50 | 66.36 | - | - |
| | W-8 | 327.00 | 28.86 | - | - | 364.50 | 66.36 | - | - |
| 2021-22 ⁽⁴⁾ | W-2 | 1,620.00 | 86.00 | 1,820.00 | 1,770.00 | 1,660.87 | 126.87 | - | - |
| | W-5 | 491.00 | 86.00 | - | - | 531.87 | 126.87 | 471.00 | 113.40 |
| | W-7 | 575.00 | 86.00 | - | - | 615.87 | 126.87 | - | - |
| | W-8 | 344.00 | 86.00 | - | - | 384.87 | 126.87 | - | - |
| 2022-23 ⁽⁴⁾ | W-2 | 1,760.00 | 90.47 | 1,960.00 | 1,910.00 | 1,802.67 | 133.14 | - | - |
| | W-5 | 517.00 | 90.47 | - | - | 559.67 | 133.14 | 497.00 | 117.87 |
| | W-7 | 629.00 | 90.47 | - | - | 671.67 | 133.14 | - | - |
| | W-8 | 362.00 | 90.47 | - | - | 404.67 | 133.14 | - | - |
| 2023-24 ⁽⁴⁾ | W-2 | 1,911.00 | 95.18 | 2,111.00 | 2,061.00 | 1,955.80 | 139.98 | - | - |
| | W-5 | 544.00 | 95.18 | - | - | 588.80 | 139.98 | 524.00 | 122.57 |
| | W-7 | 688.00 | 95.18 | - | - | 732.80 | 139.98 | - | - |
| | W-8 | 381.00 | 95.18 | - | - | 425.80 | 139.98 | - | - |
| 2024-25 ⁽⁴⁾ | W-2 | 2,075.00 | 100.13 | 2,275.00 | 2,225.00 | 2,122.04 | 147.17 | - | - |
| | W-5 | 572.00 | 100.13 | - | - | 619.04 | 147.17 | 552.00 | 127.52 |
| | W-7 | 752.00 | 100.13 | - | - | 799.04 | 147.17 | - | - |
| | W-8 | 401.00 | 100.13 | - | - | 448.04 | 147.17 | - | - |

⁽¹⁾ The projected agricultural rates shown for groundwater, surface water and reclaimed water are 6% of the projected Zone W-7 non-agricultural (municipal and industrial) groundwater rates in Fiscal Year 2020-21 and includes certain surcharges for surface water. In all subsequent Fiscal Years, the projected agricultural rates shown for groundwater, surface water and reclaimed water are 25% of the projected Zone W-8 non-agricultural (municipal and industrial) groundwater rates and includes certain surcharges for surface 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, 2020. Differs from rates shown in 2020 PAWS Report. See the caption "PAWS Report."

⁽⁴⁾ Such rates have not been approved by the Board.

Source: Valley Water.

Historical Water Deliveries and Sources of Water Delivered. Valley Water records the volume of water delivered by Valley Water. The following tables present a summary of historical water deliveries by fiscal year and the sources of water supply by calendar year for the five most recent years. The tables below do not include natural groundwater recharge, SFPUC managed water, recycled water produced by Palo Alto, Sunnyvale or South Bay Water Recycling, or San Jose Water Company or Stanford local surface water. Valley Water estimates that natural groundwater recharge between 2015 and 2019 provided an average of approximately 49,000 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> |
|---------------------------------------|---------------------------------------|--------------------|--------------|-----------------------------------|
| 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 | 203,769 | 27,883 | 231,652 | 7.57 |
| 2019 | 189,420 | 26,688 | 216,108 | (6.71) |

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 Imported Water⁽⁷⁾</i> | <i>Other⁽⁸⁾</i> | <i>Total</i> |
|--------------------------|--|---|---|--|---|----------------------------|--------------|
| 2015 | 40,400 | 43,700 | (600) | 54,400 | 17,300 | 2,400 | 157,600 |
| 2016 | 97,800 | 64,100 | 90 | 71,300 | 37,900 | 2,000 | 273,190 |
| 2017 ⁽⁹⁾ | 506,100 | 80,000 | 960 | 33,400 | 2,500 | 1,900 | 624,860 |
| 2018 | 36,000 | 108,800 | (80) | 59,000 | 17,000 | 2,000 | 222,720 |
| 2019 | 213,200 | 79,500 | 420 | 21,300 | 8,800 | 2,000 | 325,320 |

⁽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⁾ All CVP contract water is delivered through the South Bay Aqueduct and San Felipe Division in the County.

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

⁽⁶⁾ All SWP contract water is delivered through the South Bay Aqueduct and San Felipe Division in the County.

⁽⁷⁾ Includes all non-contract water (CVP, SWP, and non-project water transfers and exchanges) delivered through the South Bay Aqueduct and San Felipe Division.

⁽⁸⁾ Includes recycled water produced by South County Regional Wastewater Authority.

⁽⁹⁾ Calendar year 2017 was one of the wettest hydrological years on record, which resulted in substantially increased local surface water inflows. Local surface water has been adjusted to reflect updated modeling assumptions. Valley Water estimates that approximately 400,000 acre-feet of supplies was released to the environment or flowed to the San Francisco Bay.

Source: Valley Water.

In 2015, water sources for Valley Water 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, Valley Water offsets certain reductions in CVP and SWP allocations through exchanges, transfers, and other supplemental supplies. See the caption "FACTORS AFFECTING WATER SUPPLIES — California Drought Management

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

water runoff. Increased sources during years of wet hydrological conditions may be stored for delivery during years of dry hydrological conditions. The water stored in the groundwater subbasins managed by Valley Water during years of wet hydrological conditions accounts for a substantial amount of the difference between the volume of deliveries and the volume of sources in years of dry hydrological conditions. See the captions “VALLEY WATER FACILITIES – Groundwater Subbasins” and “SANTA CLARA COUNTY WATER SUPPLY.”

Projected Water Deliveries and Sources of Water Delivered. The following tables present a summary of projected water deliveries by fiscal year and sources of water supply by calendar year for the next five years. The tables below do not include natural groundwater recharge, SFPUC managed water, recycled water produced by Palo Alto, Sunnyvale, or South Bay Water Recycling, or San Jose Water Company or Stanford local surface water. Valley Water estimates that natural groundwater recharge will provide an average of approximately 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> |
|---------------------------------------|---------------------------------------|---------------------|--------------|---------------------------------|
| 2020 ⁽¹⁾ | 197,890 | 27,590 | 225,480 | 8.59% |
| 2021 | 202,458 | 27,544 | 230,002 | 2.01 |
| 2022 | 204,758 | 27,544 | 232,302 | 1.00 |
| 2023 | 205,683 | 27,588 | 233,271 | 0.42 |
| 2024 | 206,510 | 27,588 | 234,098 | 0.35 |

Sources

| <i>Calendar Year⁽²⁾</i> | <i>Local Surface Water⁽²⁾</i> | <i>Central Valley Project⁽²⁾</i> | <i>State Water Project⁽²⁾</i> | <i>Other⁽³⁾</i> | <i>Total</i> |
|------------------------------------|--|---|--|----------------------------|--------------|
| 2020 | 21,200 | 105,700 | 84,900 | 2,100 | 213,900 |
| 2021 | 61,000 | 97,400 | 67,700 | 2,600 | 228,700 |
| 2022 | 61,000 | 97,400 | 67,700 | 2,600 | 228,700 |
| 2023 | 61,000 | 97,400 | 67,700 | 2,600 | 228,700 |
| 2024 | 61,000 | 97,400 | 67,700 | 2,600 | 228,700 |

⁽¹⁾ Based on unaudited actual amounts.

⁽²⁾ Projected CVP and SWP supplies in calendar year 2020 include carryover, transfers, and semitropic takes. Projected 2020 local surface water includes projected reservoir inflows less evaporation. Water supplies may also include environmental flows and flows to the San Francisco Bay. Projected CVP and SWP supplies in calendar years 2021-2024 include carryover and surplus Delta supplies, but assume no transfers. Surplus Delta supplies are included in the SWP supply column. Local surface water, CVP, and SWP sources for calendar years 2021-2024 are based on average supplies identified in Valley Water’s Water Supply Master Plan 2040. The supply estimates are based on modeling using Valley Water’s Water Evaluation and Planning model and represent the average use of each source by Valley Water rather than the total amount of supply from each source available.

⁽³⁾ Other sources include recycled water produced by South County Regional Wastewater Authority (SCRWA). Data is from the 2015 Urban Water Management Plan.

Source: Valley Water.

Projected deliveries in Fiscal Years 2020-21 through 2023-24 assume a new normal water use projection of approximately 230,000 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 Valley Water during years of wet hydrological conditions accounts for a substantial amount of the difference between the volume of deliveries and the volume of sources in years of dry hydrological conditions.

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

HISTORICAL SALES REVENUES

| <i>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> |
|--|---------------------------|-----------------------------|--|---------------------|--|
| 2015 | \$77,094,928 | \$76,798,888 | \$925,457 | \$154,819,273 | (10.04)% |
| 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 |
| 2019 ⁽¹⁾ | 81,922,689 | 143,998,219 | 1,757,563 | 227,678,471 | (1.44) |

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

Projected Sales Revenues. The following table shows the annual water sales revenues projected by Valley Water for Fiscal Year 2019-20 (based on unaudited actual amounts) and the following four fiscal years. The projections reflect an assumption by Valley Water staff that the water charges will be increased for each fiscal year from 2021-22 through 2023-24 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> |
|--|---------------------------|-----------------------------|--|---------------------|--|
| 2020 ⁽¹⁾ | \$103,546,538 | \$152,621,750 | \$1,713,303 | \$257,881,591 | 13.27% |
| 2021 | 121,105,000 | 137,399,000 | 2,562,000 | 261,066,000 | 1.44 |
| 2022 ⁽²⁾ | 146,818,000 | 165,020,000 | 3,045,000 | 314,883,000 | 20.61 |
| 2023 ⁽²⁾ | 159,592,000 | 178,902,000 | 3,356,000 | 341,850,000 | 8.56 |
| 2024 ⁽²⁾ | 173,501,000 | 194,049,000 | 3,615,000 | 371,165,000 | 8.58 |

⁽¹⁾ Based on unaudited actual amounts.

⁽²⁾ Increases reflect the effect of the forecasted rate increases in the 2020 PAWS Report, however, no assurances can be made that the Board will adopt rate increases consistent with the 2020 PAWS Report for such Fiscal Years. See the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Water Charge Setting Process*.”

Source: Valley Water.

Valley Water Revenue Derived from Property Taxes. The County levies a 1% property tax on behalf of all taxing agencies in the County, including Valley Water. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

The taxes collected are allocated to taxing agencies within the County, including Valley Water, on the basis of a formula established by State law enacted in 1979 and modified from time to time. Under this

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

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

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

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

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

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

There can be no assurance that the property tax revenues Valley Water currently expects to receive will not be reduced pursuant to State legislation enacted in the future. If the property tax formula is permanently changed in the future it could have a material adverse effect on the receipt of property tax revenue by Valley Water. Valley Water currently expects that existing reserves and the statutory authority to raise water rates may offset any potential future property tax revenue losses. In addition, Valley Water could undertake cost-cutting measures to address any future loss of tax revenues.

As a result of the implementation of the tax distribution system commonly referred to as the “Teeter Plan” by the County and the participation by Valley Water, Valley Water receives 100% of its share of the 1% property tax levies without regard to delinquencies. There can be no assurance that the Teeter Plan or the participation of Valley Water therein will be continued indefinitely. As of August 21, 2020, the County has not notified Valley Water of any plans to modify the Teeter Plan as a result of the COVID-19 outbreak. See the caption “INVESTMENT CONSIDERATIONS— COVID-19 Pandemic.”

Valley Water determines the amount of one-percent ad valorem property tax allocated to the Water Utility System annually. In Fiscal Year 2018-19, Valley Water allocated \$8,124,104 (approximately 7.5%) to the Water Utility System. Based on unaudited actual amounts, for Fiscal Year 2019-20, Valley Water estimates that it has received \$112,107,000 of one-percent ad valorem property tax, of which \$8,466,000 (or approximately 7.6%) has been allocated to the Water Utility System. Valley Water budgeted an allocation of \$8,217,000 (approximately 7.4%) of one-percent ad valorem property tax to the Water Utility System for Fiscal Year 2020-21.

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

VALLEY WATER SHARE OF 1% PROPERTY TAX LEVY

| <i>Fiscal Year Ended June 30</i> | <i>District Share of 1% Levy</i> | <i>% Increase/ (Decrease)</i> |
|---|---|--|
| 2015 | \$74,700,000 | 9.24% |
| 2016 | 80,797,165 | 8.16 |
| 2017 | 88,907,774 | 10.04 |
| 2018 | 94,491,000 | 6.28 |
| 2019 | 107,844,781 | 14.13 |

Source: Valley Water.

Property taxes levied by Valley Water to pay State Water Project contract costs are not pledged to the payment of the 2020 Bonds, the Installment Payments and other Bonds and Contracts, and are not included in the amounts shown above.

SANTA CLARA COUNTY WATER SUPPLY

Valley Water derives its water supply from four main sources: (i) local natural recharge to the underlying groundwater subbasins, (ii) local surface water runoff that enters Valley Water reservoirs, (iii) water imported by Valley Water through SWP facilities, and (iv) water imported by Valley Water through CVP facilities. Valley Water also sells a small 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 “VALLEY WATER FACILITIES—Water Treatment and Water Purification—Silicon Valley Advanced Water Purification Center.”

Valley Water receives revenue from the sale of treated water produced by its three water treatment plants, revenue from untreated surface water sales, a small amount of revenue from recycled water at the SCRWA Reclamation Facility, and revenue from a groundwater production charge. Some of the water retailers within Valley Water also receive water supplies from the SFPUC. Also, San Jose Water Company owns and operates two small surface water reservoirs, Williams and Elsmán, and two small water treatment plants, within the County. Valley Water does not currently receive revenue from the sale of water from SFPUC, Williams and Elsmán 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

Historically, 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. As shown in the table below, the amounts from each source of supply varies from year to year, which variations can be significant depending on, among other factors, hydrological conditions.

SANTA CLARA COUNTY WATER SUPPLY (ACRE-FEET)⁽¹⁾

| <i>Calendar Year</i> | <i>SWP</i> | <i>CVP</i> | <i>Other Imported Water</i> | <i>SFPUC</i> | <i>Recycled Water</i> | <i>Local Surface Water</i> | <i>Natural Groundwater Recharge</i> | <i>Total</i> |
|--------------------------|------------|------------|-------------------------------------|--------------|---------------------------|------------------------------------|---|--------------|
| 2015 | 54,400 | 43,700 | 17,300 | 43,000 | 20,300 | 45,100 | 38,000 | 261,800 |
| 2016 | 71,300 | 64,100 | 37,900 | 43,000 | 19,000 | 105,400 | 52,000 | 392,700 |
| 2017 | 33,400 | 80,000 | 2,500 | 47,000 | 17,000 | 508,000 | 56,000 | 743,900 |
| 2018 | 59,000 | 108,800 | 17,000 | 46,000 | 18,000 | 44,200 | 43,000 | 336,000 |
| 2019 | 21,300 | 79,500 | 8,800 | 48,000 | 17,000 | 229,600 | 57,000 | 461,200 |

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

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

Source: Valley Water.

Local Supplies

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

The availability of local surface water and natural groundwater recharge depends upon local rainfall. An analysis of 146 years (1874-2019) of rainfall data from two rainfall gauges in central San Jose shows that the average (or mean) annual rainfall is approximately 14.3 inches. An analysis of the last 10 years (2010-2019) of rainfall data from the National Weather Service's rainfall gauge (Station 86), shows that the average (or mean) annual rainfall is approximately 12.6 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 Valley Water has been located at Station 31 at the northwest corner of North San Pedro Street and West Mission Street (currently the City of San Jose's main police complex) since 1992 after having been originally installed nearby at the San Jose International Airport in 1986. There is variability in rainfall, with many years of above normal rainfall and many years of below normal rainfall. Valley Water stores water from wetter years for use during drier years.

Surface Water

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

Valley Water operates ten surface water reservoirs, with a total capacity of about 166,000 acre-feet, which generally provide seasonal storage for downstream releases to percolation facilities. Historically, Anderson Reservoir, the largest of Valley Water's reservoirs, provided carryover storage from one year to the next. As a result of the FERC Directive, Valley Water is required to lower the elevation at Anderson Reservoir to 488 feet and will be further lowered during the construction phase of the ADSR Project (as defined below). Such elevations are based on and relative to the North American Vertical Datum, a standard point of reference, and 488 feet equates to approximately 2,820 acre-feet of volume for Anderson Reservoir. In addition, the Board directed staff in 2017 to operate Coyote Reservoir according to the 40% inflow exceedance rule curve, which has significantly impacted the ability of Coyote Reservoir to carryover storage. Groundwater storage is also available in the County's two groundwater subbasins and is used for both seasonal and carryover storage. See the caption "VALLEY WATER FACILITIES—Local Reservoirs."

The total amount of surface water flowing into the County does not necessarily represent local water supply yield. The yield of the major tributary drainage area is defined as that portion of the historical surface water that can, on a long-term basis, be put to beneficial use through surface diversions and/or groundwater recharge, considering the available storage, recharge, and conveyance capacities of the distribution facilities. The remaining water is released to San Francisco Bay or Monterey Bay. Based on 2013 through 2017 data, between 4,000 acre-feet and 418,000 acre-feet of water per year was released to the bays. The average release was about 91,000 acre-feet per year. Calendar year 2017 was one of the wettest hydrological years on record, which resulted in substantially increased local surface water inflows.

Groundwater Recharge

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

Imported Supplies

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

To meet this growing water need, 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 Valley Water. The

SFPUC water supply continues to provide approximately 15 percent of the imported water supply in the County; however, Valley Water does not receive revenue for the SFPUC water supply.

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

State Water Project

In 1961, Valley Water contracted with the SWP (the "SWP Contract") for a new water supply. This imported supply normally provides water for groundwater recharge and for treatment at two Valley Water water treatment plants, the Rinconada and Penitencia Water Treatment Plants ("WTPs"), but can also be used to supply the Santa Teresa WTP. The 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, Valley Water can receive additional SWP water consisting of temporary flood flow in the Delta, or it can receive non-SWP water deliveries, neither of which count against the maximum annual amount under the SWP Contract. As of December 31, 2019, Valley Water had received delivery of approximately 3,715,000 acre feet of water through the SWP Contract. Based on a May 22, 2020 announcement by the California Department of Water Resources ("DWR"), Valley Water's current SWP allocation under its SWP Contract for 2020 is 20 percent of its maximum annual contract amount. The allocation for 2020 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 Valley Water service area via the South Bay Aqueduct.

The SWP Contract requires Valley Water to reimburse the State for capital costs (including interest thereon) and minimum operating, maintenance, power and replacement costs of the SWP transportation and conservation facilities. A property tax is levied by Valley Water to pay the cost of this obligation. Such property taxes are not pledged to the payment of the 2020 Bonds or the Installment Payments and such costs are not Maintenance and Operation Costs of the Water Utility System. The State re-estimates Valley Water's total commitment for reimbursement of such costs annually.

DWR and the SWP contractors held a series of 23 public negotiating sessions between May 2013 and June 2014 relating to the renewal of the State Water Project contracts. Such negotiating sessions resulted in an "Agreement in Principle" to amend the existing State Water Project contracts to extend them through December 31, 2085 and to make certain changes relating to the billing process under such contracts. Valley Water, other SWP contractors and DWR are parties to the Agreement in Principle. The Agreement in Principle does not represent a commitment by Valley Water, other SWP 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 the California Environmental Quality Act ("CEQA"). The notice of preparation of the environmental impact report relating to the proposed extension was issued on September 12, 2014. As required under State law, the Joint Legislative Budget Committee held a hearing on the contract renewal on September 11, 2018. On November 13, 2018, DWR certified the final environmental impact report, which concluded that the proposed extensions would not result in any physical environmental impacts. On December 12, 2018, Valley Water's Board determined that DWR's final environmental impact report is adequate for Valley Water's use to authorize the execution of the proposed contract renewal. In early December 2018, DWR filed an action to validate the proposed extension of the State Water Project contracts, including Valley Water's SWP Contract. Valley Water filed its answer to the complaint on February 25, 2019.

The validation action is currently pending, as well as two cases that challenge the adequacy of the EIR. The timing and outcome of the validation action cannot be predicted by Valley Water at this time.

DWR faces various challenges in the continued supply of imported water to Valley Water and other member agencies. A description of the challenges DWR faces in continuing to supply imported water as well as a variety of other operating information with respect to DWR is included in detail under the caption “STATE WATER PROJECT WATER SUPPLY” in DWR’S Official Statement dated July 29, 2020, relating to its Central Valley Project Water System Revenue Bonds Series BB and Series BC (Federally Taxable) (“DWR’s Water Supply Disclosure”). Valley Water incorporates DWR’s Water Supply Disclosure by specific reference in this Official Statement. DWR’s Water Supply Disclosure is the disclosure of DWR and, accordingly, Valley Water does not make any representations as to the accuracy or completeness of DWR’s Water Supply Disclosure or as to the absence of material adverse changes in DWR’s Water Supply Disclosure after the date hereof.

The ability for DWR to convey SWP supply to Valley Water also depends on the reliability of the South Bay Aqueduct as a water conveyance system. The Santa Clara Pipeline section of the South Bay Aqueduct conveys water to Valley Water’s service area and has experienced several leaks in the past ten years. DWR intends to improve reliability of the pipeline, and is currently conducting studies to determine full scope and costs of future pipeline repairs. These studies are expected to be completed in 2022.

DWR has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated for the benefit of owners of certain outstanding obligations to file with certain information repositories annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act (“Rule 15c2-12”) and annual audited financial statements (the “DWR Information”). This information is to be filed by DWR with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <https://emma.msrb.org/>. DWR disclosure documents and annual reports should be reviewed for information pertaining to water supply matters. DWR has not entered into any contractual commitment with Valley Water, the Trustee, or the Owners of the 2020 Bonds and the Certificates to provide Department of Water Resources Information to Valley Water or the Owners of the 2020 Bonds and the Certificates. Valley Water has not incorporated by reference the information filed by DWR described above and neither Valley Water nor the Underwriters assume any responsibility for the accuracy of DWR Information.

DWR HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO DWR. DWR IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH DWR INFORMATION, FOR THE BENEFIT OF VALLEY WATER OR THE OWNERS OF THE 2020 BONDS OR THE CERTIFICATES UNDER RULE 15c2-12.

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

Central Valley Project

On June 7, 1977, Valley Water entered into a contract (the “CVP Contract”) with USBR for water service from the San Felipe Division of the CVP. The CVP contract provides for both agricultural and municipal and industrial (“M&I”) water deliveries to Valley Water up to a total contract amount of 152,500 acre-feet per year.

On May 19, 2020, USBR announced updated allocations for 2020. For CVP contractors south of the Bay-Delta, including Valley Water, the allocations were 20 percent of contracted amounts for agricultural water and 70 percent of historic use for M&I water. Such allocations will be subject to revision by the USBR.

In 2019, for CVP contractors south of the Bay-Delta, including Valley Water, the allocations were 55 percent of contracted amounts for agricultural water and 80 percent of historic use 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, Valley Water can receive additional CVP water consisting of temporary flood flow in the Delta which does not count against the contract amount. Valley Water’s CVP supplies provide surface water to the Santa Teresa WTP, Rinconada WTP, surface water customers, local reservoirs for storage, groundwater recharge, and can also be used to supply the Penitencia WTP. The CVP Contract specified initial water rates for agricultural and M&I water service and provides for periodic adjustment of the respective water rates in accordance with prevailing CVP water rate policies commencing in the years 1993 for the in-basin M&I rate component, 1996 for the agricultural O&M rate component and 2001 for the full agricultural water rate. The methodology of CVP water rate setting has historically recovered current year operating costs, and over 50 years, the applicable construction costs.

Valley Water’s initial CVP water rates were determined based upon a November 1974 CVP water rate policy and estimated construction costs of the San Felipe Division. The actual construction costs of the San Felipe Division were significantly higher than the estimates used in the initial rate calculation, and changes in the Federal Reclamation Law during the 1980’s have led to the development of new CVP water rate policies. A new agricultural water rate policy was adopted in 1988 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 Valley Water’s need to expand its local infrastructure to accept CVP water. The fixed rate provided for partial repayment of annual capital interest expense, and the cumulative shortfall was being tracked by the USBR as an alleged “operation and maintenance deficit,” even though Valley Water self-funds and performs San Felipe Division operation and maintenance. Valley Water contested the USBR’s accounting for project costs, and a settlement was achieved in March 2005. The settlement reduced Valley Water’s costs for CVP water by approximately \$5,000,000 per year.

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

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

Under the provisions of the Water Infrastructure Improvements for the Nation Act (“WIIN Act”), Valley Water is eligible to convert the CVP Contract from a water service contract to a repayment contract. Under the WIIN Act, Valley Water would prepay CVP construction costs allocated to Valley Water as a condition of such conversion. Valley Water is currently in negotiations with USBR and is considering conversion of its CVP Contract from a water service contract to a repayment contract for allocated construction costs under the provisions of the WIIN Act. The current expectation is that the costs that would be prepaid upon execution would be associated with Valley Water’s share of CVP “in-basin” facilities only. Valley Water’s outstanding obligation for the capital construction costs of the San Felipe Division, or “out-of-basin facilities” are not expected to be included in the WIIN Act conversion and would not be prepaid upon execution of the repayment contract. Instead, Valley Water currently expects that the costs of the “out-of-basin facilities” to continue to be repaid according to the amortized schedule negotiated in the 2007 Amendment described above. The current annual payments for the “out-of-basin facilities” costs are approximately \$15.5 million and the final payment is due in 2035.

No assurances can be made that Valley Water will undertake such conversion or if such conversion is undertaken, the final terms of the repayment contract to be entered into between Valley Water and USBR.

Pursuant to a contract with Mercy Springs Water District, Valley Water and Westlands Water District are assigned a portion of Mercy Springs Water District's contracted CVP water allocation. Pursuant to the WIIN Act, Valley Water and Westlands Water District have executed a conversion contract with respect to the assignment of the Mercy Springs Water District CVP water. Westlands Water District has filed a validation action to, among other matters, validate the proceedings on its part with respect to the authorization of the execution of the conversion contract. Valley Water filed a similar validation action on June 25, 2020.

If finalized, Valley Water does not expect that the prepayment costs with respect to Valley Water's CVP contract or the conversion of the assignment contract with Mercy Springs Water District would have a material adverse impact on the ability of Valley Water to pay principal of and interest on the 2020 Bonds or the Installment Payments.

On May 20, 2020, the Center for Biological Diversity, Restore the Delta, and the Planning and Conservation League filed a complaint against USBR, David Bernhardt, in his official capacity as Secretary of the Interior, and the United States Department of the Interior for declaratory and injunctive relief. Through their complaint, the Center for Biological Diversity et al. seek an order and judgment setting aside and rescinding 14 repayment contracts, including the Mercy Springs contract described above. The Center for Biological Diversity et al. claim USBR, by executing the 14 repayment contracts, violated NEPA, the Administrative Procedures Act, and the Endangered Species Act. The Center for Biological Diversity et al. also seek an order and judgment restraining USBR from entering into any other repayment contracts. No monetary damages are sought, although the Center for Biological Diversity et al. seek recovery of costs from federal defendants.

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

On August 13, 2020, the Hoopa Valley Tribe also filed a complaint in federal court against USBR, David Bernhardt in his official capacity as Secretary of the United States Department of Interior, Brenda Burman in her official capacity as Commissioner of USBR, Ernest Conant in his official capacity as USBR's California-Great Basin Regional Director, and the United States Department of Interior. The Hoopa Valley Tribe also seeks rescission of any conversion of CVP renewal contracts into permanent repayment contracts and enjoinder of USBR from converting or amending any additional CVP contracts into permanent repayment contracts. If the court grants an injunction with respect to any additional conversions or amendments of CVP contracts into repayment contracts, Valley Water cannot predict the affect that such injunction would have on the process for the conversion of Valley Water's CVP Contract.

VALLEY WATER FACILITIES

Local Reservoirs

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

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

SIGNIFICANT FEATURES OF VALLEY WATER RESERVOIRS

| <i>Reservoir</i> | <i>Capacity (acre-feet)</i> | <i>DSOD Restricted Capacity (acre-feet)</i> | <i>Year Completed</i> | <i>Surface Area at Capacity (acres)</i> | <i>Approximate Dam Height (feet)</i> |
|------------------|---------------------------------|---|---------------------------|---|--|
| Almaden | 1,555 | 1,443 | 1935 | 58 | 105 |
| Anderson** | 89,278 | 2,820 | 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 | 3,320 | 2,134 | 1935 | 73 | 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 | 166,140 | 62,362 | | 3,472 | |

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

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

** Pursuant to the FERC Directive, Anderson Reservoir is required to be lowered to 488 feet starting on October 1, 2020. See the caption "—Anderson Dam Seismic Retrofit Project and FERC Directive" and "—Anderson Reservoir Drawdown Impacts on Water Supply Reliability" below.

Valley Water monitors, collects, and analyzes seepage and vertical and horizontal movement data monthly and reports the information to the DWR Division of Safety of Dams ("DSOD"). DSOD has an annual dam inspection program. In addition, Valley Water performs inspections of the entire Water Utility System every other month from a helicopter. Valley Water also implements a comprehensive asset management program to track the condition of its facilities. Using this robust asset management system and the visual and data monitoring programs, Valley Water determines and performs the maintenance or improvements needed at each dam.

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

Anderson Dam Seismic Retrofit Project and FERC Directive

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

A large seismic event along the Calaveras fault or the Coyote Creek fault could lead to dam failure and uncontrolled release into the surrounding communities.

On February 20, 2020, FERC issued a directive requiring Valley Water to immediately lower the elevation of Anderson Reservoir to 565 feet, and to further lower the reservoir to 488 feet starting on October 1, 2020. Valley Water has lowered the elevation of Anderson Reservoir below 565 feet and is working to further lower the elevation in compliance with the FERC Directive. Such elevations are based on and relative to the North American Vertical Datum, a standard point of reference, and 488 feet equates to approximately 2,820 acre-feet of volume for Anderson Reservoir.

The ADSR Project is currently planned to be constructed in two stages. The first stage entails the construction of a diversion tunnel with a low-level outlet and the second stage involves construction of a high-level outlet, reconstruction of the spillway and the dam embankment. Construction of the first stage is expected to commence in February 2021 and is expected to be completed in three years. The second stage is expected to commence after completion of the first stage and is expected to take approximately seven years to complete (approximately Fiscal Year 2030-31). The foregoing schedule is subject to Valley Water's ability to obtain the necessary permits, complete the necessary environmental review and finalize agreements with consultants and contractors for the project.

Assembly Bill 3005 ("AB 3005") which has been approved by the State Legislature [and has been submitted to the Governor for consideration], includes provisions expediting State agency permitting and modifying the public contracting process for the ADSR Project. If enacted into law, AB 3005 would require the following: (i) if the California Department of Fish and Wildlife ("CDFW") determines that the ADSR Project would substantially adversely affect existing fish and wildlife resources, CDFW shall, within 180 days of notification from Valley Water, enter into an agreement with Valley Water that includes reasonable measures to protect the affected resources; (ii) require the State Water Resources Control Board (the "SWRCB") to make a final determination on a federal Clean Water Act section 401 certification for the ADSR Project within 180 days after Valley Water files a complete application for project certification and completes all required certifications under CEQA; and (iii) authorize Valley Water to award contracts related to the ADSR Project on the basis of "best value" instead of "low bid" as would otherwise be required under applicable State law.

The ADSR Project is currently estimated to cost approximately \$576 million. Valley Water expects to fund approximately \$65 million of such costs from the flood control system revenues and parcel tax revenue of the Safe, Clean Water Program and the balance from revenues of the Water Utility System. With respect to the portion of the ADSR Project costs allocated to the Water Utility System, Valley Water expects to fund approximately 30% of such costs from current revenues and/or reserves and 70% from the proceeds of additional Bonds and Contracts.

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

Anderson Reservoir Drawdown Impacts on Water Supply Reliability

Anderson Reservoir is a key component of Valley Water's annual water supply portfolio which provides a local water supply and operational flexibility. In addition to providing a local water supply, the large capacity of Anderson Reservoir stores water for emergencies. Anderson Reservoir also provides Valley

Water with the operational flexibility to carry water over from one year to the next to help guard against the impacts of dry years and to address water quality issues in San Luis Reservoir.

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

As described above under the caption "—Anderson Dam Seismic Retrofit Project and FERC Directive," the FERC Directive requires that Anderson Reservoir be drawn down starting on October 1, 2020. After the initial drawdown, rainfall-runoff could raise the storage temporarily in future winter seasons; however, Valley Water expects to make every effort to lower the reservoir storage to deadpool level as quickly and safely as possible in compliance with the FERC Directive. The deadpool level is the volume of water in Anderson Reservoir that cannot be drained by gravity through the existing outlet works. The current deadpool volume is 2,820 acre-feet. For the next 10 years, during construction of two stages of the ADSR Project, the loss of storage capacity at Anderson Reservoir will significantly reduce water supply benefits from Anderson Reservoir, except for occasional groundwater recharge during winter instream flows and during drawdown of the reservoir to deadpool level. The impact to Valley Water's overall water supply will depend on future operational conditions, which will benefit from the mitigation measures that Valley Water has initiated.

Mitigation Measures to Lessen the Impacts of a Dewatered Anderson Reservoir

Valley Water has proposed many Avoidance and Minimization Measures ("AMMs") to lessen the impacts of the inability to store water in Anderson Reservoir for approximately 10 years. This includes continued releases of imported water downstream of Anderson Reservoir for the purposes of groundwater recharge. Valley Water plans to build a Cross Valley Pipeline Extension by summer 2021 to bring imported water to Coyote Creek downstream of Ogier Ponds, while maintaining a cold water management zone upstream of Ogier Ponds for fisheries. The Cross Valley Pipeline Extension is expected to enable Valley Water to maintain groundwater recharge operations in the creek and the Coyote Percolation Pond to benefit the Coyote Valley and the Santa Teresa area of south San Jose.

Valley Water is preparing plans to replace the flashboard dam at the Coyote Percolation Pond with a rubber bladder dam (by 2023) that can be inflated and deflated in less than an hour. The Anderson Dam Tunnel, once constructed, will allow a rapid drawdown of the reservoir. Large flows from the dam outlets (up to 2,500 cubic-feet per second) would overtop the existing flashboard dam. To avoid this risk, the dam would be removed earlier in the winter. This would result in the loss of the ability to perform managed groundwater recharge in the Coyote Percolation Pond for up to six months per year and could potentially impact Valley Water's ability to exercise its water rights. However, by replacing the flashboard dam with a bladder dam, Valley Water would maintain existing managed groundwater recharge throughout the year. The bladder dam would be lowered during heavy storms and then brought back up after storm events.

The above AMMs are incorporated into Valley Water's capital improvement program for Fiscal Years 2020-21 through 2024-25.

Groundwater Subbasins

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

Two major groundwater subbasins underlie the County: Santa Clara Subbasin and Llagas Subbasin. Valley Water further delineates Santa Clara Subbasin into two management areas: Santa Clara Plain and the Coyote Valley. These subbasins and their operational storage capacities are described below. See the captions “FACTORS AFFECTING WATER SUPPLIES—Water Banking” and “POTENTIAL INVESTMENT CONSIDERATIONS—Risks Related to Water Utility System Facilities and Operation—*Sustainable Groundwater Management Act*.”

Santa Clara Subbasin – Santa Clara Plain

Santa Clara Plain, the northern portion of Santa Clara Subbasin, extends from the northern boundary of the County at the San Francisco Bay to approximately Metcalf Road in the south. The Santa Clara Subbasin is bounded on the west by the Santa Cruz Mountains and on the east by the Diablo Range. The Santa Clara Plain portion of the Santa Clara Subbasin covers a surface area of approximately 280 square miles. The northern and central area of the Santa Clara Plain is underlain with a laterally extensive aquitard comprised of low-permeability sediments, resulting in confined aquifer conditions. The southern area and eastern and western edges comprise the unconfined area or recharge area where higher-permeability gravel and sand sediments are more predominant. Valley Water 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 was 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, Valley Water estimates that the Santa Clara Plain has an operational storage capacity of approximately 350,000 acre-feet. The operational groundwater storage estimate does not reflect the total amount of available supply in the basin, which is substantially greater. The operational storage reflects current knowledge and modeling of the volume that can be withdrawn before increased risk of surface subsidence resuming or other negative consequences to portions of the basin, such as 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. Valley Water conducts in-stream managed recharge within the Coyote Valley. The estimated operational storage capacity for the Coyote Valley is between 23,000 and 33,000 acre-feet.

Llagas Subbasin

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

Managed Recharge Facilities

Valley Water owns and operates seven managed aquifer recharge systems. Within these systems, Valley Water supplies off-stream recharge facilities and supplements natural flow in existing stream channels to recharge local and imported surface water into the groundwater subbasins. In 2018, it was estimated that the

amount of managed recharge into the groundwater subbasins by Valley Water 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 Valley Water'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 |

* The number of total ponds includes 1 inactive pond and 6 ponds that are operated but not owned by Valley Water.

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

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

**** Average Annual Recharge Quantity is based generally on recharge averaged over calendar years 2013 through 2017. Calendar years 2014 and 2015 were exceptionally dry years with limited surface water available for recharge.

Source: Valley Water.

Raw Water Conveyance System

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

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

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

RAW WATER PIPELINES

| <i>Line</i> | <i>Diameter (in inches)</i> | <i>Year Completed</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: Valley Water.

Water Treatment and Water Purification

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

Valley Water’s treated water system provides flexibility if one water treatment plant is shut down. Penitencia and Santa Teresa WTPs are both connected to East Pipeline. Santa Teresa WTP was designed to be capable of delivering treated water to the retail customers of both treatment plants. The water retailers receiving water from Santa Teresa WTP are able to use Penitencia water, the SFPUC water 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 Valley Water treated water if necessary.

In 1995, the State governor signed Assembly Bill 733 into law, which requires fluoridation of any public water system with at least 10,000 customers if sufficient funds to cover capital and any associated costs necessary to install such a system were made available. Local health officials advocated for large-scale fluoridation to be applied to maximize the public health benefits and minimize the cost of treatment at municipal water supplies. Fluoridation at Valley Water’s three drinking water treatment plants was identified as the most cost-effective means of providing fluoride to Santa Clara Valley. In November 2011, the Board adopted a policy to add fluoride to Valley Water’s water treatment plants. A project to provide fluoridation facilities at both Santa Teresa WTP and Penitencia WTP began construction in May 2016 and was completed in July of 2017. As a result, the fluoridation systems at Santa Teresa WTP and at Penitencia WTP are now on-line. Rinconada WTP is expected to begin fluoridating with the anticipated completion of the Rinconada Water Treatment Plant Reliability Improvement Project in 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 Valley Water’s three treatment plants with the ability to treat and deliver up to 100 MGD. The plant is primarily supplied by imported water from the San Luis Reservoir, a key component of the federal CVP. In addition, the plant is also fed from Valley Water’s local supplies at Anderson and Calero reservoirs. See the caption “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive.”

The Santa Teresa WTP is a conventional treatment plant utilizing coagulation, flocculation, sedimentation, filtration, and disinfection. In spring of 2006, Valley Water completed significant upgrades to the Santa Teresa WTP which were highlighted by the addition of ozone to the treatment process. Ozone is a strong disinfectant that creates less disinfection byproducts than chlorine. Disinfection byproducts at high levels can be a health concern. In December 2016, the fluoridation system at Santa Teresa WTP was

commissioned and Santa Teresa WTP became the first of the three Valley Water's treatment plants to provide fluoridated water to 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, Valley Water completed significant upgrades to the Penitencia WTP which were highlighted by the addition of ozone to the treatment process. Between October 2016 and July 2017, Penitencia WTP was shut down for eight and 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 Valley Water system. As the second largest of Valley Water's treatment plants, the Rinconada WTP can treat and deliver up to 80 MGD. The Rinconada WTP draws water from the South Bay Aqueduct and from the San Luis Reservoir. The plant can also be supplied from Valley Water's local Anderson and Calero reservoirs. See the caption "VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive."

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. Valley Water 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 owned and operated by Valley Water. Commissioned in March 2014, the SVAWPC has the ability to deliver up to eight MGD of purified water. The SVAWPC is an advanced treatment facility that utilizes microfiltration, reverse osmosis and ultra-violet light disinfection processes that purify 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.

Valley Water and the City of San Jose entered into a ground lease and property use agreement (the "Ground Lease") with respect to the City of San Jose-owned site on which the SVAWPC is located. In addition, Valley Water and the City of San Jose have entered into an integration agreement (the "Integration Agreement") with respect to the operation of the SVAWPC. Valley Water and the City of San Jose each have

the annual option to terminate the Integration Agreement on or after June 30, 2020 in accordance with its terms. The Ground Lease provides that if the Integration Agreement is terminated, the Ground Lease will simultaneously terminate and upon such termination, Valley Water would be required to surrender the facilities of the SVAWPC to the City of San Jose. Valley Water and the City of San Jose have not had any formal negotiations with respect to such termination provisions. See the caption “CAPITAL IMPROVEMENT PROGRAM —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 Valley Water’s retail customers by nine treated water pipelines. The total storage capacity is 30,000,000 gallons.

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

WATER TREATMENT AND STORAGE FACILITIES AND DISTRIBUTION SYSTEM

| <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: Valley Water.

Seismic Considerations

Beginning in the late 1970’s, Valley Water conducted a series of studies that focused on evaluating the seismic performance of major facilities of Valley Water. The studies provided Valley Water with a detailed analysis of the predicted seismic performance of Valley Water dams. As a result of these studies, a seismic retrofit was completed in 1985 at Stevens Creek Dam to enable it to have acceptable predicted seismic performance, and a reservoir operation restriction was implemented at Guadalupe Dam. All the other dams were determined to have acceptable performance without modifications. Other studies resulted in seismic retrofitting programs at Penitencia and Rinconada WTPs. These programs targeted the need to define necessary non-structural or minor structural improvements. The required improvements have been completed.

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

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

Summary of Recent Seismic Stability Evaluations of Valley Water Dams

| <i>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). Pursuant to the FERC Directive, Anderson Reservoir is required to be lowered to 488 feet starting on October 1, 2020. See the caption “—Anderson Dam Seismic Retrofit Project and FERC Directive” above. |
| Almaden | 2012 | Embankment dam meets modern seismic design criteria. However, seismic retrofit of intake structure, spillway improvements, and dam raise are required. Interim operating restriction of 10 ft from crest of dam (7% storage capacity lost) implemented pending capital improvements. |
| Calero | 2012 | Seismic retrofit of dam is required. Interim operating restriction of 25 ft. from crest of dam (54% storage capacity lost) implemented pending seismic retrofit project. |
| Guadalupe | 2012 | Seismic retrofit of dam is required. Interim operating restriction of 25 ft. from crest of dam (35% storage capacity lost) implemented pending seismic retrofit project. |
| Lenihan | 2013 | Embankment dam meets modern seismic design criteria. No restrictions necessary. |
| Stevens Creek | 2013 | Embankment dam meets modern seismic design criteria. No restrictions necessary. |

Source: Valley Water.

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

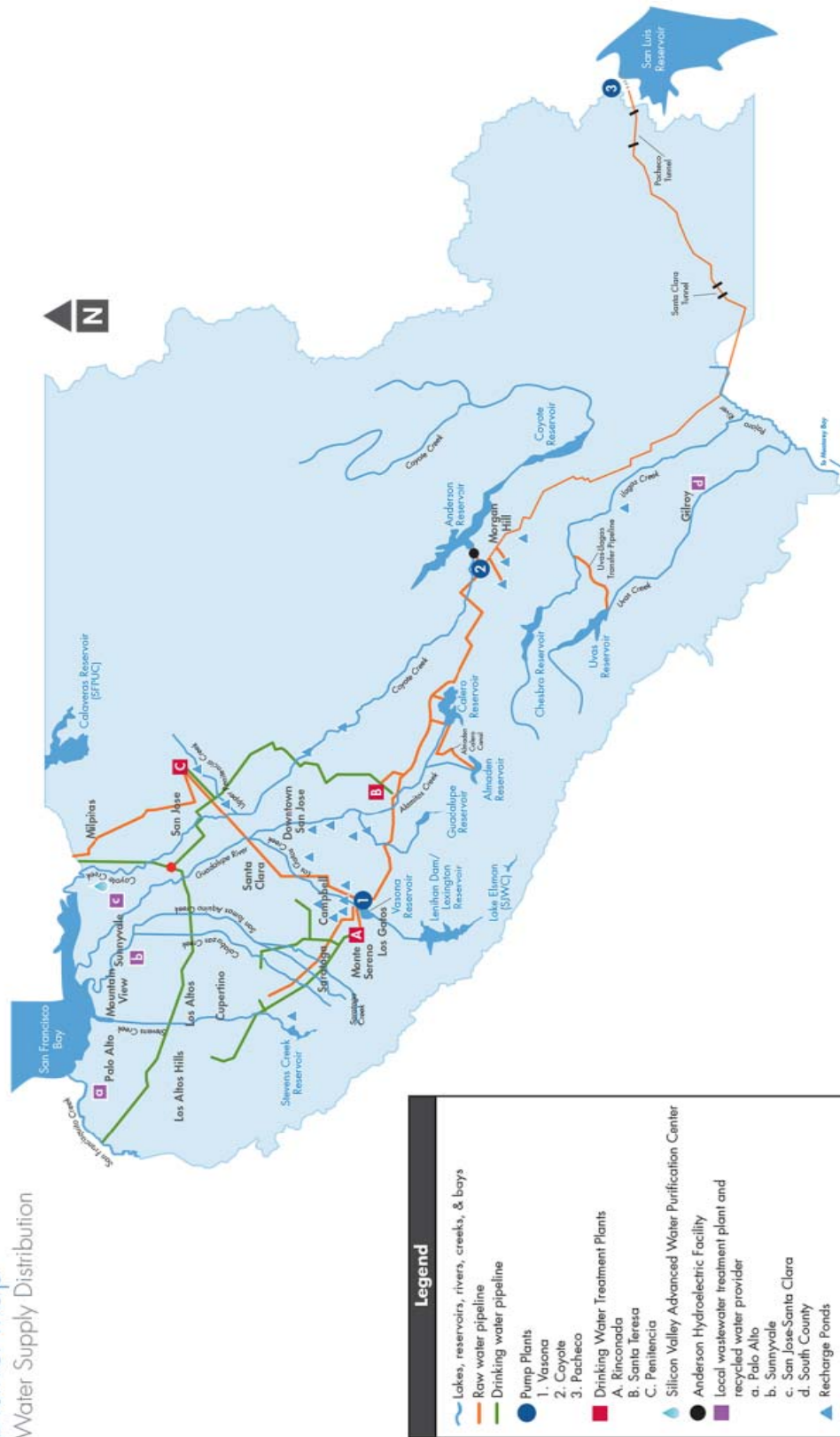
Earthquake effects on dams, pipelines and other water facilities are expected to vary depending upon the nature of the facility and the magnitude of the seismic forces (which depend upon a number of factors, including the energy released, proximity to the epicenter, duration of strong shaking, etc).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

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

Water Distribution System

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

District map Water Supply Distribution



Water Usage

Valley Water 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, 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.

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

TREATED WATER AND GROUNDWATER USAGE (ACRE-FEET)⁽¹⁾

| | <i>Fiscal Year 2017-18</i> | | | <i>Fiscal Year 2018-19</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 | 41,121 | 65,354 | 106,475 | 31,783 | 64,949 | 96,732 |
| Santa Clara, City of | 12,134 | 4,525 | 16,659 | 9,922 | 4,514 | 14,436 |
| California Water Service | 5,096 | 7,256 | 12,352 | 3,558 | 8,363 | 11,921 |
| San Jose, City of | 550 | 11,630 | 12,180 | 918 | 11,011 | 11,929 |
| Great Oaks Water Co. | 10,248 | - | 10,248 | 10,208 | - | 10,208 |
| Sunnyvale, City of | 112 | 8,537 | 8,649 | 93 | 8,174 | 8,267 |
| Gilroy, City of | 7,883 | - | 7,883 | 7,624 | - | 7,624 |
| Morgan Hill, City of | 7,071 | - | 7,071 | 6,421 | - | 6,421 |
| Milpitas, City of | - | 3,165 | 3,165 | - | 3,208 | 3,208 |
| Cupertino, City of | 141 | 2,452 | 2,593 | 68 | 1,022 | 1,090 |
| Mountain View City of | 115 | 984 | 1,099 | 242 | 2,432 | 2,674 |
| West San Martin Water Co. | 352 | - | 352 | 339 | - | 339 |
| New Avenue Mutual Water | 10 | - | 10 | 72 | - | 72 |
| Subtotals Water Retailers | 84,833 | 103,903 | 188,736 | 71,247 | 103,673 | 174,919 |
| Other Groundwater Revenue Accounts | <u>40,270</u> | <u>-</u> | <u>40,270</u> | <u>38,047</u> | <u>-</u> | <u>38,047</u> |
| Total | 125,103 | 103,903 | 229,006 | 109,293 | 103,673 | 212,966 |

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

Source: Valley Water.

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> | | | | |
| 2015 | 25,700 | 119,126 | 90,673 | 607 | 893 | 236,999 |
| 2016 | 25,448 | 82,844 | 89,915 | 967 | 1,192 | 200,366 |
| 2017 | 24,971 | 83,457 | 104,586 | 1,426 | 919 | 215,359 |
| 2018 | 26,868 | 98,235 | 103,903 | 2,788 | 880 | 232,674 |
| 2019 | 25,627 | 83,667 | 103,673 | 1,961 | 1,099 | 216,026 |

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

Source: Valley Water.

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

| | <i>Fiscal Year 2017-18</i> | | | <i>Fiscal Year 2018-19</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 | \$48,250,848 | \$83,326,580 | \$131,577,428 | \$40,851,047 | \$90,213,967 | \$131,065,014 |
| Santa Clara, City of | 14,257,427 | 5,769,962 | 20,027,389 | 13,199,001 | 6,269,821 | 19,468,822 |
| San Jose, City of | 463,343 | 14,828,454 | 15,291,797 | 896,103 | 15,293,987 | 16,190,090 |
| California Water Service | 5,987,777 | 9,251,604 | 15,239,381 | 4,586,275 | 11,612,990 | 16,199,265 |
| Sunnyvale, City of | 131,800 | 10,884,458 | 11,016,258 | 119,426 | 11,353,603 | 11,473,029 |
| Great Oaks Water Co | 7,445,910 | - | 7,445,910 | 8,835,331 | - | 8,835,331 |
| Milpitas, City of | - | 4,035,095 | 4,035,095 | - | 4,456,190 | 4,456,190 |
| Gilroy, City of | 3,295,228 | - | 3,295,228 | 3,430,944 | - | 3,430,944 |
| Cupertino, City of | 165,581 | 3,126,568 | 3,292,149 | 87,111 | 3,377,576 | 3,464,686 |
| Morgan Hill, City of | 2,955,682 | - | 2,955,682 | 2,889,509 | - | 2,889,509 |
| Mountain View, City of | 134,831 | 1,254,089 | 1,388,920 | 311,783 | 1,420,086 | 1,731,869 |
| West San Martin Water Co | 147,011 | - | 147,011 | 152,415 | - | 152,415 |
| New Avenue Mutual Water | 4,368 | - | 4,368 | 32,279 | - | 32,279 |
| Subtotals Water Retailers | \$83,239,806 | \$132,476,810 | \$215,716,616 | \$75,391,223 | \$143,998,219 | \$219,389,442 |
| All Others | 8,100,533 | - | 8,100,533 | 4,220,881 | - | 4,220,881 |
| Individual groundwater customers | 6,142,178 | - | 6,142,178 | 2,310,585 | - | 2,310,585 |
| Total | \$97,482,517 | \$132,476,810 | \$229,959,327 | \$81,922,689 | \$143,998,219 | \$225,920,908 |

Source: Valley Water.

San Jose Water Company. San Jose Water Company is the largest water retailer served by Valley Water and currently provides water service to over 1,000,000 customers. San Jose Water Company is a wholly-owned subsidiary of SJW Group, a public traded company. For the fiscal year ended June 30, 2019, Valley Water received approximately \$131.1 million in charges for treated water and groundwater from San Jose Water Company consisting of approximately 58% of the water sales revenues of Valley Water's Water Enterprise.

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

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

None of San Jose Water Company, SJW Group or any of SJW Group's subsidiaries is an obligor with respect to the 2020 Bonds or the Certificates. The 2020 Bonds and the Installment Payments securing the Certificates are obligations of Valley Water payable from Valley Water's Net Water Utility System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES." References made herein to San Jose Water Company and SJW Group are for informational purposes only. Valley Water makes no representations as to the accuracy or the adequacy of any of the filings of SJW Group with the Securities Exchange Commission (the "Commission") described below. The filings described below are strictly those of SJW Group and not of Valley Water and such filings are not incorporated by reference herein.

SJW Group is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Commission. The Annual Report on Form 10-K (the "Form 10-K") for the year ended December 31, 2019, 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.

Potential Future Loan Program. On June 9, 2020, as part of the response to the ongoing pandemic and economic impacts to the County, the Board directed Valley Water staff to develop a program to provide loans to water retailers within Valley Water's service territory (the "Loan Program") in the amount of up to \$5 million in the aggregate. The Board has tentatively identified the Valley Water's share of 1% property tax revenue as the source of moneys to fund such program. See the caption "WATER UTILITY SYSTEM—Primary Sources of Revenues—*Valley Water Revenue Derived from Property Taxes.*" The Loan Program contemplates a forgiveness component for customers of such water retailers facing financial hardship. Valley Water staff is currently developing a proposal for the Loan Program which will be presented to the Board for review and potential approval and implementation at a future Board meeting. No assurances can be made that the Board will approve a Loan Program nor as to the actual provisions thereof.

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

FACTORS AFFECTING WATER SUPPLIES

General

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

Valley Water completed its 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 Valley Water to review, update and adopt an UWMP at least every five years. Valley Water's current UWMP was prepared in coordination with water retailers (who also must prepare their own UWMPs), the County, and local cities and towns. Valley Water'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 Valley Water's Water Shortage Contingency Plan to address dry year objectives and operations. Completion of UWMP updates allows Valley Water 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 Valley Water must make significant investments to maintain and safeguard existing water supplies, infrastructure, and programs to ensure a reliable water supply into the future. These investments were described in Valley Water's Water Supply Master Plan 2040 approved by the Board in November 2019 (the "Water Supply Master Plan"). The Water Supply Master Plan recommends a three prong strategy to ensure a reliable water supply through 2040: secure existing supplies

and infrastructure, increase water conservation and water reuse, and optimize the use of existing supplies and infrastructure. The process of developing the Water Supply Master Plan involved evaluating groups of water supply projects and programs to achieve long-term water supply reliability targets. The preliminary 100-year lifecycle cost projections for the water supply projects and programs considered in the Water Supply Master Plan ranges from less than \$100 million to over \$1 billion and are over \$2.3 billion in the aggregate. The impact of the implementation of the various groups of water supply projects and programs on Valley Water's water supply reliability are provided in the Water Supply Master Plan. Through a Monitoring and Assessment Program ("MAP"), Valley Water expects to continue implementation planning for the Water Supply Master Plan projects. The MAP report summarizes changes in demand forecasts, project descriptions, and water supply reliability analyses and is present to the Board annually.

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

Endangered Species Act Issues

Valley Water's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA") and the California Endangered Species Act ("CESA"). The listing of winter-run Chinook salmon in 1989 and delta smelt in 1993 resulted in pumping restrictions imposed on the State and federal water projects to protect these species. These pumping restrictions resulted in reduced deliveries from the SWP and CVP, compounding the shortages created by the on-going drought at the time. In 1993, the United States 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. These circumstances led to the Bay-Delta Accord in 1994, in which the State and federal governments, along with urban, agricultural and environmental interests, agreed to an interim set of ESA protection measures coupled with water supply certainty. The Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Reform Act and Delta Plan, and the proposed Delta Conveyance Project (See the below caption "—California Water Policy Framework") to develop a long-term solution for conflicts in the Bay-Delta. However, there has been significant recent litigation concerning ESA and CESA issues and water moving through the Delta for export to contractors.

Various legal actions have been filed, and are anticipated to be filed, involving the conveyance of water through the Delta by DWR, via the SWP, and by USBR, via the CVP.

2019 Revised Federal Biological Opinions Litigation. Three significant lawsuits have been filed against the United States challenging as unlawful, revised biological opinions ("BOs") issued in October 2019 by the National Marine Fisheries Service ("NMFS") and the United States Fish and Wildlife Service ("FWS"). The State (though its natural resources agencies) filed one of these lawsuits in February 2020 (*California Natural Resources Agency, et al. v. Ross*). Another lawsuit was filed by environmental groups in December 2019 (*Pacific Coast Federation of Fishermen's Association, et al. v. Ross*), and a third lawsuit was filed by other environmental groups, the Central Delta Water Agency and the South Delta Water Agency in May 2020, (*AquaAlliance et al. v. United States Bureau of Reclamation*). These cases have been consolidated before Judge Drozd in the United States District Court for the Eastern District of California, Case Nos. 20-cv-00431, 20-cv-00426, and 20-cv-00878.

The foregoing three lawsuits allege violation of the Administrative Procedure Act (“APA”), the ESA and the National Environmental Policy Act (“NEPA”). Such cases arise from the BOs and associated permits issued by the FWS and NMFS under the ESA for the long-term, coordinated operations of the CVP and the SWP, and USBR’s reliance upon those opinions and permits. For the last decade, the SWP and CVP operations have been controlled by a pair of BOs issued in 2008 and 2009 by FWS and NMFS, respectively, and their reasonable and prudent alternatives (“RPAs”). 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. DWR and USBR worked to refine operations of the SWP and CVP to reflect water quality regulations, existing ESA restrictions, updated hydrology, developing scientific data, and enhanced real-time monitoring capacity. In January of 2019, USBR issued a Biological Assessment that proposed a new long-term operating plan that would control through 2030. On July 1, 2019, NMFS released a draft BO that found the proposed plan would cause jeopardy and included an RPA. DWR and USBR continued to work with the FWS and NMFS to refine the proposed operations to prevent jeopardy. On October 21, 2019, NMFS and FWS issued new BOs that concluded that the long-term operations plan would not cause jeopardy. On February 19, 2020, USBR completed its NEPA review of the long-term operating plan and issued a Record of Decision adopting the October 2019 BOs.

In these cases, the State and environmental groups allege that NMFS and FWS violated the APA in reaching no jeopardy conclusions in the October 2019 BOs. The State and such environmental groups also allege that USBR violated the ESA by relying on the BOs and that USBR failed to comply with NEPA in issuing its Record of Decision.

Many water agencies, districts, authorities and other government entities have either intervened in these cases or have filed motions to intervene that remain pending. These include, for example, the State Water Contractors association (“SWC”), San Luis & Delta-Mendota Water Authority, Westlands Water District, Tehama-Colusa Canal Authority, Sacramento River Settlement Contractors.

In two cases, the State and environmental groups brought motions for a preliminary injunction seeking to prevent USBR from implementing the new long-term operations plan and asking the court to require the federal defendants to abide by the 2008 and 2009 BOs pending a determination on the merits of their claims. The Court granted the preliminary injunction for one aspect of the operations plan for a limited amount of time in May 2020 and denied the preliminary injunction for all other aspects.

Depending on the outcome of the litigation, SWP and CVP water supplies may be slightly higher or remain similar to levels from 2009 through 2019 under the 2009 biological opinion.

California Incidental Take Permit and SWP Long-Term Operations EIR Litigation. To Valley Water’s knowledge, between five to seven lawsuits have been filed against the State in three or four different Superior Courts by State and federal water contractors and by environmental groups concerning the DWR’s March 2020 Final Environmental Impact Report (“EIR”) and the California Department of Fish and Wildlife’s (“CDFW”) Incidental Take Permit (“ITP”) for the long-term operation of the SWP. Under CESA, DWR is required to obtain an ITP to minimize, avoid and mitigate impacts to threatened or endangered species, including the Delta Smelt and other fish species, as a result of SWP operations. In past years, DWR obtained coverage for SWP operations under CESA by securing a “consistency determination” from CDFW based on BOs issued by the NMFS and FWS. In 2018, as federal agencies were working to update their BOs, President Trump issued a Presidential Memorandum to accelerate their completion. In February 2019, DWR and CDFW announced that they would pursue a separate State permit to ensure the SWP’s compliance with the CESA.

In November 2019, DWR issued its draft EIR for long-term operations of the SWP. The draft EIR found that the project would have no significant environmental impacts. However, the draft EIR also discussed several project alternatives, including “Alternative 2[b]-Proposed Project with Dedicated Water for Delta Outflow from SWP.” In December 2019, DWR applied to CDFW for an ITP under the CESA. Despite the draft EIR finding of no significant impact, in its ITP application, DWR described the project in terms

closer to Alternative 2b than what it had originally proposed. On March 27, 2020, DWR certified its final EIR, which adopted “Refined Alternative 2b” as the approved project. However, “Refined Alternative 2b” includes several project components that were neither described in the original project description nor in Alternative 2b. In announcing its final EIR, DWR also announced that it does not expect long-term SWP operations to result in an increase in the amount of water exported south of the Delta as compared to that under the prior 2008/2009 federal BOs. On March 31, 2020, CDFW issued an ITP consistent with the final EIR. The ITP and Final EIR will significantly limit exports in wetter years as compared to what is allowed under the 2019 revised federal BOs, with potential reductions of up to 400,000 acre-feet in April and May. The EIR and ITP apply only to SWP operations, not CVP operations.

In April 2020, Metropolitan Water District and Mojave Water Agency jointly filed suit against the State in Fresno Superior Court, as did the San Luis & Delta Mendota Water Authority, Friant Water Authority, and the Tehama Colusa Canal Authority. SWC and Kern County Water Agency jointly filed another lawsuit. These lawsuits allege, among other things, that the State violated CEQA or CESA by: (a) changing the project description after the draft EIR and certifying new “Refined Alternative 2b” without adequate disclosure or public comment; and (b) failing to use the best available science and requiring unnecessary and unjustified fish avoidance and mitigation measures. Metropolitan Water District and Mojave Water Agency also allege in their lawsuit that the State breached its SWP contract by agreeing to mitigation measures stronger than necessary under the CESA, reducing the amount of water that will be delivered and increasing charges. In contrast, the Sierra Club, Center for Biological Diversity and two other environmental groups jointly filed suit against the State in San Francisco Superior Court, alleging that the final EIR and ITP violate the Delta Reform Act and CEQA and do not go far enough in protecting threatened fish species. The Sierra Club, Center for Biological Diversity and the environmental groups allege that the final EIR And ITP allow too much water to be exported south of the Delta and fail to account for the cumulative impacts of SWP operations. Finally, they allege DWR violated CEQA by failing to analyze the Delta Conveyance Facility, the single tunnel project proposed by Governor Newsom. See the caption “—California Water Policy Framework” below. The foregoing lawsuits could be coordinated and consolidated.

The final EIR and ITP could result in less SWP water being exported south of the Delta than would otherwise be authorized under the 2019 revised federal BOs. Valley Water cannot determine at this time whether the final EIR and ITP will result in less SWP water being delivered to contractors than had been delivered for 11 years under the former (2008 and 2009) federal BOs.

Bay-Delta and Imported Water Litigation

Delta Stewardship Council Delta Plan Litigation. In 2013, the federal government, SWP contractors, including Valley Water, and several environmental groups, filed suit against the Delta Stewardship Council (“DSC”), challenging its Bay-Delta Plan. The Delta Reform Act of 2009 (“DRA”) established the co-equal goals of restoring the Bay-Delta ecosystem and increasing the reliability of Delta water supplies. The DRA also created the DSC, which was charged with developing a plan that accomplishes these goals. SWC and Valley Water allege that the Bay-Delta Plan violates the DRA because, among other things, its Regulation WR P1 provides that the DSC may reject any projects involving water moving through the Bay-Delta if local agencies do not demonstrate efforts to reduce local water demand, improve efficiency and/or increase local water supplies. Environmental groups sued the DSC alleging that the Bay-Delta Plan violates the DRA because it does not set forth enforceable, quantified minimum water flows or other measurable objectives. The trial court held that the Bay-Delta Plan violated the DRA because it did not set forth quantified water flow objectives or other measurable limits.

In 2020, the Court of Appeal issued an opinion rejecting the arguments of both the SWP contractors and environmental groups, holding that the Bay-Delta Plan does not violate the DRA. The Court of Appeals rejected the SWP contractors’ arguments that the Bay-Delta Plan exceeded the DSC’s jurisdiction by regulating local water agencies and local water use by requiring agencies to demonstrate reduced reliance on the Delta, as well as their other arguments. The Court of Appeals also rejected the argument that the Bay-

Delta Plan violates the DRA because it does not contain quantified or measurable water flow limits or targets. The Court of Appeals' decision could impact SWP contractors' ability to participate in multi-year water transfers if a SWP contractor, such as Valley Water, is unable to demonstrate reduced reliance on imported Delta water to the satisfaction of the DSC, which may require proof of local retail water agencies or purveyors showing reduced reliance on imported water. However, single-year water transfers are not impacted, as the DRA expressly exempts such transfers.

Bay-Delta Water Quality Control Plan Phase 1 Amendments Litigation. In late 2018, the SWRCB released its "Phase 1" amendments to the San Francisco Bay/Sacramento - San Joaquin Delta Estuary Water Quality Control Plan ("Bay Delta WQCP"), which addressed water quality objectives on the Lower San Joaquin River, its tributaries, and the southern Delta. Phase 2 amendments will focus on the Sacramento River, its tributaries and the northern and central Delta. Among other things, the Phase I amendments require an adaptive 30% – 50% unimpaired flow requirement on all major tributaries to the San Joaquin River, including the Tuolumne River, from which the SFPUC Hetch-Hetchy system obtains its water supplies. The SWRCB announced that it anticipates in forthcoming Phase 2 amendments concerning the Sacramento River and its tributaries and north and central Delta, that it expects to impose a higher, adaptive 45% – 65% unimpaired flow requirement.

Approximately 24 entities, including Valley Water, filed suit against the SWRCB in 13 lawsuits concerning the Phase I Bay-Delta WQCP amendments. Such lawsuits have been consolidated in Sacramento Superior Court in Case No. JCCP 5013. Several water and irrigation districts, environmental groups, the cities of San Francisco and Modesto, the United States, and one Indian tribe are plaintiffs/petitioners. The public agency plaintiffs allege that the flow requirements are arbitrary and capricious, not based on the best available science, or are too restrictive of, or alter, water rights; and the environmental groups allege they are not protective of fish enough. This consolidated litigation is in an early stage. Valley Water's expects to file a dismissal in this matter and to address the issues raised in the lawsuit through a voluntary agreement process. The Phase 1 amendments as well as the anticipated Phase 2 amendments could reduce the supply of imported water available to Valley Water, SFPUC, and other State and federal water contractors.

Litigation Relating to Monterey Amendments to SWP Contract. In late 1994, SWP contractors and DWR entered into an agreement in Monterey to substantially amend the standard SWP contract. In 1995 the first of several CEQA lawsuits challenging the "Monterey Amendments" was filed after a SWP contractor prepared an EIR for these amendments. That case settled after DWR agreed to prepare a new EIR for the Monterey Amendments, which was named the "Monterey Plus" project. In 2010, DWR certified its final Monterey Plus EIR. Central Delta Water Agency and several NGOs filed suit against DWR thereafter (Sacr. Sup. Ct. Case No. 34-2010-80000561) ("*Central Delta I*"), alleging that the Monterey Plus EIR violated CEQA because it failed to provide an adequate description of the project and its impacts, failed to adequately analyze alternatives and mitigation measures, contained inadequate responses to public comments, and was not properly circulated. The plaintiffs also alleged that DWR's CEQA findings were not supported by substantial evidence. A related lawsuit was filed, *Rosedale-Rio Bravo Water Storage District v. DWR* (Sacr. Sup. Ct. Case No. 34-2010-80000703), alleging only that the Monterey Plus EIR failed to adequately analyze the operations of the proposed Kern Water Bank). Finally, the Central Delta Water Agency filed a second, separate lawsuit challenging the validity of the transfer of the Kern Water Bank from the Kern County Water Agency to the Kern Water Bank Authority (Sacr. Sup. Ct. Case No. 34-2010-80000719, "*Central Delta II*"). These three actions were ordered related and assigned to a Sacramento Superior Court Judge. *Central Delta II* has been stayed pending resolution of *Central Delta I*.

In a decision in 2014 in *Central Delta I* and *Rosedale-Rio Bravo*, the court upheld the majority of the Monterey Plus EIR. However, the court found that the Monterey Plus EIR did not sufficiently analyze or address the operation of the Kern Water Bank and issued a writ for DWR to further analyze its operations and recertify the Monterey Plus EIR. The *Central Delta I* plaintiffs appealed the rejection the CEQA claims (Ct. of App. 3d. Dist. Case No. C078249). The parties completed appellate court briefing in July of 2016. This case remains pending, as the Court of Appeal has not yet issued a decision.

As ordered by the trial court, DWR conducted further environmental review of the Kern Water Bank, and, in 2016, issued its revised EIR: “Monterey Plus — Kern Water Bank Development and Continued Use Operation.” The Center for Food Safety and other NGOs (represented by *Central Delta I & II*’s counsel) filed suit shortly thereafter, alleging various CEQA violations (*Center for Food Safety v. DWR*, Sac. Sup. Ct. Case No. Case No. 34-2016-800002469). The court denied all of plaintiffs’ claims in an order and judgment in October 2017, and plaintiffs appealed. The parties completed appellate court briefing approximately 20 months ago, and this action is also pending in the Court of Appeal (Ct. of App. 3d Dist. Case No. C086215).

DWR SWP Contract Long-Term Extension Validation Action. DWR filed a validation action in Sacramento County Superior Court in 2018 (Sac. Sup. Ct No. 34-2018-00246183) to validate the legality of its approval of long-term extensions of all SWP contracts, including Valley Water’s contract. A judgment in favor of DWR would provide that the matters contained therein are in conformity with applicable law, as set forth in such validation action. However, there can be no assurance that a court exercising equitable powers or judicial discretion would not hear an action challenging the matters set forth in such judgment. In February 2019, Valley Water filed an answer supporting DWR’s allegations, as did several other SWP contractors. However, several environmental groups and counties and districts filed answers or separate actions opposing DWR’s approval, asserting that the approval violates CEQA, the Public Trust Doctrine and the DRA. This case is in its initial procedural stage. All cases have been consolidated and assigned to Judge Culhane, and the administrative record is being prepared.

Oroville Spillway Environmental Damage Cases. In response to record rainfall in early 2017, DWR’s Oroville Dam filled and excess water ran down its spillway (as designed). The spillway, however, failed and caused water and debris to be released, uncontrolled, into the Feather River. The District Attorney of Butte County (People of State of CA v. DWR) and other individuals and entities have filed suit for environmental damage or property damage resulting from the spillway failure. These cases have been consolidated in Sacramento Superior Court Case No. JCCP 4974. The Butte County District Attorney is seeking \$51 billion in damages (\$25k/day penalty + \$10/pound of spillway and materials discharged into river) under Cal. Fish & Game Code § 5650. Although Article 13(b) of the SWP contract provides that contractors are not liable for DWR’s operation or maintenance of SWP structures or facilities before their turnouts, DWR maintains that ultimately, regardless of legal liability, all costs of the SWP system must be borne by SWP contractors rather than the general public, and thus DWR may bill contractors or raise SWP costs to recover expenditures related to this litigation (cost of litigation, settlements, damages awards/verdicts). DWR has provided additional information with respect to the foregoing cases in its most recent official statement referenced under the caption “SANTA CLARA COUNTY WATER SUPPLY—State Water Project.” If a judgment in this case resulted in the award in the amount of the maximum damages being sought by Butte County and it was determined that DWR could recover these cost from SWP contractors, Valley Water’s share could be approximately \$1.3 billion. Valley Water cannot predict the outcome of this litigation or the damages in the event that Butte County prevails.

DWR’s cost estimate for the Oroville Spillways Emergency Recovery Project is currently \$1.1 billion, but no determination has been made as to the amount for which SWP contractors will ultimately be responsible. The Federal Emergency Management Agency’s (“FEMA”) Public Assistance program allows for the reimbursement of up to 75 percent of eligible costs for federally declared disasters. As a result, DWR has issued debt for 25 percent of total project costs, resulting in an annual increase of about \$635,000 to Valley Water’s Statement of Charges. To date, FEMA has reimbursed DWR for approximately 50 percent of total project costs and DWR is considering appeal of this decision. If DWR is not successful in obtaining further reimbursement from FEMA and instead issues debt to be repaid by SWP contractors, Valley Water’s share of project costs could increase by an additional \$635,000 per year.

Valley Water cannot predict the outcome of these Delta-related cases. However, Valley Water believes that any new decision or order by a State or federal court related to one or more of the above-described biological opinions and leading to adverse decisions reducing State Water Project and/or Central

Valley Project supplies would not have a material impact on Valley Water's ability to pay debt service on the 2020 Bonds or the Installment Payments.

California Water Policy Framework

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

SWRCB Order 90-5 establishes water right requirements on the USBR's operations of Keswick Dam, Shasta Dam, the Spring Creek Power Plant and the Trinity River Division. Such requirements relate to temperature control in the Upper Sacramento River for the protection of fishery resources and require monitoring and reporting to evaluate compliance. The National Marine Fisheries Service also imposes requirements on USBR's operations related to temperature control in the Upper Sacramento River through terms and conditions contained in the 2019 biological opinion and incidental take statement for long-term operations of the Central Valley Project and State Water Project. These regulations have the potential to reduce available CVP exports; however, it is unlikely that exports would be reduced beyond levels that were permitted from 2009-2019 under the 2009 biological opinion. The 2019 biological opinion requirements are being challenged in the United States District Court for the Eastern District of California, Case Nos. 20-cv-00431, 20-cv-00426, and 20-cv-00878. See the caption "*Endangered Species Act Issues—2019 Revised Federal Biological Opinions Litigation.*"

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. If implemented, the new criteria could result in a significant reduction of supplies delivered from SFPUC to the County, which could result in increased demands for Valley Water supplies or groundwater pumping to offset the loss.

On January 11, 2019, Valley Water 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 Valley Water and the supplemental imported water supplies available to Valley Water in the event that the Phase 1 Amendments and the accompanying Substitute Environmental Document (“SED”) are implemented by the SWRCB. Valley Water 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 Valley Water or supplemental imported water supplies available to Valley Water.

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. If the proposed unimpaired flows are implemented, there could be significant reductions in the availability of SWP and CVP water supplies to Valley Water. Valley Water cannot predict the outcome of these proposals and whether there will be any material adverse effect on Valley Water’s ability to pay debt service on the 2020 Bonds or to make the Installment Payments.

On December 12, 2018, during the SWRCB hearing to consider adoption of the Phase 1 Amendments, the Directors of the DWR and CDFW presented a framework for a Voluntary Agreement between DWR, CDFW, water users in the San Joaquin and Sacramento watersheds, SWP and CVP contractors, and members of the conservation community that would provide more modest additional flows for fish and wildlife combined with commitments to contribute substantial funding for structural habitat improvements and scientific investigations. At the hearing the SWRCB directed its staff to provide appropriate technical and regulatory information to assist the California Natural Resources Agency in completing the agreement as a potential alternative for a future Bay-Delta Plan update. The Delta litigation described above under the caption “—Endangered Species Act Issues” has largely stalled progress on developing these Voluntary Agreements.

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 NEPA 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 the “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.

The new conveyance facilities being reviewed would include a single 6,000 cfs tunnel to convey water from the new intakes to the existing Harvey O Banks Pumping Plant with alternatives of different capacities and a potential connection to the federally owned C.W. “Bill” Jones Pumping Plant in the south Sacramento-San Joaquin Delta. The planning environmental review and conceptual design work related to such environmental review by DWR is expected to take approximately 18 to 36 months.

On May 8, 2018, the Board authorized Valley Water to be a member of the Delta Conveyance Design and Construction Joint Powers Authority (“DCA”). The DCA was originally formed for the purpose of implementing the design and construction of the California Water Fix project and currently is participating in the implementation of the Delta Conveyance project. The Board also authorized Valley Water’s participation in the Delta Conveyance Finance Authority (the “Financing JPA”) on July 6, 2018. While Valley Water has joined the DCA and the Financing JPA, Valley Water 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 Valley Water’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. Valley Water does not expect to pay any administrative fee to the Financing JPA in Fiscal Year 2020-21.

In August 2020, the DCA provided a preliminary cost estimate for the Delta Conveyance project of approximately \$15.9 billion (in 2020 dollars). The DCA noted that such estimate has been developed at an early stage in the project and will be revised over time.

On August 6, 2020, DWR filed a validation action in Sacramento Superior Court to, among other issues, confirm that DWR has the statutory authority to issue revenue bonds to pay for: (1) the costs of environmental review, planning, engineering and design of the single tunnel Delta Conveyance alternative and (2) if and when such facilities are approved, the costs of the acquisition and construction thereof. The timing and outcome of the validation action cannot be predicted by Valley Water at this time.

On September 24, 2019, Valley Water Board of Directors declared its support for the development of a single tunnel Delta Conveyance project and approved guiding principles for Valley Water’s involvement in the Delta Conveyance project.

Since July 24, 2019, the SWP contractors and DWR have been engaged in negotiations to amend the SWP contract for inclusion of the Delta Conveyance project. The amendment is intended to determine how costs of this facility would be shared among SWP contractors. If Valley Water executes the amendment and the Delta Conveyance project is constructed, Valley Water would be obligated to pay for its share of capital construction costs and future operations and maintenance costs. On January 15, 2020, DWR published its Notice of Preparation of an environmental impact report for the Delta Conveyance Project to begin its process for compliance with CEQA. On April 30, 2020 the SWP contractors and DWR agreed upon a draft Final Agreement in Principle memorializing terms to include the Delta Conveyance project in the SWP contract. Subsequently, several SWP contractors signaled that they are not supportive of the Delta Conveyance project as currently envisioned, and do not plan on executing the amendments. Valley Water cannot make any predictions with respect to the approvals necessary for the Delta Conveyance Project to proceed or the timing thereof. Valley Water also cannot predict at this time what additional financial commitments to the Delta Conveyance project will be made.

On August 20, 2020, the U.S. Army Corps of Engineers, as the lead agency for the Delta Conveyance project under NEPA, issued a notice of intent for the development of the environmental impact statement for the Delta Conveyance Project. The draft environmental impact statement is currently scheduled to be available for public review and comment in mid-2021, however, no assurances can be made that such schedule will not be revised.

Allocation of Water Deficiencies

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

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

Water Banking

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

Over the past twenty-five years, Valley Water has stored about 595,000 acre-feet of water in Semitropic Groundwater Banking Program and withdrawn about 235,000 acre-feet of supply. As of December 31, 2019, Valley Water had approximately 350,000 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 Valley Water would be significantly affected along with other imported water deliveries from Valley Water's SWP and CVP contracts. Because the Semitropic Groundwater Banking Program is located in Kern County downstream of Valley Water, banked water must be returned by exchange with SWP water from the Delta. In critically dry years or in the event of a Delta disruption, there may be

insufficient SWP supplies to facilitate withdrawal of supplies from the bank. To date, all of Valley Water's withdrawal requests have been accommodated, but the risk to future withdrawals remains, especially in dry and critically dry years. To the extent that SWP water may be conveyed through or is stored in the San Luis Reservoir and is available, deliveries from the Semitropic Groundwater Banking Program could be accomplished through the San Felipe Division.

In compliance with the State Sustainable Groundwater Management Act (the "SGMA"), Semitropic Water Storage District formed a groundwater sustainability agency (the "Semitropic GSA"). The Semitropic GSA is coordinated at the sub-basin level by the Kern Groundwater Authority (the "KGA"), which includes other neighboring groundwater sustainability agencies. The Semitropic GSA, under the KGA basin-wide effort, submitted a groundwater sustainability plan (the "GSP") to DWR in December 2019, which is currently under DWR's technical review. While Valley Water does not currently expect that SGMA or the activities of the Semitropic GSA or the KGA resulting therefrom will have a material adverse effect on Valley Water's ability to pay principal and interest on the 2020 Bonds or the Installment Payments, Valley Water is monitoring the Semitropic GSA's and the KGA's activities with respect to SGMA. Valley Water cannot predict what effect, if any, Semitropic GSA or KGA activities with respect to the SGMA will ultimately have on the water currently stored, or water which may be stored or withdrawn in the future, by Valley Water in the Semitropic Groundwater Banking Program. See the caption "POTENTIAL INVESTMENT CONSIDERATIONS—Risks Related to Water Utility System Facilities and Operation—*Sustainable Groundwater Management Act*."

Valley Water's Local Water Right Permit and Licenses

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

In 1997, Valley Water commenced settlement negotiations with GCRCD as well as with NMFS, U.S. Fish and Wildlife Service, CDFW, and other interested non-governmental non-profit organizations in an effort to resolve GCRCD's complaint (collectively referred to as the "Settlement Parties"). Settlement negotiations occurred through a process established by Valley Water called the Fisheries and Aquatic Habitat Collaborative Effort ("FAHCE"). On May 27, 2003, a conditional settlement was initialed by the Settlement Parties, which set forth a pathway to resolve the water rights complaint. This settlement agreement, entitled, *Settlement Agreement Regarding Water Rights of the Santa Clara Valley Water District on Coyote, Guadalupe, and Stevens Creeks* ("FAHCE Settlement Agreement") committed Valley Water to carrying out certain conditions precedent including completing an environmental review and obtaining state and federal regulatory approvals of certain Valley Water reservoir reoperations measures, scientific studies, and restoration measures (collectively referred to as the "FAHCE Restoration Program"), and amending Valley Water's challenged water rights and permit in substantial conformity to the FAHCE Settlement Agreement. Once the conditions precedent are completed, the FAHCE Settlement Agreement obligates Valley Water to carry out the FAHCE Restoration Program. Although Valley Water is not required to implement the FAHCE Restoration Program until the conditions precedent are completed, Valley Water has implemented a number of the restoration measures for the protection of fish and wildlife resources with the expectation of receiving credit towards its restoration requirements under the FAHCE Settlement Agreement.

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

Under the terms of the FAHCE Settlement Agreement, Valley Water conditionally agreed to undertake restoration measures at a cost not to exceed \$42 million for each of three consecutive 10-year phases (for a total of \$126 million over the three 10-year phases). Costs for activities to complete the conditions precedent, including environmental review and permitting, do not count against this cap. Actual costs for the restoration measures over these 30 years could exceed \$126 million if the projects are expanded to accomplish additional Valley Water goals. Beyond the end of the third phase, Valley Water is obligated to continue the benefits obtained from the restoration measures for as long as Valley Water is diverting water under its appropriative water right licenses and permit. The first phase will begin after completion of all conditions precedent and execution of the FAHCE Settlement Agreement by all Settlement Parties. Valley Water's financial forecasts integrate these cost estimates and Valley Water expects to pay for the costs of the FAHCE Restoration Program and the FAHCE Settlement Agreement through rates and charges of its Water Utility System. Rate projections in the 2020 PAWS Report include planned funding of costs over the next 10 years for implementation of the FAHCE Restoration Program and the FAHCE Settlement Agreement, including \$42 million for phase one restoration measures. Although the FAHCE Settlement Agreement limits Valley Water's contribution to the FAHCE Restoration Program at \$126 million, Valley Water may be required to expend additional amounts to satisfy state and federal regulatory requirements that may be imposed in the future to operate and maintain Valley Water's water utility facilities in the Coyote and Stevens Creeks, and Guadalupe River watersheds.

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

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

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

local water rights. Defending against a water rights challenge can be expected to result in increased litigation costs that are expected to be paid from rates and charges of the Water Utility System.

California Drought Management

Governor's Executive Orders. Hydrological conditions in California can vary widely, both in location and from year to year. 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.

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 extended through January 31, 2017. The 2016 SWRCB Regulation requires urban water suppliers, including retail water agencies within Valley Water, 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 Valley Water, as a wholesaler, to develop a conservation standard, Valley Water 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, Valley Water posted the report required by the 2016 SWRCB Regulation to Valley Water’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 Valley Water’s projected operating results set forth under the caption “FINANCIAL INFORMATION OF VALLEY WATER—Projected Operating Results and Debt Service Coverage.” As such, Valley Water continues to review and balance water use and conservation targets with financial planning. Valley Water is obligated under the Parity Master Resolution to set rates and charges which are reasonably expected to provide Net Water Utility System Revenues at least to 1.25 times the sum of all Debt Service due in each Fiscal Year as more particularly described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES—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. Valley Water believes that the actions it has taken described under the caption "*—Valley Water Drought Response Actions and Impact*" below will achieve the reductions required by Senate Bill 606 and Assembly Bill 1668. Valley Water'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 VALLEY WATER —Historical and Projected Operating Results and Debt Service Coverage" reflect the conservation targets that Valley Water has set to meet the requirements of Senate Bill 606 and Assembly Bill 1668.

Valley Water Drought Response Actions and Impact. Valley Water projects that it will be able to meet existing demands for at least the next three years even if dry conditions return, provided retailers continue to achieve high levels of water savings. Valley Water is currently calling for a voluntary 20% water use reduction. To promote a drought-resilient water supply portfolio, Valley Water is expanding its 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. Valley Water will continue augmenting local supplies by using water from the Semitropic Groundwater Banking Program, purchasing supplemental water supplies as needed, and increasing water reuse. Valley Water also completed its Water Supply Master Plan in November 2019, which identifies the programs and projects that are needed to further ensure a reliable water supply. See the caption "FACTORS AFFECTING WATER SUPPLIES—General" for more information.

WATER QUALITY

Groundwater

Groundwater in the County is generally of high quality, except for elevated nitrate, which primarily affects domestic water supply wells in the southern portion of the County (Coyote Valley and Llagas Subbasin). Per- and poly-fluoroalkyl substances, a group of contaminants not currently regulated with maximum contaminant levels, have been detected in certain groundwater wells as described below. Water retailers within the County 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.

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

Valley Water also engages in policy and project review with land use agencies on activities that may affect groundwater quality. Similarly, Valley Water also provides technical input to regulatory agencies, such as the Regional Water Quality Control Board, the Department of Toxic Substances Control, and the EPA for certain cleanup sites and the development of standards for groundwater protection. Valley Water is continuing to support the Central Coast Regional Board's efforts to regulate perchlorate cleanup in the Llagas Subbasin. Cleanup is progressing well, with fewer than ten domestic wells requiring replacement water as of December 2019. In addition, Valley Water is working closely with the Central Coast Regional Board, to ensure that the long-term corrective action plan meets the community's interests for water supply and groundwater cleanup.

On November 22, 2016, the Board adopted the 2016 Groundwater Management Plan to comply with the SGMA. This plan documents Valley Water goals, strategies, programs, and performance metrics to continue to sustainably manage local groundwater resources and ensure their long-term viability. The plan was submitted to DWR as an Alternative to a Groundwater Sustainability Plan for both the Santa Clara and Llagas Subbasins and was approved by DWR in July 2019.

In 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. If exceeded, water providers must notify their governing bodies, and the SWRCB recommends they inform customers. In early 2020, the SWRCB also set the response levels at 10 parts per trillion for PFOA and 40 parts per trillion for PFOS. If exceeded, water providers are required to either take the water source out of service, provide treatment, or notify customers in writing.

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

As part of the SWRCB orders, Valley Water was required to test PFAS at the Campbell Well Field. Valley Water detected PFOA and PFOS in two of the three water supply wells owned for emergency backup supply. No water from these wells has been delivered to water retailers (or consumers), and the levels of PFOA and PFOS detected are below the notification levels set by the SWRCB. Valley Water conducts voluntary, ongoing groundwater testing of PFAS in monitoring wells in limited areas near recycled water irrigation sites since PFAS are often found in wastewater. This includes one site in the Santa Clara Subbasin and multiple sites in the Llagas Subbasin. At the Santa Clara Subbasin site, PFOA and PFOS are sporadically detected above current health advisory levels in shallow monitoring wells. In the Llagas Subbasin sites, PFOA and PFOS are consistently detected above current health advisory levels in some monitoring wells. These wells are not used for drinking water supply.

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

above the SWRBC notification levels, but these regional results and other available data indicate that PFOA and PFOS are not widely present above current SWRCB notification levels.

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

Valley Water continues to track and engage in regulatory and technical developments related to PFAS, and to work with local water retailers and other agencies to understand the occurrence, extent, and potential source of PFAS in local groundwater.

While one retailer has voluntarily taken some wells out of service, Valley Water does not believe at this time that the response level for PFOA and PFOS implemented by the Division of Drinking Water will result in a material reduction in pumping of groundwater within Valley Water's service area. Valley Water cannot, however, predict the extent of the impact to groundwater pumping within Valley Water's service area as a result of the response levels.

Surface Water

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

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

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

Treated Water

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

Over time, the EPA has enacted, and California has subsequently adopted, new drinking water regulations affecting the treatment of surface waters. These key regulations are the Interim Enhanced Surface Water Treatment Rule (IESWTR), the Long Term 1 and Long Term 2 Surface Water Treatment Rules (LT1 and LT2), and the Stage 1 and Stage 2 Disinfectant/Disinfection By-Products Rules (DDBPR). The regulations were enacted in segments with the IESWTR and the DDBPR (Stage 1) going into effect by 2001 and the LT2 and DDBPR (Stage 2) becoming effective in January of 2006. In order to assure compliance with these regulations Valley Water developed major capital improvement projects for its treatment plants. The projects are referred to as the Treated Water Improvement Project Stage 1 (TWIP1) and the Treated Water Improvement Project Stage 2 (TWIP2), and correspond to the grouping of the four regulations. The TWIP1 was implemented at all three of Valley Water's drinking water treatment plants and was completed in 2002. The TWIP2 was implemented at two treatment plants and was completed in 2006. The third plant (Rinconada WTP) is incorporating upgrades of the TWIP2 into a larger project known as the Reliability Improvement Project (RIP) that is targeted for completion in 2023.

Valley Water's three water treatment plants: Santa Teresa WTP, Rinconada WTP, and Penitencia WTP, provide high-quality treated water to the residences and businesses in the County. Two of the treatment plants, Santa Teresa WTP and Penitencia WTP utilize a conventional treatment process of flocculation, sedimentation, filtration, and disinfection to provide high-quality water. As part of TWIP2, these two treatment plants added advanced treatment technologies, including ozone as the primary disinfectant. The improvements ensure that Valley Water continues producing high-quality drinking water that meets recent and future more stringent drinking water standards. Valley Water brought ozone systems on-line at Santa Teresa WTP in January 2006 and at Penitencia WTP in July 2006. Construction of the comparable RIP project broke ground in July 2015 at the Rinconada WTP, Valley Water's oldest treatment facility. In 2016, Valley Water started adjusting the fluoride level of drinking water to prevent tooth decay. The Santa Teresa WTP and Penitencia WTP began fluoridation on December 2016 and on July 2017, respectively. The Rinconada WTP is slated to begin fluoridating in 2023.

CAPITAL IMPROVEMENT PROGRAM

Future Water Utility System Improvements

The report on the capital improvement program for Fiscal Years 2020-21 through 2024-25 was approved by the Board on February 25, 2020. Valley Water currently expects to undertake approximately \$1.4 billion of improvements to the Water Utility System from Fiscal Years 2020-21 through 2024-25. Valley Water expects to fund approximately 70% of such costs from additional debt issuance and the balance from other non-financing sources.

With regards to investments to expand its water supply portfolio, Valley Water 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 early 2021. This effort is consistent with Valley Water's earlier response to prior droughts which was to evaluate the production of purified water for potable water reuse to expand the County's water supply (the "Expedited Purified Water Program").

On December 10, 2019, Valley Water's Board of Directors approved a 76 year agreement with the cities of Palo Alto and Mountain View to secure a minimum of 9 million gallons a day (MGD) of wastewater

effluent through an effluent transfer option. Under the agreement, Valley Water will pay \$200,000 per year up to 13 years plus an additional \$16 million. Such amounts would fund a salt removal facility in the City Palo Alto to provide higher quality of recycled water for irrigation and cooling towers. If Valley Water exercises its option, the 9 MGD of effluent would be delivered to a regional purification facility to be constructed. The purified water, which would be a locally-controlled drought resilient supply, could be used for either indirect potable reuse (e.g. recharge local groundwater basins) or direct potable reuse (raw water or treated water augmentation, subject to future regulatory requirements). If Valley Water exercise the option, Valley Water would pay \$1 million per year for the effluent plus an inflation escalator for the 76-year term of the agreement.

On June 16, 2020, the Board reaffirmed its intention to engage in a public-private-partnership (P3) project delivery method for the Expedited Purified Water Program through a request for qualification process. Valley Water staff plans on updating the project scope, timing, and procurement process for the project and qualification of potential P3 partner in Fiscal Year 2021. 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.

Valley Water is currently in the design phase of the ADSR Project. See the caption “VALLEY WATER FACILITIES—Anderson Dam Seismic Retrofit Project and FERC Directive.”

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

Valley Water has undertaken initial steps to develop an expansion of the Pacheco Reservoir (the “Pacheco Reservoir Expansion Project”) to be owned and operated by Valley Water. The Pacheco Reservoir Expansion Project is planned to expand storage capacity of the existing reservoir (currently owned by the Pacheco Pass Water District) on the north fork of Pacheco Creek from approximately 6,000 acre-feet to approximately 140,000 acre-feet. The Pacheco Reservoir Expansion Project is expected to be a partnership among Valley Water, the Pacheco Pass Water District, and the San Benito County Water District. Valley Water’s Maximum Conditional Eligibility Determination (MCED) of up to \$484.5 million and early funding amount of \$24.4 million were determined by the California Water Commission on July 24, 2018. Valley Water expects such funds to be available to fund a portion of the cost of the Pacheco Reservoir Expansion Project, subject to the terms and conditions of Proposition 1.

The Pacheco Reservoir Expansion Project has been included as an alternative within the San Luis Reservoir Low Point Improvement Project (“SLLPIP”) led by USBR. The SLLPIP Draft Feasibility Report released on April 8, 2019, determined that the Pacheco Reservoir Expansion Project alternative provided the highest National Economic Development score within the SLLPIP. This determination established a nexus for potential partial federal funding opportunity for the Pacheco Reservoir Expansion Project through the WIIN Act. On July 25, 2019, the SLLPIP Draft Environmental Impact Statement/Environmental Impact Report (EIS/EIR) was released and the public comment period ended on September 24, 2019. The SLLPIP Final Feasibility Report and Final EIS/EIR are expected to be completed by the end of 2020. Additional environmental work will need to be undertaken with respect to the Pacheco Reservoir Expansion Project to comply with State and federal environmental laws. Valley Water cannot predict the timing or outcome of such activities. Federal approval of the foregoing reports will be required for potential WIIN Act funding. Valley Water is also currently exploring various financing sources for the Pacheco Reservoir Expansion Project, including funding from the State as described below and from the federal government.

The Sites Reservoir Project is a proposed reservoir of approximately 1.5 million acre-feet to be located in Colusa County. The Sites Reservoir Project would provide storage and additional water supply that

can be used for dry-year benefits. Through Board resolution, Valley Water has provided the Sites Reservoir Project with approximately \$1,736,000 in funding since 2016.

The Los Vaqueros Reservoir Expansion Project is a proposed expansion of the reservoir (owned by Contra Costa Water District) from 160 thousand acre-feet to 275 thousand acre-feet and the improvement of new and existing conveyance infrastructure for moving water into and out of the reservoir. Among the conveyance improvements is the proposed Transfer-Bethany Pipeline, which connects the Los Vaqueros Reservoir to the South Bay Aqueduct. The Transfer-Bethany Pipeline may provide Valley Water access to surplus Delta supplies and operational flexibility in moving CVP and SWP supplies into the County. Valley Water is currently evaluating options for participating in Los Vaqueros Reservoir Expansion Project storage, conveyance (i.e., Transfer-Bethany pipeline), or both. If Valley Water participates in the Los Vaqueros Reservoir Expansion project, then Valley Water would be a member of the joint exercise of powers authority that would oversee the Los Vaqueros Reservoir Expansion project. Through Board resolution, Valley Water has provided the Los Vaqueros Expansion project with approximately \$591,000 in funding since 2016.

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

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

FINANCIAL INFORMATION OF VALLEY WATER

Financial Statements

A copy of the most recent audited financial statements of Valley Water prepared by Valley Water staff and audited by Maze & Associates, Pleasant Hill, California (the “Auditor”) is attached as Appendix A hereto (the “Financial Statements”). The Auditor letter concludes that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Valley Water as of June 30, 2019 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As part of the work to audit Valley Water’s financial statements for the year ended June 30, 2019, the Auditor prepared a report on their information systems review. Valley Water believes that the conclusions of this report will not have a material financial impact on Valley Water.

The Auditor has been engaged to and is currently in the process of performing an audit of Valley Water’s financial statements for Fiscal Year 2019-20. Valley Water expects the audit to be complete for approval by the Board by December 2020.

Valley Water’s government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which Valley Water gives (or receives) value without directly receiving (or giving)

equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

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

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

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

Valley Water is currently researching a change in accounting methodology in which stored water inventory would be valued as an asset on the balance sheet for purposes of future comprehensive annual financial reports. There can be no assurance that such change in accounting methodology will be implemented.

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

Historical and Projected Operating Results and Debt Service Coverage

The following table summarizes Valley Water's combined revenues and expenses relating to the Water Utility System recorded in Fiscal Year 2014-15 through Fiscal Year 2018-19. Historical results have been derived from the Financial Statements of Valley Water but exclude certain non-cash items and include certain other adjustments as required or permitted by the Parity Master Resolution.

Valley Water accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as Valley Water ("GAAP"). In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See Appendix A "—AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS AND COMPLIANCE REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2019 AND

COMPLIANCE LETTER.” Except as otherwise expressly noted herein, all financial information derived from Valley Water’s audited financial statement reflect the application of GAAP.

Fiscal Year 2018-19 Financial Highlights for the Water Enterprise Fund

The following provides a summary of the financial position of Valley Water’s Water Enterprise fund at the end of Fiscal Year 2018-19:

- Net position of the Water Enterprise fund at the end of Fiscal Year 2018-19 was approximately \$744 million, an increase of approximately \$51.2 million from Fiscal Year 2017-18.
- Operating revenues decreased by approximately \$7.5 million or 3.2% from Fiscal Year 2017-18, due to lower volume of groundwater pumped. Partially offsetting this decrease was the \$6.8 million increase in investment income, reflecting positive fair market value gains and higher investment yields.
- Operating expenses decreased by approximately \$11.1 million or 5.9% from Fiscal Year 2017-18, reflecting decreased costs in water deliveries which also resulted in lower water banking expenses.
- Net non-operating revenues were approximately \$1.1 million compared to \$2.3 million in Fiscal Year 2017-18. Collectively, property tax, investment income, and operating grants revenue totaling approximately \$19.7 million (which was higher than the \$13.8 million from Fiscal Year 2017-18) more than offset the approximately \$18.6 million of interest and fiscal agent fees. Interest paid on long-term debt and fiscal agent fees were \$2.6 million higher in Fiscal Year 2018-19 than in Fiscal Year 2017-18.

For further information with respect to Valley Water’s operating results for Fiscal Year 2018-19, see Appendix A “—AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS AND COMPLIANCE REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2019 AND COMPLIANCE LETTER.”

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

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|--|------------------|------------------|------------------|------------------|------------------|
| Water Utility System Revenues | | | | | |
| Groundwater Charges | \$77,095 | \$61,128 | \$67,937 | \$97,483 | \$81,923 |
| Treated Water Charges | 76,799 | 89,375 | 122,212 | 132,477 | 143,998 |
| Surface and Recycled Water Charges | 925 | 732 | 747 | 1,041 | 1,758 |
| Property Taxes ⁽²⁾ | 5,634 | 6,095 | 6,682 | 7,088 | 8,124 |
| Investment Income ⁽³⁾ | 1,621 | 2,925 | 979 | 1,267 | 8,074 |
| Operating Grants/Intergovernmental Services | 2,149 | 2,074 | 2,037 | 4,396 | 2,754 |
| Transfers In ⁽⁴⁾ | 1,880 | 22,436 | 4,282 | 3,252 | 1,228 |
| Transfers Out ⁽⁵⁾ | (13,286) | (4,244) | (699) | (11,477) | (3,908) |
| Other ⁽⁶⁾ | 1,879 | 1,883 | 3,023 | 7,173 | (1,680) |
| Total Revenues | <u>\$154,696</u> | <u>\$182,404</u> | <u>\$207,200</u> | <u>\$242,700</u> | <u>\$242,271</u> |
| Maintenance and Operation Costs | | | | | |
| Sources of Supply ⁽⁷⁾ | \$68,294 | \$73,982 | \$63,885 | \$76,272 | \$57,055 |
| Water Treatment | 29,941 | 34,044 | 33,807 | 37,772 | 38,854 |
| Transmission and Distribution | | | | | |
| Raw Water | 9,585 | 11,101 | 13,139 | 15,197 | 16,791 |
| Treated Water | 1,539 | 1,743 | 1,414 | 1,631 | 1,735 |
| Administration and General ⁽⁸⁾ | 21,556 | 20,497 | 17,334 | 30,078 | 33,666 |
| Total Operating Expenses | <u>\$130,915</u> | <u>\$141,367</u> | <u>\$129,579</u> | <u>\$160,950</u> | <u>\$148,101</u> |
| Net Water Utility System Revenues | \$23,781 | \$41,037 | \$77,621 | \$81,750 | \$94,170 |
| Debt Service on Senior Obligations | | | | | |
| Series 2006 Bonds | \$6,515 | \$2,992 | \$1,777 | \$1,781 | \$1,778 |
| Series 2007 Installment Payments | 7,981 | 6,621 | 6,880 | 2,082 | 2,514 |
| DWR Loan ⁽⁹⁾ | 401 | 401 | - | - | - |
| Total Senior Debt Service | <u>\$14,897</u> | <u>\$10,014</u> | <u>\$8,657</u> | <u>\$3,863</u> | <u>\$4,292</u> |
| Transfers to (-)/from (+) Rate Stabilization Fund ⁽¹⁰⁾ | - | - | - | - | - |
| Transfers from Special Purpose Funds ⁽¹⁰⁾ | - | - | - | - | - |
| Net Water Utility System Revenues Available for Parity Obligations Debt Service | \$8,884 | \$31,023 | \$68,964 | \$77,887 | \$89,878 |
| Debt Service on Parity Obligations | | | | | |
| 2016 Bonds | - | \$1,448 | \$8,545 | \$8,545 | \$8,545 |
| 2016 Installment Purchase Agreement | - | 624 | 3,682 | 8,332 | 10,485 |
| 2017A Bonds | - | - | 220 | 4,336 | 4,356 |
| 2019AB Bonds | - | - | - | - | 364 |
| Total Parity Debt Service | - | <u>\$2,072</u> | <u>\$12,447</u> | <u>\$21,213</u> | <u>\$23,750</u> |
| Parity Obligations Debt Service Coverage | - | 14.97 | 5.54 | 3.67 | 3.78 |
| Debt Service on Subordinate Obligations | | | | | |
| Commercial Paper ⁽¹¹⁾ | 60 | 185 | - | 358 | 1,699 |
| Total Debt Service on Senior, Parity and Subordinate Obligations | \$14,957 | \$12,271 | \$21,104 | \$25,434 | \$29,741 |
| Revenues Remaining for Capital Improvements | \$8,824 | \$28,766 | \$56,517 | \$56,316 | \$64,429 |
| Senior Debt Service Coverage | 1.60 | 4.10 | 8.97 | 21.16 | 21.94 |
| Senior, Parity and Subordinate Obligations Debt Service Coverage | 1.59 | 3.34 | 3.68 | 3.21 | 3.17 |

⁽¹⁾ Amounts rounded to nearest thousand.

(Footnotes continued on following page)

(Continued from previous page)

- (2) Excludes property taxes levied by Valley Water to pay certain State Water Project costs.
 - (3) Includes market value adjustments per GASB 31. 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 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. Fiscal Year 2018-19 includes transfers out for information technology upgrades.
 - (6) Includes well permit fees, rental income, reimbursements relating to the San Felipe Division, homeowners’ property tax relief payments from the State, and reversal of market value adjustments recognized under Investment Income.
 - (7) Increases in Fiscal Years 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*.”
 - (8) Includes letter of credit fees and other banking costs and certain adjustments for OPEB costs and accrued compensated absences. Decrease in Fiscal Year 2016-17 is due primarily to reversal of \$7.4 million in prior periods’ judgment liability costs that were incurred prior to the reversal of a trial court’s judgment (see discussion under the caption “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.
 - (9) In February 2016, Valley Water 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 BONDS AND THE CERTIFICATES — Rate Stabilization Fund” and “— Special Purpose Funds.”
 - (11) Constitutes interest only on Commercial Paper Certificates.
- Source: Valley Water.

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

Projected Operating Results and Debt Service Coverage

The estimated projected operating results for the Water Utility System for Fiscal Year 2019-20 through Fiscal Year 2023-24 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. Unless otherwise specified below, amounts shown for Fiscal Year 2019-20 are based on unaudited actual results and amounts shown for Fiscal Year 2020-21 are based on the adopted budget for such year.

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

The financial forecast also incorporates the rate increases forecasted in the 2020 PAWS Report for Fiscal Years 2021-22 through 2023-24. Such rate increases have not been approved by the Board and Valley Water can make no assurance that such rate increases will be approved. See the caption “WATER UTILITY SYSTEM— Primary Sources of Revenues — *Water Charge Setting Process*.” If such rate increases are not

instituted or other adjustments made to Revenues and/or Maintenance and Operation Costs, the projected operating results for Fiscal Year 2021 through 2024 will vary from those presented below, and such variance could be material.

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

| | 2019-20 ⁽²⁾ | 2020-21 ⁽²⁾ | 2021-22 | 2022-23 | 2023-24 |
|--|------------------------|------------------------|------------------|------------------|------------------|
| Water Utility System Revenues | | | | | |
| Groundwater Charges ⁽³⁾ | \$103,547 | \$121,105 | \$146,818 | \$159,592 | \$173,501 |
| Treated Water Charges ⁽⁴⁾ | 152,622 | 137,399 | 165,020 | 178,902 | 194,049 |
| Surface and Recycled Water Charges ⁽⁵⁾ | 1,713 | 2,562 | 3,045 | 3,356 | 3,615 |
| Property Taxes ⁽⁶⁾ | 8,466 | 8,217 | 8,442 | 8,738 | 9,044 |
| Investment Income ⁽⁷⁾ | 5,237 | 3,500 | 1,787 | 1,915 | 1,961 |
| Operating Grants/Intergovernmental Services | 3,590 | 1,242 | 1,357 | 1,403 | 1,179 |
| Transfers In ⁽⁸⁾ | 1,064 | 593 | 1,751 | 2,033 | 2,347 |
| Transfers Out ⁽⁹⁾ | (2,571) | (6,215) | (3,453) | (4,443) | (8,073) |
| Other ⁽¹⁰⁾ | 1,334 | 1,101 | 1,033 | 1,041 | 1,050 |
| Total Revenues | <u>\$275,002</u> | <u>\$269,504</u> | <u>\$325,800</u> | <u>\$352,537</u> | <u>\$378,673</u> |
| Maintenance and Operation Costs | | | | | |
| Sources Of Supply ⁽¹¹⁾ | \$63,797 | \$78,501 | \$100,132 | \$96,513 | \$93,515 |
| Water Treatment ⁽¹²⁾ | 37,513 | 43,914 | 45,927 | 48,298 | 50,017 |
| Transmission And Distribution ⁽¹³⁾ | | | | | |
| Raw Water | 13,429 | 15,331 | 16,761 | 17,952 | 18,701 |
| Treated Water | 1,643 | 2,608 | 2,591 | 2,793 | 2,982 |
| Administration and General ⁽¹⁴⁾ | 25,060 | 31,336 | 33,308 | 36,453 | 36,525 |
| Total Operating Expenses | <u>\$141,442</u> | <u>\$171,690</u> | <u>\$198,719</u> | <u>\$202,009</u> | <u>\$201,740</u> |
| Net Water Utility System Revenues | \$133,560 | \$97,814 | \$127,081 | \$150,528 | \$176,933 |
| Debt Service on Senior Obligations | | | | | |
| Series 2006B Bonds | \$1,778 | \$1,781 | \$1,780 | \$1,777 | \$1,777 |
| 2007 Installment Purchase Agreement ⁽¹⁵⁾ | 511 | - | - | - | - |
| Total Senior Debt Service | \$2,289 | \$1,781 | \$1,780 | \$1,777 | \$1,777 |
| Transfers to (-)/from (+) Rate Stabilization Fund | - | - | - | - | - |
| Transfers from Special Purpose Funds | - | - | - | - | - |
| Net Water Utility System Revenues Available for Parity Obligations Debt Service | \$131,271 | \$96,033 | \$125,301 | \$148,751 | \$175,156 |
| Debt Service on Parity Obligations | | | | | |
| 2016 Bonds | \$8,545 | \$8,545 | \$8,545 | \$8,545 | \$8,545 |
| 2016 Installment Purchase Agreement | 10,682 | 10,689 | 10,687 | 10,696 | 10,688 |
| 2017A Bonds | 4,351 | 4,362 | 4,368 | 4,339 | 4,376 |
| 2019AB Bonds | 5,495 | 5,495 | 5,497 | 5,492 | 5,495 |
| 2019C Bonds | 1,772 | 2,775 | 3,022 | 3,044 | 2,992 |
| 2020AB Bonds ⁽¹⁶⁾ | - | 2,238 | 3,160 | 3,160 | 3,160 |
| 2020 Installment Purchase Agreement ⁽¹⁶⁾ | - | 2,500 | 8,579 | 8,580 | 8,580 |
| Future Debt Issuances ⁽¹⁷⁾⁽¹⁸⁾ | - | - | 2,657 | 13,426 | 26,168 |
| Total Parity Debt Service | \$30,845 | \$36,604 | \$46,515 | \$57,282 | \$70,004 |
| Parity Obligations Debt Service Coverage | 4.26 | 2.62 | 2.69 | 2.60 | 2.50 |
| Debt Service on Subordinate Obligations | | | | | |
| Commercial Paper ⁽¹⁷⁾⁽¹⁹⁾ | \$325 | \$2,728 | \$5,180 | \$4,556 | \$7,146 |
| Total Debt Service on Senior, Parity and Subordinate Obligations⁽²⁰⁾ | \$33,459 | \$41,113 | \$53,475 | \$63,615 | \$78,927 |
| Revenues Remaining for Capital Improvements | \$100,101 | \$56,701 | \$73,606 | \$86,913 | \$98,006 |
| Senior Debt Service Coverage | 58.35 | 54.92 | 71.39 | 84.71 | 99.57 |
| Senior, Parity and Subordinate Obligations Debt Service Coverage | 3.99 | 2.38 | 2.38 | 2.37 | 2.24 |

(Footnotes on following page)

- (1) Amounts rounded to nearest thousand.
- (2) Fiscal Year 2019-20 is based on unaudited actual results and Fiscal Year 2020-21 is based on the adopted budget.
- (3) Reflects compound annual growth rate of 12.7% per annum between Fiscal Year 2020-21 and Fiscal Year 2023-24. 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 12.2% per annum between Fiscal Year 2020-21 and Fiscal Year 2023-24. 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 12.2% per annum between Fiscal Year 2020-21 and Fiscal Year 2023-24. 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 3.2% per annum between Fiscal Year 2020-21 and Fiscal Year 2023-24. Does not include State Water Project property tax.
- (7) Reflects projected interest earnings at a rate of 1.5% in each Fiscal Year through Fiscal Year 2023-24. 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 transfers out for Information Technology upgrades, and buildings and grounds improvements at Valley Water's main campus.
- (10) Includes well permit fees, rental income, homeowners' property tax relief payments from the State, and reimbursements relating to the San Felipe Division.
- (11) 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 6.0% between Fiscal Year 2020-21 and Fiscal Year 2023-24.
- (12) Reflects compound annual growth rate of 4.4% per annum between Fiscal Year 2020-21 and Fiscal Year 2023-24.
- (13) Reflects compound annual growth rate of 6.8% for raw water and 4.6% for treated water between Fiscal Year 2020-21 and Fiscal Year 2023-24. Increases to treated water transmission and distribution costs beginning in Fiscal Year 2020-21 are primarily the result of planned increases to the preventative maintenance and repair of pipelines.
- (14) Includes letter of credit fees and other banking costs. See the caption "DISTRICT EMPLOYEE RELATIONS" for information with respect to Valley Water's pension and post-employment benefit liabilities and costs.
- (15) In 2019, Valley Water refunded the outstanding amount under the 2007 Installment Purchase Agreement with a portion of the proceeds of the 2019C Bonds.
- (16) 2020AB Bonds is based on a principal amount of \$97,415,000 and true interest cost of 2.82%; Certificates based on a principal amount of \$122,830,000 and true interest cost of 2.03%.
- (17) Assumes the issuance of new-money short-term (subordinate) and/or long-term debt projected at \$159.8 million in Fiscal Year 2020-21 (including the Certificates), \$227.4 million in Fiscal Year 2021-22, \$210.3 million in Fiscal Year 2022-23 and \$359.5 million in Fiscal Year 2023-24, and periodic issuance of long-term (parity) debt to refund the short-term debt.
- (18) Calculated assuming fixed interest rates ranging between 4.1% and 5.9% per annum between Fiscal Years 2020-21 and 2023-24.
- (19) Calculated assuming interest only payments on projected outstanding Commercial Paper Certificate balances at assumed rates ranging between 3.6% and 5.6% per annum between Fiscal Year 2020-21 and Fiscal Year 2023-24.
- (20) Excludes letter of credit fees and other banking costs, which are paid as Maintenance and Operation Costs.

Source: Valley Water.

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

VALLEY WATER EMPLOYEE RELATIONS

Bargaining Units

On March 21, 2018, the Board approved new multi-year memorandum of understanding agreements ("MOU's") between Valley Water and the bargaining units. The agreements became effective on January 1, 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, Valley Water will continue to participate in the California Public Employment Retirement System ("CalPERS"), a cost sharing multiple-employer defined

benefit plan operated on a statewide basis. Valley Water's contract with CalPERS includes a three-tier benefit level: (1) benefits at the 2.5% of fiscal year compensation benefit level for every year of service for employees at age 55 ("2.5% @ 55") hired prior to March 19, 2012; (2) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 60 ("2% @ 60") hired on or after March 19, 2012 and before January 1, 2013, and (3) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 62 ("2.0% @ 62") hired on or after January 1, 2013 (See the caption "Employees Retirement Plan – *Benefits Provided*" below). 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 is 10.911% for Fiscal Year 2020-21 and decreases to 10.52% for Fiscal Year 2021-22.

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

Employees' Retirement Plan

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

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

See Note 11 to Valley Water's audited financial statements attached hereto as Appendix A for more information with respect to Plan's provisions and benefits in effect at June 30, 2019.

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 August 2020, CalPERS released the actuarial valuation report of Valley Water's pension plan as of June 30, 2019. As set forth in such actuarial valuation report, in Fiscal Year 2021-22, Valley Water's unfunded liability dollar amount is projected to be \$20,113,242. This amount will be collected along with the employer normal cost rate as a percentage of payroll of 10.52%. If the unfunded liability dollar amount was converted to a

percentage of payroll and added to the normal cost rate of 10.52%, the resulting employer contribution rate would be approximately 30.10%.

In the latest CalPERS actuarial valuation report delivered to Valley Water in August 2020, the projected normal cost contribution for Fiscal Year 2022-23 is 10.3% and the unfunded liability dollar amount is projected to be \$21,939,000. CalPERS noted that the actual investment return for Fiscal Year 2019-20 was not known at the time the actuarial valuation report of Valley Water's pension plan for Fiscal Year 2019-20 was prepared. The foregoing projections for Fiscal Year 2022-23 assumed the investment return for Fiscal Year 2019-20 would be 7.0 percent. CalPERS has announced a preliminary investment return of 4.7% for Fiscal Year 2019-20 and as a result, the actual contribution requirements for Fiscal Year 2022-23 can be expected to differ from such projections.

In the latest CalPERS actuarial valuation report delivered to Valley Water in August 2020, the projected normal cost ranges between 10.3% and 9.4% between Fiscal Years 2022-23 and 2026-27. The projected unfunded liability dollar contribution is \$21,939,000 in Fiscal Year 2023-23 and is projected to increase to \$25,134,000 in Fiscal Year 2026-27.

Employees Covered. As of the most recent CalPERS valuation report as of June 30, 2019, the following number of employees were covered by the benefit terms of the Plan:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 814 |
| Active employees | 752 |

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

The table below provides a recent history of the required employer contributions for the Plan, as determined by the annual actuarial valuation, as well as the required employer contributions for Fiscal Years 2017-18 through 2021-22. The information below does not account for prepayments or benefit changes made during a fiscal year.

| <i>Fiscal Year⁽¹⁾</i> | <i>Employer Normal Cost</i> | <i>Unfunded Rate</i> | <i>Total</i> |
|----------------------------------|-----------------------------|----------------------|--------------|
| 2017-18 | 9.985% | 13.638% | 23.623% |
| 2018-19 | 10.059 | 15.286 | 25.345 |
| 2019-20 | 10.276 | 16.837 | 27.113 |
| 2020-21 | 10.911 | 18.012 | 28.923 |
| 2021-22 | 10.520 | 19.580 | 30.100 |

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

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2019.

Net Pension Liability. Valley Water's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The available net pension liability of the Plan was most recently measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 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, 2018 and June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

| | | |
|--|---|---|
| Valuation date | June 30, 2017 | June 30, 2018 |
| Measurement date | June 30, 2018 | June 30, 2019 |
| Actuarial cost method | Entry-age normal cost method | Entry-age normal cost method |
| Discount rate ⁽¹⁾ | 7.00% | 7.00% |
| Inflation | 2.50% | 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 2.00% unit purchasing power protection allowance floor on purchasing power applies, 2.50% 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, 2018 and as of June 30, 2019.

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 Valley Water's required employer contributions as well as Valley Water's unfunded accrued pension liability. See the caption "— Sensitivity of the Net Pension Liability to Changes in the Discount Rate" for the estimated effect of changes in the discount rate to Valley Water's net pension liability. Valley Water does not expect such reductions in CalPERS' assumed discount rate and increases in its required payments to CalPERS which may result therefrom to have a material adverse impact on its ability to pay debt service on the 2020 Bonds or the Installment Payments. CalPERS may adjust the discount rate in the future, which will require action by CalPERS' Board and proper stakeholder outreach.

On 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 6/30/2018 ⁽¹⁾ | \$ 813,664,108 | \$ 593,814,741 | \$ 219,849,367 |
| Changes Recognized for the Measurement Period: | | | |
| Service Cost | 16,482,721 | - | 16,482,721 |
| Interest on Total Pension Liability | 58,350,269 | - | 58,350,269 |
| Changes of Assumptions | - | - | - |
| Difference between Expected and Actual Experience | 13,358,043 | - | 13,358,043 |
| Plan to Plan Resource Movement | - | - | - |
| Contribution from Employer | - | 26,622,950 | (26,622,950) |
| Contribution from Employees | - | 7,631,430 | (7,631,430) |
| Net Investment Income | - | 39,279,643 | (39,279,643) |
| Benefit Payments, including Refunds of Employee Contribution | (38,351,674) | (38,351,674) | - |
| Administrative Expense | - | (423,759) | 423,759 |
| Other Miscellaneous Income/Expenses | - | 1,380 | (1,380) |
| Net Changes During 2018-19 | <u>49,839,359</u> | <u>34,759,970</u> | <u>15,079,389</u> |
| Balance at 6/30/2019 ⁽¹⁾ | \$ 863,503,467 | \$ 628,574,711 | \$ 234,928,756 |

⁽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, 2019.

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

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

| <i>Actuarial Valuation Date</i> | <i>Actuarial Accrued Liability</i> | <i>Market Value of Assets</i> | <i>Unfunded Actuarial Liability</i> | <i>Funded Ratio</i> | <i>Annual Covered Payroll</i> |
|--|---|--------------------------------------|--|----------------------------|--------------------------------------|
| 6/30/15 | \$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 |
| 6/30/19 | 889,898,474 | 628,762,018 | 261,136,456 | 70.7 | 94,694,653 |

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2019.

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

Pension Expenses and Deferred Outflow/Inflow of Resources. Based on the GASB 68 Accounting Valuation Report (provided by CalPERS) for the measurement date of June 30, 2019, the reported Valley Water pension expense is \$43.6 million, and the deferred outflows and inflows of resources related to pensions are as follows:

| | <i>Deferred Outflow of Resources</i> | <i>Deferred Inflow of Resources</i> |
|--|--|---|
| Change of assumptions | \$ 9,324,001 | \$(4,161,934) |
| Difference between actual and expected experience | 10,099,984 | (1,686,736) |
| Net differences between projected and actual earnings on plan investments | - | (3,346,799) |
| Total | \$ 19,423,988 | \$(9,195,469) |

Source: Valley Water and GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2019.

For the year ended June 30, 2019, contributions to the plan were \$25,409,359. Based on unaudited actual results, \$28,272,714 will be 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, 2020. This amount reflects what was paid in employer pension contributions to CalPERS in Fiscal Year 2019-20 and, for a gauge of magnitude based on final audited costs, accounts for approximately 8.6% of Valley Water expenses (\$327,760,000) recognized in Fiscal Year 2018-19. Valley Water has budgeted \$30,942,114 for the employer contribution in Fiscal Year 2020-21. 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> |
|---------------------------|---|
| 2019-20 | \$ 11,407,392 |
| 2020-21 | (4,141,166) |
| 2021-22 | 2,047,164 |
| 2022-23 | 915,129 |
| 2023-24 | 0 |
| Total | \$ 10,228,519 |

Source: GASB 68 Accounting Valuation Report prepared for the Santa Clara Valley Water District Miscellaneous Plan, measurement date as of June 30, 2019.

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

Other Post-Employment Benefits. Valley Water provides post-employment health care benefits ("OPEB"), in accordance with the negotiated MOUs with employee groups adopted by the Board for retired employees and/or their surviving dependents who meet the eligibility requirements and elect the option. As of June 30, 2019, 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 Valley Water, to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions.

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

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

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

Valley Water participates in the CalPERS California Employer’s Retiree Benefit Trust Program (“CERBT”), a prefunding plan trust fund. On June 24, 2008, the Board approved the reallocation of \$17.7 million from its existing reserves for the initial prefunding of the unfunded liability as part of its multi-year financial planning strategy. Valley Water’s OPEB plan and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between Valley Water and the bargaining groups. The annual contribution is based on the actuarially determined contribution (“ADC”). The ADC represents the annual employer contribution that along with member contributions and investment income is projected to fully fund the OPEB plan over a static 30 years beginning in Fiscal Year 2007-08. For the fiscal year ended June 30, 2019, Valley Water’s total contribution to the OPEB plan amounted to \$10,227,034. This amount reflects what was paid in employer OPEB contributions in Fiscal Year 2018-19, and accounts for approximately 3.1% of Valley Water expenses (\$327,760,000) recognized in the same fiscal year. Based on unaudited actual results, Valley Water paid \$10,757,161 in OPEB contributions in Fiscal Year 2019-20 and has budgeted \$12,192,800 for the OPEB contribution in Fiscal Year 2020-21.

Valley Water’s net OPEB liability was measured on June 30, 2018 for reporting date June 30, 2019. 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 Valley Water assets using investment “Strategy 1” within the CERBT. The projected cash flows used to determine the discount rate assumed that Valley Water contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The objective of the CERBT Strategy 1 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS board. See Note 12 to Valley Water’s audited financial statements attached hereto

as Appendix A for a description of the composition, as of June 30, 2019, of investment asset classes with respect to Valley Water's OPEB plan.

Valley Water's change in net OPEB liability for the Fiscal Year ended June 30, 2019, calculated and presented in accordance with GASB 75 are as follows:

| | |
|--|------------------------------|
| Total OPEB Liability | June 30, 2019 |
| Service Cost | \$ 2,913,500 |
| Interest on Total OPEB Liability | 12,473,300 |
| Benefits Payment | (8,876,700) |
| Other Liability Experience Loss/(Gain) | 53,800 |
| Net Change in OPEB Liability | 6,563,900 |
| Total OPEB Liability, Beginning | <u>174,265,200</u> |
| Total OPEB Liability, Ending | <u>\$ 180,829,100</u> |
| Plan Fiduciary Net Position | |
| Contributions | \$ 11,876,700 |
| Benefits Payment | <u>(8,876,700)</u> |
| Net Investment Income | 7,142,684 |
| Investment Return – Differences between expected and actual experience | 787,345 |
| Administrative Expense | <u>(51,829)</u> |
| Net Change in Fiduciary Net Position | 10,878,200 |
| Plan Fiduciary Net Position, Beginning | <u>96,639,700</u> |
| Plan Fiduciary Net Position, Ending | <u>\$ 107,517,900</u> |
| Net OPEB Liability, Ending | \$ 73,311,200 |

Source: Valley Water.

As of June 30, 2019, Valley Water's OPEB plan fiduciary net position was 59.46% of total OPEB liability and Valley Water net OPEB liability was 87.16% of covered payroll (\$84,110,900).

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

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

Valley Water has established a deferred compensation plan for employees wishing to defer part of their salaries. Under certain conditions, Valley Water makes matching contributions. In the Fiscal Year ended June 30, 2019, Valley Water contributed \$1,149,488 to the deferred compensation plan.

LITIGATION

General

No litigation is pending or, to the knowledge of Valley Water, threatened, in any way questioning or affecting the validity or enforceability of the Senior Master Resolution, the Parity Master Resolution, the 2020 Bonds, the Indenture, the Installment Purchase Agreement, the Trust Agreement or the Certificates. Neither the creation, organization or existence of Valley Water, nor the title of the present directors or officers of Valley Water to their respective office is being contested. While Valley Water has certain other ongoing

litigation with respect to the Water Utility System, District Counsel does not believe such litigation is material to the finances or operation of the Water Utility System.

Valley Water is engaged in routine litigation incidental to the conduct of its business. In the opinion of Valley Water's District Counsel, the aggregate amounts recoverable against Valley Water, 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 Valley Water with respect to the effect on the groundwater basins managed by Valley Water and the supplemental imported water supplies available to Valley Water in the event that the Phase 1 Amendments and the accompanying SED are implemented by the SWRCB.

Great Oaks Matter

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

On February 3, 2010, the trial court issued a Judgment After Trial in the Great Oaks case, ruling that Valley Water owed Great Oaks a refund of groundwater charges of approximately \$4.6 million plus interest at 7% per annum. The award of pre-judgment interest amounted to approximately \$1.3 million, and the court awarded post-judgment interest of \$886.62 per day. Valley Water appealed this decision to the California Court of Appeal for the Sixth Appellate District (the "Court of Appeal"). During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, Valley Water recorded a liability in the amount of the judgment plus interest. After the favorable judgement by the Court of Appeal in 2015, discussed below, Valley Water reversed its prior total recorded liability in the aggregate amount of \$7,386,000 in its audited financial statements for Fiscal Year 2016-17.

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

While the 2005 Great Oaks case was pending, Great Oaks filed additional annual claims and additional annual lawsuits challenging Valley Water's groundwater production charges for each year after 2005, continuing through the present. Great Oaks' subsequent, similar lawsuits were stayed pending resolution of its 2005 case. (Santa Clara Superior Court Case Nos. 2007-CV-087884; 2008-CV-119465; 2008-

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

Once the Great Oaks Case was remanded to the trial court in February 2019, the court lifted the stay over Great Oaks' subsequently filed cases, as well as the case brought by Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club. At the request of the trial court, in order to streamline resolution of the remaining issues this litigation and related litigation, the parties stipulated and agreed to the filing of a new, omnibus complaint. On June 12, 2020, the proposed omnibus "Master Complaint" of plaintiffs Great Oaks and Shatto Corporation was approved for filing and filed under Santa Clara Superior Court Case No. 2011-CV-205462. Great Oaks alleges that Valley Water's groundwater production charges violate Proposition 26, and that Valley Water does not levy or collect groundwater charges from agricultural pumpers but instead uses property taxes to pay these charges. Valley Water's response to the omnibus complaint is currently due on August 28, 2020, and a case management conference is currently scheduled for October 16, 2020.

In the event that a court rules that Valley Water's groundwater production charges violate Proposition 26, such a ruling could materially impact Valley Water's rate revenue and finances.

Flooding in the City of San Jose

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

As of the date of this Official Statement, Valley Water has received 423 claims with respect to the flooding along Coyote Creek. Estimated damages are in excess of \$10,000,000; however Valley Water 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 Valley Water and the City of San Jose alleging damage from the Coyote Creek flood event. Currently, 20 lawsuits have been filed and 19 are pending against Valley Water relating to the flood event (one case was dismissed). Valley Water 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. Valley Water intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the

flooding along Coyote Creek. Valley Water has filed a motion to remove all 19 pending cases from the State Superior Court to federal court. A hearing on the removal motion has been set for September 1, 2020.

Of the 423 claims, 192 of the claimants have not filed an action in superior court. As to these 192 claims, Valley Water 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

Valley Water’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 estimated completion date of Phase 2 work was more than two and one-half years later than originally provided in the construction schedule. Valley Water has advised Balfour Beatty of Valley Water’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. Valley Water and Balfour Beatty have entered into an amendment to their original construction contract pursuant to which the scope of work would be reduced such that Balfour Beatty will only be responsible for completing Phase 2 of the project and not the later phases, as originally agreed upon. Such amendment reduced the contract amount by approximately \$39.8 million. Balfour Beatty is currently performing pursuant to the amendment to the original construction contract and the estimated completion date for their work is the end of October 2020. Valley Water 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 2020 Bonds and the Certificates. The investment considerations included in this section are not exhaustive and other events or factors could materially adversely affect Valley Water’s operations and financial condition.

Rate Covenant Not a Guarantee

The 2020 Bonds and the Installment Payments are payable from Net Water Utility System Revenues of the Water Utility System. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES.” Valley Water’s ability to pay debt service with respect to the 2020 Bonds and to make the Installment Payments depends on its ability to generate Net Water Utility System Revenues at the levels required by the Parity Master Resolution. Although Valley Water has covenanted in the Parity Master Resolution, to the fullest extent permitted by law, to fix and prescribe rates, fees and charges as more particularly described under the caption “—Rate Covenant” under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES,” and expects that sufficient Net Water Utility System Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net Water Utility System Revenues in the amounts required by the Parity Master Resolution. No assurance can be made that revenues of the Water Utility System, estimated or otherwise, will be realized by Valley Water in amounts sufficient to pay debt service on the 2020 Bonds and to make the Installment Payments. Among other matters,

the availability of and demand for water, and changes in law and government regulations could adversely affect the amount of revenues realized by Valley Water.

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

Water Utility System Expenses

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

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

Valley Water is unaware of any claim against Valley Water for failure to comply with applicable laws and regulations, other than the lawsuits described under the 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 Valley Water or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by Valley Water may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on Valley Water. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of Valley Water to generate Net Water Utility System Revenues sufficient to pay debt service with respect to the 2020 Bonds and to make the and the Installment Payments.

Limitations on Revenues

The ability of Valley Water to generate Net Water Utility System Revenues sufficient to pay principal of and interest on the 2020 Bonds and to make the Installment Payments may be adversely affected by actions and events outside of the control of Valley Water and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES." Furthermore, the remedies available to the owners of the 2020 Bonds and the Certificates upon the occurrence of an event of default under the Parity Master Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

COVID-19 Pandemic

The spread of the novel strain of coronavirus called COVID-19 (“COVID-19”) is having significant negative impacts throughout the world, including in Valley Water’s service area. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the United States, the State, numerous counties throughout the State, including the County, and the City of San Jose. The purpose behind these declarations are to coordinate and formalize emergency actions and across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus.

To date there have been a number of confirmed cases of, and deaths from, COVID-19 in the State, including the County, and health officials are expecting the number of confirmed cases to grow. The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools (including schools in the County). In addition, financial markets in the U.S. and globally have been volatile.

On March 16, 2020 the County issued a shelter-in place order, requiring many businesses to cease operations. On March 19, 2020, the State Governor issued an executive order providing, among other items, that all individuals living in the State stay home or at their place of residence except as needed to maintain continuity of operations of certain critical infrastructure sectors, such as Valley Water. On April 2, 2020, the Governor issued Executive Order N-42-20, which, among other things, suspends the authority of water systems (such as retail water purveyors served by Valley Water) from suspending water service for non-payment during the COVID-19 emergency. Potential impacts to Valley Water associated with the COVID-19 outbreak include, but are not limited to, disruption of the regional and local economy. To date, Valley Water has not been notified by any retail water purveyor served by Valley Water of material delinquencies in the payment of water utility bills by customers of such retail water purveyors.

The State Governor has announced a four-phase reopening plan for the State. As of late-May, the State was in the second phase, which among other things, allows for retail, logistics and manufacturing, offices and limited personal services to reopen under limited conditions. In the third stage, higher-risk workplaces such as personal car and recreational venues will be allowed to reopen (with certain modifications). In the fourth stage, larger gathering venues, such as concert venues and live audience sports will be allowed to reopen. Modifications to the phased plan will be authorized for counties which demonstrate that they have met the necessary metrics to advance to later phases. Such metrics include stabilization of hospitalization numbers, the number of increases in positive test cases and testing capacity.

As a result of the regression of COVID-19 indicators, on July 13, 2020, the Governor issued an order requiring all counties within the State to close indoor operations in certain sectors, including dine-in restaurants, wineries and tasting rooms, movie theatres, family entertainment centers, zoos and museums and cardrooms. The Governor’s July 13, 2020 order also required certain counties (including the County) to shut down additional industries and activities, including gyms and fitness centers, places of worship and cultural ceremonies (such as weddings and funerals), offices for non-critical infrastructure sectors, personal care services (such as nail salons, body waxing and tattoo parlors) and shopping malls. The County’s shelter-in-place order was most recently revised on July 2, 2020 and became effective on July 13, 2020, which is, in certain respects, more restrictive than the Governor’s orders as of such date. The County has advised that, to the extent there are conflicts between the Governor’s and the County’s stay-at-home orders, the more restrictive order applies.

The COVID-19 outbreak is currently ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, and the economic impact and other of actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on Valley Water’s operations and finances is currently unknown. To date, Valley Water does not

believe that the impacts of the spread of COVID-19 will have a material adverse effect on its ability to pay debt service on the 2020 Bonds and to make the Installment Payments.

Limitations on Remedies Available; Bankruptcy

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

No Obligation to Tax

The obligation of Valley Water to pay debt service with respect to the 2020 Bonds and to make the Installment Payments, does not constitute an obligation of Valley Water for which Valley Water is obligated to levy or pledge any form of taxation or for which Valley Water has levied or pledged any form of taxation. The obligation of Valley Water to pay debt service with respect to the 2020 Bonds and to make the Installment Payments, does not constitute a debt or indebtedness of any agency, the State of California or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by Valley Water. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce the revenues and adversely affect the security of the 2020 Bonds and the Certificates.

Constraints on SWP and CVP Water Deliveries

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

Risks Related to Water Utility System Facilities and Operation

The operation of the Water Utility System, and the physical condition of the Water Utility System facilities, are subject to a number of risk factors that could adversely affect the reliability of Valley Water to

provide water service, or increase the operating expenses of the Water Utility System. Prolonged damage to the Water Utility System facilities could interrupt the ability of Valley Water to realize Net Water Utility System Revenues sufficient to pay principal of and interest on the 2020 Bonds and to make the Installment Payments, or require Valley Water to increase expenditures for repairs significantly enough to adversely impact Valley Water's ability to pay the principal of or interest on the 2020 Bonds and to make the Installment Payments. These factors could include, among others, the following:

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

The area encompassed by Valley Water as well as areas from where DWR and USBR provide water to Valley Water, like that in much of California, may be subject to unpredictable seismic activity. Valley Water and such DWR and USBR facilities are located within a regional network of several active and potentially active faults. If there were to be an occurrence of severe seismic activity in Valley Water or affecting such DWR and USBR facilities, there could be an impact on the ability of residents to pay rates and charges for water service, diminishing Net Water Utility System Revenues, which could have an adverse effect on Valley Water's ability to pay the principal of and interest on the 2020 Bonds and to make the Installment Payments.

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

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

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

Casualty Losses. Valley Water's risk management program includes both self-insured and insured coverages; however, the program does not provide coverage for every conceivable risk of loss. Damage attributable to seismic events and flooding are excluded. See the caption “VALLEY WATER—Insurance.” Valley Water is not required to either insure against or self-insure against every potential risk of loss, and there is a risk that damage or destruction of property and equipment comprising the Water Utility System could occur for which no insurance or self-insurance funds will be available. There can be no assurance that

insurance providers will pay claims under any policies promptly, or at all, should a claim be made under such policies in connection with property loss or damage. It is possible that an insurance provider will refuse to pay a claim, especially if it is substantial, and force Valley Water to sue to collect on or settle the insurance claim. Further, there can be no assurances that any insurance proceeds will be sufficient to rebuild or replace any damaged property.

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

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

Sustainable Groundwater Management Act. On September 16, 2014, the California Governor signed 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).

Valley Water is the exclusive GSA for the Santa Clara and Llagas subbasins, which are entirely within the County. Valley Water submitted an Alternative Plan prepared pursuant to authority granted by the SGMA and the Law to DWR on December 21, 2016. In July 2019, DWR approved the Alternative Plan for both the Santa Clara and Llagas subbasins. Valley Water is also the exclusive GSA for the small portions of the North San Benito Subbasin within the County. Valley Water 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. Valley Water does not currently expect the enactment of the SGMA or the implementation of the Alternative Plan/GSP with respect to the Santa Clara, Llagas, or North San Benito groundwater basins

described above to have a material adverse effect on Valley Water's ability to pay principal of and interest on the 2020 Bonds and to make the Installment Payments.

Through the Semitropic Groundwater Banking Program, Valley Water also stores a portion of imported water in a groundwater basin outside of the boundaries of Valley Water in the San Joaquin Valley-Kern County groundwater subbasin, which has been designated by DWR as a high priority basin that is critically over-drafted. For a discussion of the activities of the Semitropic GSA, the KGA and the potential effects of the activities thereof on water currently stored by Valley Water, and water which may be stored by Valley Water in the future, see the caption "FACTORS AFFECTING WATER SUPPLIES—Water Banking." While Valley Water does not currently expect that enactment of the SGMA or the activities of the Semitropic GSA or the KGA resulting therefrom will have a material adverse effect on Valley Water's ability to pay principal and interest on the 2020 Bonds and to make the Installment Payments, Valley Water is monitoring the Semitropic GSA's and the KGA's activities with respect to SGMA. Valley Water cannot predict what effect, if any, Semitropic GSA or KGA activities with respect to the SGMA will ultimately have on the water currently stored, or water which may be stored or withdrawn in the future, by Valley Water in the Semitropic Groundwater Banking Program.

Cybersecurity

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

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

Business Process Management Software/Enterprise Resource Planning Implementation

The current Enterprise Resource Planning (ERP) application (PeopleSoft) is the primary application used to manage Valley Water'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. Valley Water 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 Valley Water's administrative operations.

Potential Impact of Climate Change

Climate change is an important issue facing water resources planning. Therefore, Valley Water is evaluating climate change risks and vulnerabilities in its long-term water supply planning for future water supply reliability. There is scientific consensus that increasing concentrations of greenhouse gases have caused and will continue to cause increases in global temperatures, which will result in a wide range of changes in climate patterns (i.e. climate change). Moreover, there is evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes will

have a direct effect on water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, climate change is likely to result in various types of impacts on Valley Water's Water Utility System, including among others, changes in the quantity, timing, intensity, and annual variability of precipitation, increased incidences and intensity of wildfires that could degrade water quality, sea level rise and riverine flooding, increased storm intensity and flooding, and increased temperatures. The foregoing is not an exhaustive list of the potential impact of climate change on Valley Water's operations. Such changes, among others, could affect the Water Utility System's water source reliability as well as water utility assets.

Valley Water 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 Valley Water's ability to pay debt service on the 2020 Bonds and to make the Installment Payments. Valley Water staff continues to monitor the available scientific information relating to climate change. Valley Water's water supply planning studies are updated regularly and will consider new or changing climate information as it becomes available. Valley Water is currently working on an agency-wide Climate Change Action Plan ("CCAP") that includes vulnerability and risk assessments. The CCAP will lay out strategies Valley Water 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 late 2020.

The effect of sea level rise on water utility assets has been, and continues to be, evaluated. Valley Water's 2015 Infrastructure Reliability Plan considered the potential impact of sea level rise on the Water Utility System. Valley Water's delivery of drinking water is dependent on imported water that is delivered through the San Francisco Bay Delta, which is vulnerable to sea level rise and storm surges. However, Valley Water does not currently believe that the potential for sea level rise will have a material adverse effect on Valley Water's ability to pay debt service on the 2020 Bonds and to make the Installment Payments.

Economic, Political, Social and Environmental Conditions

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

Change in Tax Law

As discussed under "TAX MATTERS," current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2020A Bonds and the 2020C Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or the 2020 Bonds and the 2020D Certificates to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

Failure to Maintain Credit Ratings

Certain rating agencies have assigned ratings to the 2020 Bonds and the Certificates. The ratings issued reflect only the views of such rating agencies. Any explanation of the significance of these ratings

should be obtained from the respective rating agencies. See “RATINGS.” There 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 2020 Bonds and the Certificates. Valley Water undertakes no obligation to maintain its current credit ratings on the 2020 Bonds or the Certificates or to oppose any such downward revision, suspension or withdrawal.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2020 Bonds or the Certificates or, if a secondary market exists, that the 2020 Bonds or the Certificates can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

From time-to-time, Valley Water issues Commercial Paper Certificates to finance projects to the Water Utility System. Due to the foregoing risks described above with respect to the availability of a secondary market for the 2020 Bonds and the Certificates, Valley Water 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 Valley Water 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. Valley Water's revenues do not exceed any applicable appropriations limit.

Proposition 218

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

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

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

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

Based upon the California Second District Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIII D did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. In a decision rendered in February, 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District* (S105078) upheld a Third District Court of Appeal decision that water connection fees were not property-related fees or charges subject to Article XIII D while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court's

dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal held in *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal. App. 4th 914 (2005) that an “in lieu” fee which is payable to the City of Fresno’s general fund from its water utility and which is included in the city’s water rate structure was invalid. In reaching its decision, the court concluded that the city’s water rates were “property related” fees, governed by the limitations of Article 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.

Valley Water and District counsel do not believe Valley Water’s wholesale water rates charged under its contracts with retail agencies are subject to the substantive and procedural requirements of Article XIID. For a discussion of litigation with respect to the application of Article XIID to Valley Water’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. Valley Water and its District Counsel do not believe that Article XIIC grants to the voters within the jurisdiction of Valley Water the power to repeal or reduce wholesale rates and charges or groundwater charges in a manner which would be inconsistent with the statutory or contractual obligations of the legislative body of District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2020 Bonds or the Certificates. Remedies available to beneficial owners of the 2020 Bonds and the Certificates in the event of a default by Valley Water are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2020 Bonds and the Certificates are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinions of Bond Counsel and Special Counsel (the forms of which are attached as Appendix E and F, respectively), 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.

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

Future Initiatives

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

CERTAIN LIMITATIONS ON RIGHTS AND OBLIGATIONS

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2020 Bonds and the Certificates are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinions of Bond Counsel and Special Counsel (the forms of which are attached as Appendix E and F, respectively), will be similarly qualified.

TAX MATTERS – TAX EXEMPT OBLIGATIONS

2020A Bonds

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2020A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2020A Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest on the 2020A Bonds is based upon certain representations of fact and certifications made by Valley Water and others and is subject to the condition that Valley Water complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2020A Bonds to assure that interest on the 2020A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2020A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2020A Bonds. Valley Water has covenanted to comply with all such requirements.

The amount by which a 2020A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2020A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2020A Bond Owner's basis in the applicable 2020A Bond (and the amount of tax-exempt interest received with respect to the 2020A Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2020A Bond Owner realizing a taxable gain when a 2020A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020A Bond to the Owner. Purchasers of the 2020A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

2020C Certificates

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the portion of each Installment Payment with respect to the 2020C Certificates constituting interest is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Special Counsel, the portion of each Installment Payment with respect to the 2020C Certificates constituting interest is exempt from State personal income tax.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Installment Payment with respect to the 2020C Certificates constituting interest is based upon certain representations of fact and certifications made by Valley Water and others and is subject to the condition that Valley Water comply with all requirements of the Code, that must be satisfied subsequent to the execution and delivery of the 2020C Certificates to assure that the portion of each Installment Payment with respect to the 2020C Certificates constituting interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Installment Payment with respect to the 2020C Certificates constituting interest to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2020C Certificates. Valley Water has covenanted to comply with all such requirements.

The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2020C Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2020C Certificate premium, which must be amortized under Section 171 of the Code; such amortizable 2020C Certificate premium reduces the 2020C Certificate Owner's basis in the applicable 2020C Certificate (and the amount of tax-exempt interest received with respect to the 2020C Certificates), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2020C Certificate premium may result in a 2020C Certificate Owner realizing a taxable gain when a 2020C Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner. Purchasers of the 2020C Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2020C Certificate premium.

General

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the 2020A Bonds and the 2020C Certificates will be selected for audit by the IRS. It is also possible that the market value of the 2020A and the 2020C Certificates Bonds might be affected as a result of such an audit of the 2020A Bonds and the 2020C Certificates (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or

interpretation thereof) subsequent to the issuance of the 2020A Bonds and the execution and delivery of the 2020C Certificates to the extent that it adversely affects the exclusion from gross income of interest on the 2020A Bonds or the portion of each Installment Payment with respect to the 2020C Certificates constituting interest or the market values of the 2020A Bonds and the 2020C Certificates.

It is possible that subsequent to the issuance of the 2020A Bonds and the execution and delivery of the 2020C Certificates there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the 2020A Bonds and the 2020C Certificates or the market value of the 2020A Bonds and the 2020C Certificates. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the 2020A Bonds and the 2020C Certificates. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2020A Bonds and the 2020C Certificates. No assurance can be given that subsequent to the issuance of the 2020A Bonds and the execution and delivery of the 2020C Certificates such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the 2020A Bonds or 2020C Certificates, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the 2020A Bonds and the 2020C Certificates.

Bond Counsel and Special Counsel's opinions with respect to the 2020A Bonds and the 2020C Certificates, respectively, may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel and Special Counsel have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture, the Installment Purchase Agreement, the Trust Agreement and the Tax Certificate relating to the 2020A Bonds and the 2020C Certificates, as applicable, permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel or Special Counsel is provided with respect thereto. Bond Counsel and Special Counsel express no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2020A Bond or the portion of each Installment Payment with respect to the 2020C Certificates constituting interest if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel and Special Counsel have rendered opinions that interest on the 2020A Bonds and the portion of each Installment Payment with respect to the 2020C Certificates constituting interest, respectively, are excluded from gross income for federal income tax purposes provided that Valley Water continues to comply with certain requirements of the Code, the ownership of the 2020A Bonds and the 2020C Certificates and the accrual or receipt of interest on the 2020A Bonds and the 2020C Certificates may otherwise affect the tax liability of certain persons. Bond Counsel and Special Counsel express no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2020A Bonds or the 2020C Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2020A Bonds or the 2020C Certificates.

TAX MATTERS – TAXABLE OBLIGATIONS

2020B Bonds

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2020B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code but interest on the 2020B Bonds is exempt from State of California personal income tax.

The federal tax and State of California personal income tax discussion set forth above with respect to the 2020B Bonds is included for general information only and may not be applicable depending upon a 2020B Bond Owner's particular situation. The ownership and disposal of a 2020B Bond and the accrual or receipt of

interest with respect to the 2020B Bond may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences.

In the event of a legal defeasance of a 2020B 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 2020B Bond Owner generally equal to the difference between the amount deemed realized from the deemed redemption and reissuance and the 2020B Bond Owner’s adjusted tax basis in such bond.

2020D Certificates

In the opinion of Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of each Installment Payment with respect to the 2020D Certificates constituting interest is not excluded from gross income for federal income tax purposes under Section 103 of the Code but the portion of each Installment Payment with respect to the 2020D Certificates constituting interest is exempt from State of California personal income tax.

The federal tax and State of California personal income tax discussion set forth above with respect to the 2020D Certificate is included for general information only and may not be applicable depending upon a 2020D Certificate Owner’s particular situation. The ownership and disposal of a 2020D Certificate and the accrual or receipt of interest with respect to the 2020D Certificate otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences.

In the event of a legal defeasance of a 2020D Certificate, such certificate 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 2020D Certificate Owner generally equal to the difference between the amount deemed realized from the deemed redemption and reissuance and the 2020D Certificate Owner’s adjusted tax basis in such certificate.

The federal tax and State of California personal income tax discussion set forth above with respect to the 2020B Bonds and the 2020D Certificates is included for general information only and may not be applicable depending upon a 2020B Bond Owner or a 2020D Certificate Owner’s particular situation. The ownership and disposal of a 2020B Bond or a 2020D Certificate and the accrual or receipt of interest with respect to the 2020B Bond or the 2020D Certificate 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 2020B Bonds and 2020D Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2020B Bonds and the 2020D Certificates.

RATINGS

Valley Water expects that Moody’s Investors Service, Inc. (“Moody’s”) will assign the 2020 Bonds and the Certificates the rating of “___” (___ outlook) and that Fitch Ratings, Inc. (“Fitch”) will assign the 2020 Bonds and the Certificates the rating of “___” (___ outlook). There is no assurance that any credit rating given to the 2020 Bonds and the Certificates will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by Moody’s and Fitch if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the 2020 Bonds and the Certificates. Such ratings reflect only the views of Moody’s and Fitch, as the case may be, and an explanation of the significance of such ratings may be obtained from Moody’s and Fitch, as the case may be. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from Valley Water which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

Valley Water has covenanted in Continuing Disclosure Agreements for the 2020 Bonds and the Certificates to file on EMMA, notices of any ratings changes on the 2020 Bonds and the Certificates. See the caption “CONTINUING DISCLOSURE UNDERTAKING” below and Appendices G and H, respectively. Notwithstanding such covenant, information relating to ratings changes on the 2020 Bonds and the Certificates may be publicly available from the rating agencies prior to such information being provided to Valley Water and prior to the date Valley Water is obligated to file a notice of rating change on EMMA. Purchasers of the 2020 Bonds and the Certificates are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the 2020 Bonds and the Certificates after the initial issuance of the 2020 Bonds and delivery of the Certificates.

CONTINUING DISCLOSURE UNDERTAKINGS

Valley Water has covenanted in Continuing Disclosure Agreements for the benefit of the holders and beneficial owners of the 2020 Bonds and the Certificates to provide certain financial information and operating data relating to Valley Water by not later than each April 1, commencing April 1, 2021, to provide notices of the occurrence of certain enumerated events, and to provide notices of the occurrence of certain other enumerated events, if material. The Annual Reports and the notices of enumerated events will be filed by Valley Water with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. The specific nature of the information to be contained in the Annual Report and the notice of material events with respect to the 2020 Bonds and the Certificates are set forth in Appendix G—“FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2020 BONDS” and in Appendix H—“FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE CERTIFICATES,” respectively. These covenants have been made in order to assist the Underwriters in complying with Section (b)(5) of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934.

Over the past five years, Valley Water has been subject to obligations under various continuing disclosure certificates, including but not limited to the 2006A Bonds, the 2006B Bonds, the 2007A Certificates, the 2007B Certificates, the 2016 Bonds, the 2016 Certificates, the 2017A Bonds, the 2019AB Bonds, the 2019C 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 Valley Water’s Flood Control System (collectively, the “Prior Continuing Disclosure Undertakings”). Pursuant to the Prior Continuing Disclosure Undertakings, Valley Water agreed to file its audited financial reports, certain operating data with respect to the Water Utility System and Flood Control System, as well as notices of certain enumerated events. In 2018, Valley Water filed two supplements to its continuing disclosure annual report for Fiscal Year 2016-17 to correct certain debt service coverage calculations with respect to Valley Water’s Flood Control System Obligations and obligations secured by revenues of the Water Utility System.

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

UNDERWRITING

The 2020 Bonds are being purchased by an underwriting syndicate consisting of Siebert Williams Shank & Co., LLC, acting as representative, and the other underwriters named on the cover page hereto (collectively, the “Underwriters”) pursuant to a Purchase Contract, dated August __, 2020, by and between the Underwriters and Valley Water (the “Bond Purchase Contract”). The purchase price of the 2020A Bonds is equal to \$_____, being the aggregate principal amount of the 2020A Bonds of \$_____, plus original issue premium of \$_____ and less an underwriters’ discount of \$_____. The purchase price of the 2020B Bonds is equal to \$_____, being the aggregate principal amount of the 2020B Bonds of \$_____, less an underwriters’ discount of \$_____. The Bond Purchase Contract provides that the Underwriters will purchase all of the 2020 Bonds, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions.

The Certificates are being purchased by the Underwriters pursuant to a Purchase Contract, dated August __, 2020, by and between the Underwriters and Valley Water (the “Certificate Purchase Contract”). The purchase price of the 2020C Certificates is equal to \$_____, being the aggregate principal amount of the 2020C Certificates of \$_____, plus original issue premium of \$_____ and less an underwriters’ discount of \$_____. The purchase price of the 2020D Certificates is equal to \$_____, being the aggregate principal amount of the 2020D Certificates of \$_____, less an underwriters’ discount of \$_____. The Certificate Purchase Contract provides that the Underwriters will purchase all of the Certificates, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Certificate Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions.

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2020 Bonds and the Certificates to certain dealers (including dealers depositing 2020 Bonds and Certificates into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

MUNICIPAL ADVISOR

Valley Water has retained Public Resources Advisory Group, of Los Angeles, California, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the 2020 Bonds and the execution and delivery of the Certificates. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Resources Advisory Group is an independent municipal advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of certain fees of the Municipal Advisor for the 2020 Bonds and the Certificates is contingent upon the issuance and the execution and delivery thereof, respectively.

CERTAIN LEGAL MATTERS

Bond Counsel will render an opinion with respect to the 2020 Bonds substantially in the form set forth in Appendix E hereto and Special Counsel will render an opinion with respect to the Certificates substantially in the form set forth in Appendix F hereto. Copies of such opinions will be furnished to the Underwriters at the time of delivery of the 2020 Bonds and the Certificates, respectively. Certain legal matters will be passed upon for Valley Water and the Corporation by District Counsel to Valley Water, Stan Yamamoto, Esq. for the Underwriters by their counsel, Schiff Hardin LLP, and for the Trustee by its counsel. The payment of the fees of Bond Counsel is contingent upon the issuance of the 2020 Bonds and the payment of the fees of Special Counsel is contingent upon the execution and delivery of the Certificates. Bond Counsel and Special Counsel express no opinion to the owners of the 2020 Bonds and the Certificates as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2020 Bonds and the Certificates

and expressly disclaims any duty to advise the Owners of the 2020 Bonds and the Certificates as to matters related to this Official Statement. From time to time, Stradling Yocca Carlson & Rauth, a Professional Corporation represents the Underwriters on matters unrelated to the 2020 Bonds and the Certificates.

MISCELLANEOUS

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

The general purpose financial statements of Valley Water, a summary of the principal legal documents related to the 2020 Bonds and the Certificates, information with respect to the book-entry only system relating to the 2020 Bonds and the Certificates, the forms of opinions of Bond Counsel and Special Counsel and the form of the proposed Continuing Disclosure Agreements are attached hereto as Appendices. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

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

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Chief Executive Officer

Attest:

Clerk of the Board of Directors

APPENDIX A

**AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019 AND COMPLIANCE LETTER**

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS

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

DEFINITIONS

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

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

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

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

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

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

Current Water Utility System Revenues. “Current Water Utility System Revenues” means, with respect to any Fiscal Year or other period, (1) all gross income and revenue of the Water Utility System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees, contributions in aid of construction legally available for Debt Service, and charges and standby or water availability charges), amounts allocated to the District pursuant to Article XIII A of the Constitution of the State of California and Section 95 et seq. of the California Revenues and Taxation Code (or any successor or supplementary provisions) and allocated by the Board of Directors of the District to the Water Utility System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water Utility System or arising from the Water Utility System, (2)(a) all income from the deposit or investment

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

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

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

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

Excluded Principal. “Excluded Principal” means each payment of principal of Bonds or Contracts with a maturity of less than 42 months and which the District specifies in a certificate of the District signed by an

Authorized Officer and filed with each Trustee that the District intends to pay from the proceeds of Bonds or Contracts, other bonds, notes or other obligations of the District or moneys other than Water Utility System Revenues, Current Water Utility System Revenues or Net Water Utility System Revenues. No such determination will affect the security for such Bonds or Contracts or the obligation of the District to pay such Bonds or Contracts from Net Water Utility System Revenues.

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

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

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

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

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

Maintenance and Operation Obligation. “Maintenance and Operation Obligation” means any contractual obligation with respect to any facilities, properties, structures, works, services, water or rights to

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

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

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

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

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

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

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

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

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

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

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

Water Utility System. “Water Utility System” means, subject to the Water Utility Parity System Master Resolution, (i) all property rights, contractual rights and facilities of the District relating to water, including all

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

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

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

WATER UTILITY SYSTEM REVENUES

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

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

Allocation of Water Utility System Revenues. In order to carry out and effectuate the obligations of the District to pay Debt Service, the District has agreed and covenanted that all Current Water Utility System Revenues received by it will be deposited when and as received in the Water Utility System Revenue Fund. The District will transfer or make payments from the Water Utility System Revenue Fund the amounts set forth below at the following times and in the following order of priority: (a) Such amounts at such times as the District requires to provide for the payment of Maintenance and Operation Costs; (b) To each trustee to pay the principal of and interest with respect to Senior Obligations at the times and in the amounts required by the Senior Obligations; (c) To each trustee with respect to Senior Obligations for deposit in the applicable reserve fund created with respect to Senior Obligations, an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish each Senior Obligations reserve fund as and to the extent required by the Senior Obligations or the resolutions, trust agreements, indentures or other instruments securing the Senior Obligations; (d) Debt Service at the times and in the amounts required by applicable Bonds or Contracts or the Trust Agreements securing each Bond or Contract; (e) To each Trustee for deposit in the applicable reserve fund with respect to such Bonds or Contracts, if any, an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Bond or Contract reserve fund as and to the extent required by the applicable Bond or Contract or the resolutions, trust agreements, indentures or other instruments securing each Bond or Contract; (f) On any date prior to the last Business Day of each Fiscal Year,

after making each of the foregoing payments, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the Water Utility System; and (g) On the last Business Day of each Fiscal Year, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the District.

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

BONDS AND CONTRACTS

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

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

(b) The estimated Net Water Utility System Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project, as evidenced by a certificate of an Authorized Officer of the District on file with the District, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Water Utility System Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for the Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of an Authorized Officer on file with the District, will produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

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

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

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

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

COVENANTS OF THE DISTRICT

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

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

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

Compliance with Contracts. The District will comply with, keep, observe and perform all material provisions of agreements, conditions, covenants and terms, express or implied, required to be performed by it

contained in all contracts for the purchase of water for, and the provision of Water Service from the Water Utility System and all other material provisions of contracts affecting or involving the Water Utility System to the extent that the District is a party thereto; provided however nothing contained in the Water Utility Parity System Master Resolution will prevent the District from entering into supplements, modifications or amendments to such contracts (including any interim or renewed contract relating thereto).

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

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

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

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

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

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

MISCELLANEOUS

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

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

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

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

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of the provisions thereof.

APPENDIX C

SUMMARY OF SENIOR MASTER RESOLUTION

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

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 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 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 Valley Water believes to be reliable, but Valley Water takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2020 Bonds and the Certificates (the "Obligations"), payment of principal, premium, if any, accreted value, if any, and interest on the Obligations to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Obligations and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX E

FORM OF BOND COUNSEL OPINION WITH RESPECT TO THE 2020 BONDS

Upon issuance of the 2020 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

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

Re: \$_____ Santa Clara Valley Water District Water System Refunding Revenue Bonds,
Series 2020A and Taxable Series 2020B

Members of the Board of Directors:

We have examined a certified copy of the record of the proceedings of the Santa Clara Valley Water District (the “District”) relative to the issuance of the \$_____ Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2020A (the “2020A Bonds”) and Taxable Series 2020B (the “2020B Bonds” and together with the 2020A Bonds, the “Bonds”), dated the date hereof, and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds are being issued in accordance with Resolution No. 16-10 adopted on February 23, 2016 by the Board of Directors of the District, as amended by Resolution No. 16-82 adopted on December 13, 2016 by the Board of Directors of the District, and an Indenture of Trust, dated as of August 1, 2020 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds mature on the dates and in the amounts referenced in the Indenture. The Bonds are dated their date of delivery and bear interest at the rates per annum referenced in the Indenture. The Bonds are registered in the form set forth in the Indenture.

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

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

2. The obligation of the District to make the payments of principal of and interest on the Bonds from Net Water Utility System Revenues (as defined in the Indenture) is an enforceable obligation of the District and does not constitute a debt of the District, or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2020A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

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

5. The difference between the issue price of a 2020A Bond (the first price at which a substantial amount of the 2020A 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 2020A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the Owner of the 2020A Bond before receipt of cash attributable to such excludable income (with respect to the 2020A Bonds). The amount of original issue discount deemed received by the Owner of a 2020A Bond will increase the Owner's basis in the 2020A Bond. In the opinion of Bond Counsel the amount of original issue discount that accrues to the Owner of a 2020A Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

6. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code") by Owners of the 2020A Bonds and which may at the election of owners of the 2020B Bonds be amortized under Section 171 of the Code. With respect to the 2020A Bonds, such amortizable bond premium reduces the Owner's basis in the applicable 2020A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. With respect to the 2020B Bonds, such amortizable bond premium reduces the Owner's basis in the applicable 2020B Bond (and the amount of taxable interest received) and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner.

The opinions expressed herein as to the exclusion from gross income of interest on the 2020A Bonds are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2020A Bonds to assure that such interest on the 2020A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2020A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2020A Bonds. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2020A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the 2020A Bonds for federal income tax purposes with respect to any 2020A Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2020A Bonds.

By delivering this letter, we are not expressing any opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the Bonds or the Indenture. The opinions expressed

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

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 SPECIAL COUNSEL OPINION WITH RESPECT TO THE CERTIFICATES

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

[Closing Date]

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

Re: \$_____ Santa Clara Valley Water District, Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C and Taxable Series 2020D

Members of the Board of Directors:

We have acted as Special Counsel to the Santa Clara Valley Water District (the "District") in connection with the execution and delivery of \$_____ aggregate principal amount of Revenue Certificates of Participation, Series 2020C (the "2020C Certificates") and Taxable Series 2020D (the "2020D Certificates") and together with the 2020C Certificates, the "Certificates". The Certificates will be dated the date hereof, each evidencing and representing an interest of the registered owner thereof in the right to receive Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Installment Purchase Agreement (the "Agreement"), dated as of August 1, 2020, by and between the District and the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation"). The Agreement is being executed and delivered in accordance with Resolution No. 16-10 adopted on February 23, 2016 by the Board of Directors of the District. The Corporation's right to receive such Installment Payments has been assigned by the Corporation to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to the Assignment Agreement, dated as of August 1, 2020, by and between the Trustee and the Corporation. The Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement, dated as of August 1, 2020 (the "Trust Agreement"), by and among the District, the Corporation and the Trustee.

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

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

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

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

3. The obligation of the District to make the Installment Payments from Net Water Utility System Revenues (as defined in the Agreement) is an enforceable obligation of the District and does not constitute a debt of the District, or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

4. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the portion of each Installment Payment with respect to the 2020C Certificates constituting interest is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

5. The portion of each Installment Payment with respect to the Certificates constituting interest is exempt from State of California personal income tax.

6. The amount by which a 2020C Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2020C Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2020C Certificate premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable 2020C Certificate premium reduces the 2020C Certificate Owner's basis in the applicable 2020C Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2020C Certificate premium may result in a 2020C Certificate Owner realizing a taxable gain when a 2020C Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020C Certificate to the Owner.

The opinions expressed herein as to the exclusion from gross income of the portion of each Installment Payment with respect to the 2020C Certificates constituting interest are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the delivery of the 2020C Certificates to assure that such portion of each Installment Payment with respect to the 2020C Certificates constituting interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the portion of each Installment Payment with respect to the 2020C Certificates constituting interest to be included in gross income for federal income tax purposes retroactive to the date of delivery of the 2020C Certificates. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Agreement, the Trust Agreement and the Tax Certificate relating to the 2020C Certificates permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of the portion of each Installment Payment with respect to the 2020C Certificates constituting interest for federal income tax purposes with respect to any 2020C Certificates if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2020C Certificates.

By delivering this letter, we are not expressing any opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the Certificates, the Installment Purchase Agreement or the Trust Agreement. 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 Agreement, the Trust Agreement and the Certificates are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

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

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

Respectfully submitted,

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2020 BONDS

Upon issuance of the 2020 Bonds, Valley Water proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

APPENDIX H

FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE CERTIFICATES

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

APPENDIX I

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