



Santa Clara Valley Water District Public Facilities Financing Corporation Meeting

Teleconference Zoom Meeting
5700 Almaden Expressway
San Jose, CA 95118

AGENDA

Wednesday, August 19, 2020
1:00 PM

District Mission: Provide Silicon Valley safe, clean water for a healthy life, environment and economy.

SANTA CLARA VALLEY WATER
DISTRICT
PUBLIC FACILITIES FINANCE
CORPORATION

Members:
David Vanni, President
Steve M. Mullen, Vice President
Dean Chu

Spencer Horowitz
Carolyn M. Baker

All public records relating to an item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body will be available for public inspection at the Office of the Clerk of the Board at the Santa Clara Valley Water District Headquarters Building, 5700 Almaden Expressway, San Jose, CA 95118, at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to attend PFFC Board of Directors' meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

Note: The finalized Board Agenda, exception items and supplemental items will be posted prior to the meeting in accordance with the Brown Act.

**Santa Clara Valley Water District
Public Facilities Financing Corporation**

AGENDA

Wednesday, August 19, 2020

1:00 PM

Teleconference Zoom Meeting

IMPORTANT NOTICES

This meeting is being held in accordance with the Brown Act as currently in effect under the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20 issued on March 17, 2020 that allows attendance by members of the Committee, staff, and the public to participate and conduct the meeting by teleconference, videoconference, or both.

Members of the public wishing to address the Committee during a video conferenced meeting on an item not listed on the agenda, or any item listed on the agenda, should use the "Raise Hand" or "Chat" tools located in Zoom meeting link listed on the agenda. Speakers will be acknowledged by the Committee Chair in the order requests are received and granted speaking access to address the Committee.

Santa Clara Valley Water District (Valley Water) in complying with the Americans with Disabilities Act (ADA), requests individuals who require special accommodations to access and/or participate in Valley Water Committee meetings to please contact the Clerk of the Board's office at (408) 630-2711, at least 3 business days before the scheduled meeting to ensure that Valley Water may assist you.

This agenda has been prepared as required by the applicable laws of the State of California, including but not limited to, Government Code Sections 54950 et. seq. and has not been prepared with a view to informing an investment decision in any of Valley Water's bonds, notes or other obligations. Any projections, plans or other forward-looking statements included in the information in this agenda are subject to a variety of uncertainties that could cause any actual plans or results to differ materially from any such statement. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water's bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures and Valley Water's Investor Relations website, maintained on the World Wide Web at <https://emma.msrb.org/> and <https://www.valleywater.org/how-we-operate/financebudget/investor-relations>, respectively.

Join Zoom Meeting:
<https://valleywater.zoom.us/j/96061904240>

Meeting ID: 960 6190 4240
One tap mobile
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Dial by your location
+1 669 900 9128 US (San Jose)
+1 646 558 8656 US (New York)
Meeting ID: 960 6190 4240

1. Roll Call.

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA.

Notice to the Public: Members of the public who wish to address the Committee on any item not listed on the agenda should access the "Raise Hand" or "Chat" tools located in Zoom meeting link listed on the agenda. Speakers will be acknowledged by the Committee Chair in order requests are received and granted speaking access to address the Committee. Speakers comments should be limited to three minutes or as set by the Chair. The law does not permit Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If Committee action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

3.1. Approval of Minutes.

[20-0707](#)

Recommendation: **RECOMMENDATION:**

Approve the April 17, 2020, Minutes.

Attachments: [Attachment 1: April 17, 2020, Minutes](#)

4. ACTION ITEMS:

- 4.1. Adopt Resolution of the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation Authorizing the Execution and Delivery of Not to Exceed \$155 Million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents, and Authorizing Certain Acts in Connection Therewith.

[20-0706](#)

Recommendation: **RECOMMENDATION:**

- A. Adopt RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$155,000,000 REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH; and
- B. Authorize and direct the President, Vice President, Secretary, and such other officers of the Santa Clara Valley Water District Public Facilities Financing Corporation, acting singly, to do any and all things, and to execute and deliver any and all documents, which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Revenue Certificates of Participation.

Attachments:

[Attachment 1: Resolution](#)

[Attachment 2: Installment Purchase Agreement](#)

[Attachment 3: Trust Agreement](#)

[Attachment 4: Assignment Agreement](#)

[Attachment 5: Draft Valley Water Board Memo](#)


5. ADJOURN



Santa Clara Valley Water District

File No.: 20-0707

Agenda Date: 8/19/2020
Item No.: 3.1.

 Valley Water <small>SANTA CLARA VALLEY WATER DISTRICT</small>		
SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION		
	Meeting Date:	8/19/20
	Item No.	3.1.
	Unclassified Manager:	Michele King

SUBJECT:

Approval of Minutes.

RECOMMENDATION:

Approve the April 17, 2020, Minutes.

SUMMARY:

A summary of Public Facilities Financing Corporation (PFFC) discussions, and details of all actions taken during all open and public meetings is transcribed and submitted for review and approval.

Upon approval, minutes transcripts are finalized and entered into the District's historical records archives and serve as historical records of the PFFC meetings.

ATTACHMENTS:

Attachment 1: April 17, 2020, Minutes

DRAFT MINUTES
SANTA CLARA VALLEY WATER DISTRICT
PUBLIC FACILITIES FINANCING CORPORATION
April 17, 2020

(Paragraph numbers coincide with agenda item numbers)

A Special Meeting of the Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC) was held at 1:30 p.m. on April 17, 2020, via a teleconference in compliance with COVID-19 Shelter in Place Orders.

1.1 Roll Call: PFFC Board of Director members in attendance via teleconference were Carolyn Bauer, Dean Chu, Spencer Horowitz, Steve Mullen, and David Vanni, constituting a quorum.

PFFC Corporate Officer present: Michele King, Corporate Secretary.

2.1 Time Open for Public Comment on Any Subject Not on the Agenda: There was no one present who wished to speak.

3.1 Resolution Authorizing the Solicitation and Negotiation of and Execution and Delivery of One or More Lines of Credit, Credit Agreement, Fee Letter and Related Documents and Actions: Charlene Sun, Treasury and Debt Manager, reviewed the information on this item, per the attached Agenda Memorandum. Ms. Sun and Mr. Ed Soong, Financial Advisor, Public Resources Advisory Group, responded to questions raised by the directors

It was moved by Director Mullen, seconded by Director Bauer, to adopt Resolution 20-01 AUTHORIZING THE SOLICITATION AND NEGOTIATION OF AND EXECUTION AND DELIVERY OF ONE OR MORE LINES OF CREDIT, CREDIT AGREEMENT, FEE LETTER AND RELATED DOCUMENTS AND ACTIONS, by roll call vote; and to Authorize the President and Vice President of the Board, and the Chief Executive Officer, Chief Financial Officer, or Treasury and Debt Officer of the Santa Clara Valley Water District ("Valley Water" or the "District") (in each case, including any acting, interim, or otherwise appointed officer, as the case may be) or their written designees (each an "Authorized Officer"), and the Secretary and general counsel to the Corporation and such other officers and staff of the District, acting singly, to do any and all things to solicit, negotiate and execute one or more Lines of Credit, Credit Agreement, Fee Letter, and such other agreements, documents and certificates, including to provide for covenants, representations and warranties of the District, as may be necessary to effectuate each Line of Credit, Credit Agreement and Fee Letter, if they determine such execution and delivery is in the best interest of the Corporation and the District.

Ayes: C. Bauer, D. Chu, S. Horowitz, S. Mullen, D. Vanni
Noes: None
Abstain: None.
Absent: None.

4. Adjourn: The meeting was adjourned at approximately 2:00 p.m.


Michele L. King, CMC
Corporate Secretary, PFFC



Santa Clara Valley Water District

File No.: 20-0706

Agenda Date: 8/19/2020
Item No.: 4.1.



Valley Water
SANTA CLARA VALLEY WATER DISTRICT

**SANTA CLARA VALLEY WATER DISTRICT
PUBLIC FACILITIES FINANCING CORPORATION**

	Meeting Date:	August 19, 2020
	Item No.	4.1.
	Unclassified Manager:	Darin Taylor

SUBJECT:

Adopt Resolution of the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation Authorizing the Execution and Delivery of Not to Exceed \$155 Million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents, and Authorizing Certain Acts in Connection Therewith.

RECOMMENDATION:

- A. Adopt RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$155,000,000 REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH; and
- B. Authorize and direct the President, Vice President, Secretary, and such other officers of the Santa Clara Valley Water District Public Facilities Financing Corporation, acting singly, to do any and all things, and to execute and deliver any and all documents, which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Revenue Certificates of Participation.

SUMMARY:

Approval of staff recommendations will authorize the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation") to execute and deliver certain documents in

connection with the execution and delivery of up to \$155 million of Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C (Tax-Exempt) and Series 2020D (Taxable) (the “2020C Certificates” and the “2020D Certificates,” respectively and collectively, the “Certificates”). The proceeds of the Certificates will be used to: (i) acquire and/or construct, or reimburse the cost of the acquisition or construction of, certain water utility system capital improvements; and (ii) pay costs of issuance of the Certificates.

The following financing documents, in substantially final form, are attached for Corporation Board (the “Board”) review and/or approval: Resolution of the Board, attached to which are the Installment Purchase Agreement, Trust Agreement, and Assignment Agreement (Attachments 1-4).

The full details of the financing are provided in the draft memo to the Santa Clara Valley Water District (“Valley Water” or the “District”) board of directors (the “District Board”), who is scheduled to consider and authorize the financing on August 25, 2020 (Attachment 5). Included in Attachment 5 are the following financing documents, in substantially final form, that are not submitted to the Board for approval but are being included for Board reference: Resolution of the District Board, attached to which are the Preliminary Official Statement, Certificate Purchase Contract, Bond Purchase Contract, Continuing Disclosure Agreements, and Indenture of Trust. Also included in Attachment 5 for Board reference are the following documents: Valley Water’s Debt Management Policy, and a presentation entitled “Disclosure Responsibilities Under the Federal Securities Laws” made to Valley Water staff, and board-members of Valley Water and the Corporation, on July 7, 2020 by Stradling, Yocca, Carlson & Rauth, bond counsel for the Certificates.

ATTACHMENTS:

- Attachment 1: Resolution
- Attachment 2: Installment Purchase Agreement
- Attachment 3: Trust Agreement
- Attachment 4: Assignment Agreement
- Attachment 5: Draft Valley Water Board Memo

RESOLUTION NO. ____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$155,000,000 REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Santa Clara Valley Water District Public Facilities Financing Corporation is a nonprofit public benefit corporation organized and existing under the laws of the State of California (the "Corporation") with the authority to assist in the acquisition of capital improvements and to assist in the reimbursement of certain costs previously expended on the acquisition of capital improvements on behalf of the Santa Clara Valley Water District ("Valley Water"); and

WHEREAS, in order to assist Valley Water in such acquisition, Valley Water and the Corporation desire to enter into that certain Installment Purchase Agreement, by and between Valley Water and the Corporation (the "Installment Purchase Agreement"), the form of which is on file with the Corporation, that certain Trust Agreement, by and among the Trustee named therein, as trustee (the "Trustee"), Valley Water and the Corporation (the "Trust Agreement"), the form of which is on file with the Corporation and that certain Assignment Agreement, by and between the Corporation and the Trustee (the "Assignment Agreement"), the form of which is on file with the Corporation; and

WHEREAS, Valley Water has determined that it would be in the best interests of Valley Water and citizens of the community to authorize the preparation and delivery of revenue certificates of participation in an aggregate principal amount not to exceed \$155,000,000 (the "Certificates");

NOW, THEREFORE, the Board of Directors of the Corporation does hereby resolve as follows:

Section 1. Authorization. This Board of Directors hereby authorizes the preparation, sale and delivery of the Certificates in an aggregate principal amount not to exceed \$155,000,000 in accordance with the terms and provisions of the Trust Agreement. The purposes for which the proceeds of the sale of the Certificates shall be expended is to acquire and/or construct certain capital improvements to the water utility system of Valley Water and to reimburse Valley Water for costs previously expended on the acquisition and/or construction of certain water utility system improvements as described in the Installment Purchase Agreement, and to pay the costs of the sale and delivery of the Certificates.

Section 2. Certificate Documents. The Installment Purchase Agreement, the Assignment Agreement and the Trust Agreement presented at this meeting are approved. The President or Vice-President and the Secretary are authorized and directed to execute and deliver the Installment Purchase Agreement, the Assignment Agreement and the Trust Agreement. Such agreements and contract shall be executed or acknowledged, as the case may be, in substantially the forms hereby approved, with such additions thereto and changes therein as are approved by the officers executing such agreements and contract, such approval to be conclusively evidenced by the execution and delivery or acknowledgment thereof.

Section 3. Other Actions. The President, Vice-President or Secretary and such other officers of the Corporation are authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Certificates, and the delivery of the Installment Purchase Agreement, the Assignment Agreement and the Trust Agreement, and otherwise effectuate the purposes of this Resolution. All actions previously taken by such officers with respect to the foregoing are hereby ratified and confirmed.

Section 4. Effect. This Resolution shall take effect immediately.

ADOPTED, SIGNED AND APPROVED this 19th day of August, 2020.

David Vanni, President of Santa Clara Valley Water
District Public Facilities Financing Corporation

(SEAL)

ATTEST:

Michele L. King, CMC,
Secretary of Santa Clara Valley Water District
Public Facilities Financing Corporation

STATE OF CALIFORNIA)
) ss.
COUNTY OF SANTA CLARA)

I, Michele L. King, CMC, Secretary of the Santa Clara Valley Water District Public Facilities Financing Corporation, do hereby certify that the foregoing resolution was duly adopted by the Board of Directors of said Corporation at a special meeting held on the 19th day of August, 2020, and that it was so adopted by the following vote:

AYES: DIRECTORS:

NOES: DIRECTORS:

ABSENT: DIRECTORS:

ABSTAIN: DIRECTORS:

Secretary of Santa Clara Valley Water District Public
Facilities Financing Corporation

(SEAL)

STATE OF CALIFORNIA)
) ss.
COUNTY OF SANTA CLARA)

I, Michele L. King, CMC, Secretary of the Santa Clara Valley Water District Public Facilities Financing Corporation, do hereby certify that the above and foregoing is a full, true and correct copy of RESOLUTION NO. _____ of said Board, and that the same has not been amended or repealed.

DATED: _____, 2020

Secretary of the Santa Clara Valley Water District
Public Facilities Financing Corporation

(SEAL)

INSTALLMENT PURCHASE AGREEMENT

by and between the

SANTA CLARA VALLEY WATER DISTRICT

and the

SANTA CLARA VALLEY WATER DISTRICT
PUBLIC FACILITIES FINANCING CORPORATION

Dated as of August 1, 2020

relating to

\$ _____
SANTA CLARA VALLEY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS)
SERIES 2020C AND TAXABLE SERIES 2020D

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INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT, made and entered into as of August 1, 2020, by and between the SANTA CLARA VALLEY WATER DISTRICT, a flood control and water district organized and existing under the laws of the State of California (“Valley Water”), and the SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the “Corporation”).

WITNESSETH:

WHEREAS, Valley Water owns and operates that certain Water Utility System as described in this Installment Purchase Agreement;

WHEREAS, on February 23, 2016, the Board of Directors of Valley Water adopted Resolution No. 16-10 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 “Water Utility Parity System Master Resolution”);

WHEREAS, Valley Water proposes to acquire and/or construct certain equipment and facilities within Valley Water’s Water Utility System and to reimburse itself for costs previously expended to finance certain equipment and facilities within Valley Water’s Water Utility System, as more particularly described in Exhibit A hereto (collectively, the “Project”);

WHEREAS, the Corporation has agreed to assist Valley Water to acquire and/or construct the Project;

WHEREAS, Valley Water and the Corporation have duly authorized the execution of this Installment Purchase Agreement;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Agreement; and

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any

report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. Unless the context otherwise requires, all capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Trust Agreement or in the Water Utility Parity System Master Resolution.

Component

The term “Component” means Component A and Component B of the Project as more particularly described in Exhibit A attached hereto, including such components as may be added, deleted or substituted from time-to-time as provided in Section 3.1(b) hereof.

Component A

The term “Component A” means those components of the Project related to the acquisition and/or construction of certain equipment and facilities within Valley Water’s Water Utility System as more particularly described in Exhibit A attached hereto, including such components as may be added, deleted or substituted from time-to-time as provided in Section 3.1(b) hereof.

Component B

The term “Component B” means those components of the Project related to reimbursement to Valley Water for costs previously expended by Valley Water to acquire and/or construct certain equipment and facilities within Valley Water’s Water Utility System as more particularly described in Exhibit A attached hereto.

Continuing Disclosure Agreement

The term “Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated September __, 2020, by and between Valley Water and U.S. Bank National Association, as dissemination agent, relating to the Certificates, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Corporation

The term “Corporation” means the Santa Clara Valley Water District Public Facilities Financing Corporation.

Event of Default

The term “Event of Default” means an event described in Section 8.1.

Installment Payment Date

The term “Installment Payment Date” means the Business Day prior to June 1 and December 1 of each year, commencing the Business Day prior to December 1, 2020.

Installment Payments

The term “Installment Payments” means the Installment Payments scheduled to be paid by Valley Water under and pursuant hereto.

Installment Purchase Agreement

The term “Installment Purchase Agreement” means this Installment Purchase Agreement, dated as of August 1, 2020, by and between Valley Water and the Corporation, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Law

The term “Law” means the Santa Clara Valley Water District Act, Chapter 1405 of Statutes of 1951 of the State of California, as amended.

Net Proceeds

The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Project

The term “Project” means those certain public facilities, consisting of Component A and Component B described in Exhibit A attached hereto.

Purchase Price

The term “Purchase Price” means the amount to be paid by Valley Water to the Corporation for the purchase of the Project under the terms hereof, as provided in Section 4.1 hereof.

Special Counsel

The term “Special Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Trust Agreement

The term “Trust Agreement” means the Trust Agreement, dated as of August 1, 2020, by and among Valley Water, the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions thereof.

Water Utility Parity System Master Resolution

The term “Water Utility Parity System Master Resolution” shall have the meaning ascribed thereto in the second WHEREAS clause in this Installment Purchase Agreement.

Section 1.2. Definitions in the Water Utility Parity System Master Resolution. Except as otherwise herein defined and unless the context otherwise requires, each of the capitalized terms used in this Installment Purchase Agreement shall have the same meaning set forth therefor in the Water Utility Parity System Master Resolution. With respect to any defined term which is given a different meaning under this Installment Purchase Agreement than under the Water Utility Parity System Master Resolution as used herein it shall have the meaning described herein.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations by Valley Water. Valley Water makes the following representations:

(a) Valley Water is a flood control and water district organized and existing under the laws of the State of California.

(b) Valley Water has full legal right, power and authority to enter into this Installment Purchase Agreement and carry out its obligations hereunder, to carry out and consummate all transactions contemplated by this Installment Purchase Agreement, and Valley Water has complied with the provisions of the Law in all matters relating to such transactions.

(c) By proper action, Valley Water has duly authorized the execution, delivery and due performance of this Installment Purchase Agreement.

(d) The execution and delivery of this Installment Purchase Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which Valley Water is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of Valley Water.

(e) Valley Water has determined that it is necessary and proper within the terms of the Law that Valley Water acquire and/or construct each Component of the Project in the manner provided for in this Installment Purchase Agreement, to provide essential water services and facilities to the persons residing within the areas benefited by such improvements.

Section 2.2. Representations and Warranties by the Corporation. The Corporation makes the following representations and warranties:

(a) The Corporation is a nonprofit public benefit corporation validly organized and existing under the laws of the State of California.

(b) The Corporation has full legal right, power and authority to enter into this Installment Purchase Agreement and to carry out and consummate all transactions contemplated by this Installment Purchase Agreement, and the Corporation has complied with the provisions of the law in all matters relating to such transactions.

(c) By proper action, the Corporation has duly authorized the execution, delivery and due performance of this Installment Purchase Agreement.

(d) The execution and delivery of this Installment Purchase Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Corporation is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Corporation.

ARTICLE III

ACQUISITION AND/OR CONSTRUCTION, SALE AND CONVEYANCE OF THE PROJECT

Section 3.1 Acquisition and/or Construction, Sale and Conveyance of the Project. (a) The Corporation hereby agrees to acquire and/or construct each and all Components of the Project, as applicable, for and to sell and convey each and all such Components of the Project to Valley Water. In order to implement this provision, the Corporation hereby appoints Valley Water as its agent for the purpose of acquisition and/or construction of all Components of the Project and, subject to such construction, Valley Water hereby agrees to enter into such construction contracts and purchase orders as may be necessary, as agent for the Corporation, to provide for the acquisition and/or construction of the Project. Valley Water hereby further agrees that it will cause the acquisition and/or construction of the Project to be diligently prosecuted with all practical dispatch and in an expeditious manner.

After the execution and delivery of the Certificates and the deposit of the proceeds of such Certificates with the Trustee, Valley Water shall, as agent of Corporation, use its best efforts to cause the acquisition and/or construction of the Project to be completed as soon as possible, unforeseeable delays beyond the reasonable control of Valley Water only excepted.

(b) Valley Water may add, delete or substitute other improvements for the facilities listed as Components of the Project in Exhibit A hereto, but only if Valley Water first files with the Corporation and Trustee a statement of Valley Water;

(1) identifying the improvements to be substituted and the improvements to be added; and

(2) stating that the estimated costs of construction, acquisition and/or installation of the added, deleted or substituted improvements are not less than such costs for the previously planned and/or the Corporation has sufficient funds advanced by Valley Water or Certificates proceeds to construct and/or acquire the substituted or added improvements; and

(3) stating that such added, deleted or substituted improvements will not reduce the Installment Payments payable hereunder or adversely affect the payment of principal and interest evidenced by the Certificates.

Notwithstanding the foregoing, it is hereby expressly understood and agreed that the Corporation shall be under no liability of any kind or character whatsoever for the payment of any cost or expenses incurred by Valley Water for the acquisition and/or construction of each Component of the Project and that all such costs and expenses shall be paid by Valley Water.

Section 3.2. Sale and Purchase of Component B of the Project. In consideration for the Corporation's assistance in financing Component B of the Project, Valley Water agrees to sell, and hereby sells, to the Corporation, and the Corporation agrees to purchase and hereby purchases, from Valley Water, Component B of the Project at the Purchase Price specified in Section 4.1 hereof and otherwise in the manner and in accordance with the provisions of this Installment Purchase Agreement.

Section 3.3. Purchase and Sale of the Project. In consideration for the Installment Payments as set forth in Section 4.2, the Corporation agrees to sell, and hereby sells, to Valley Water, and Valley Water agrees to purchase, and hereby purchases, from the Corporation, the Project at the Purchase Price specified in Section 4.1 hereof and otherwise in the manner and in accordance with the provisions of this Installment Purchase Agreement.

Section 3.4. Title. All right, title and interest in each Component B of the Project shall vest in Valley Water notwithstanding the execution and delivery of this Installment Purchase Agreement. All right, title and interest in each Component A of the Project shall vest in Valley Water immediately upon acquisition thereof. Such vesting shall occur without further action by the Corporation or Valley Water and the Corporation shall, if requested by Valley Water or, if necessary to assure such automatic vesting, deliver any and all documents required to assume such vesting.

ARTICLE IV

INSTALLMENT PAYMENTS

Section 4.1. Purchase Price.

(a) The Purchase Price to be paid by Valley Water hereunder to the Corporation is the sum of the principal amount of Valley Water's obligations hereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date hereof over the term hereof, subject to prepayment as provided in Article VII.

(b) The principal amount of the payments to be made by Valley Water hereunder is set forth in Exhibit B hereto.

(c) The interest to accrue on the unpaid balance of such principal amount is as specified in Section 4.2 and Exhibit B hereto, and shall be paid by Valley Water as and constitute interest paid on the principal amount of Valley Water's obligations hereunder.

Section 4.2. Installment Payments.

(a) Valley Water shall, subject to any rights of prepayment provided in Article VII, pay to the Corporation, from available Water Utility System Revenues as provided in Section 3.1 hereof and in Section 2.2(b) of the Water Utility Parity System Master Resolution, the Purchase Price in Installment Payments to such date in the amounts and on the Installment Payment Dates to

be determined upon execution and delivery of the Certificates. Upon execution and delivery of the Certificates, the Installment Payments are to be applied to the payment of the principal and interest evidenced and represented by the Certificates and Installment Payments shall be made in amounts that are sufficient, but no more than sufficient, to pay the scheduled payments of principal and interest evidenced and represented by the outstanding Certificates. If and to the extent that, on any Installment Payment Date, there are amounts on deposit in a fund established under the Trust Agreement for the payment of principal and interest represented by the Certificates, which amounts are not being held for the payment of specific Certificates, said amounts shall be credited against the Installment Payment due on such date. If all or a portion of the Certificates are no longer outstanding as a result of prepayment, early retirement through purchase by Valley Water or the Corporation or defeasance of such Certificates, the schedule of Installment Payments to be determined upon execution and delivery of the Certificates shall be deemed to have been modified so that the Installment Payments are sufficient, but no more than sufficient, to pay the scheduled payments of principal and interest evidenced and represented by the outstanding Certificates. Upon any such prepayment, purchase or defeasance, Valley Water shall recalculate Installment Payments and shall provide the Trustee with a modified schedule of Installment Payments.

(b) Each Installment Payment to be paid upon execution and delivery of the Certificates shall be paid to the Trustee, as assignee of the Corporation, on or before the Business Day prior to the applicable Installment Payment Date, in lawful money of the United States of America, in funds which will be immediately available following payment. In lieu of depositing with such Trustee all cash to meet its Installment Payment due and payable on the next succeeding Installment Payment Date, Valley Water may deposit with the Trustee, securities or investments, which will mature on or before the next succeeding Interest Payment Date in an amount which, together with the cash then available to pay the principal and interest represented by the Certificates, will be sufficient to pay the interest and principal due on said Interest Payment Date. In the event Valley Water fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of Valley Water until such amount shall have been fully paid and, to the extent permitted by law, Valley Water agrees to pay the same with interest accruing thereon at the rate of ten percent (10%) per annum.

(c) Upon execution and delivery of the Certificates, the obligation of Valley Water to make the Installment Payments will become absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), Valley Water shall not discontinue or suspend any Installment Payments required to be made by it under this section when due, whether or not the Project or any Component thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

ARTICLE V

WATER UTILITY SYSTEM REVENUES

Section 5.1. Pledge. The Installment Purchase Agreement is intended to be a “Contract” under the Water Utility Parity System Master Resolution and shall be secured by the pledge and the liens created in the Water Utility Parity System Master Resolution.

Section 5.2. Allocation. In order to carry out and effectuate the pledge contained in the Water Utility Parity System Master Resolution, upon execution and delivery of the Certificates, Valley Water shall pay, in accordance with Section 2.2 of the Water Utility Parity System Master Resolution, from the Net Water Utility System Revenues to the Trustee, as assignee of the Corporation, the Installment Payments as and when due hereunder.

ARTICLE VI

COVENANTS OF VALLEY WATER

Section 6.1. Compliance with Installment Purchase Agreement and Water Utility Parity System Master Resolution. Valley Water will punctually pay the Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

Valley Water will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Water Utility Parity System Master Resolution and in this Installment Purchase Agreement required to be observed and performed by it, and it is expressly understood and agreed by and between the parties to this Installment Purchase Agreement that, subject to Section 10.7 hereof, each of the agreements, conditions, covenants and terms contained the Water Utility Parity System Master Resolution and this Installment Purchase Agreement is an essential and material term of the purchase of and payment for the Project by Valley Water pursuant to, and in accordance with, and as authorized under, the Law.

Section 6.2. Tax Covenants. Valley Water covenants and agrees to contest by court action or otherwise any assertion by the United States of America or any department or agency thereof that the interest evidenced and represented by the Series 2020C Certificates is includable in gross income of the recipient under federal income tax laws. Notwithstanding any other provision of this Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest evidenced and represented by the Series 2020C Certificates will not be adversely affected for federal income tax purposes, Valley Water covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. Valley Water will take no action or refrain from taking any action or make any use of the proceeds of the Series 2020C Certificates or of any other moneys or property which would cause the Series 2020C Certificates to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. Valley Water will make no use of the proceeds of the Series 2020C Certificates or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Series 2020C Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) Federal Guaranty. Valley Water will make no use of the proceeds of the Series 2020C Certificates or take or omit to take any action that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. Valley Water will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(e) Hedge Bonds. Valley Water will make no use of the proceeds of the Series 2020C Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either the Series 2020C Certificates to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless Valley Water takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest evidenced and represented by the Series 2020C Certificates for federal income tax purposes; and

(f) Miscellaneous. Valley Water will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by Valley Water in connection with the execution and delivery of the Series 2020C Certificates and will comply with the covenants and requirements stated therein and incorporated by reference herein.

Section 6.3. Against Encumbrances. Valley Water 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 or alleged to have been furnished to or for Valley Water, in, upon, about or relating to the Project and will keep the Project free of any and all liens against any portion of the Project or the Corporation interest therein. In the event any such lien attaches to or is filed against any portion of the Project or the Corporation interest therein, Valley Water 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 Valley Water desires to contest any such lien it may do so. If any such lien shall 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, Valley Water will forthwith pay or cause to be paid and discharged such judgment. Valley Water will, to the maximum extent permitted by law, indemnify and hold the Corporation harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys’ fees) as a result of any such lien or claim of lien against any portion of the Project or the Corporation interest therein.

Section 6.4. Payment of Claims. Valley Water will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Water Utility System Revenues or any part thereof or on any funds in the hands of Valley Water which might impair the security of the Installment Payments, but Valley Water shall not be required to pay such claims if the validity thereof shall be contested in good faith.

Section 6.5. Compliance with Contracts. Valley Water will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Project and all other contracts affecting or involving the Project to the extent that Valley Water is a party thereto.

Section 6.6. Protection of Security and Rights of the Corporation. Valley Water will preserve and protect the security hereof and the rights of the Corporation to the Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.7. Additional Protection for Officers of the Corporation. Valley Water will, to the maximum extent permitted by law, indemnify and hold the Corporation and each of its directors and officers harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of entering into this Installment Purchase Agreement.

Section 6.8. Further Assurances. Valley Water will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

Section 6.9. Continuing Disclosure. Valley Water hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Installment Purchase Agreement, failure of Valley Water to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause Valley Water to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificate (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificate for federal income tax purposes.

ARTICLE VII

PREPAYMENT OF INSTALLMENT PAYMENTS

Section 7.1. Prepayment.

(a) Valley Water may prepay from the Net Proceeds, on any date, all or any part of the principal amount of the unpaid Installment Payments at a prepayment price equal to the sum of the principal amount prepaid plus accrued interest with respect thereto to the date of prepayment without premium.

(b) Valley Water may prepay the Installment Payments with respect to the Series 2020C Certificates in the order as directed in a written request of Valley Water to the Trustee, as a whole or in part, on any date on or after June 1, 20__ from any available funds. The principal amount of such unpaid Installment Payments is payable at a prepayment price equal to the principal amount of such Installment Payments to be prepaid plus accrued interest with respect thereto to the date of prepayment without premium.

(c) Valley Water may prepay the Installment Payments with respect to the Series 2020D Certificates in the order as directed in a written request of Valley Water to the Trustee, as a whole or in part, on any date on or after June 1, 20__ from any available funds. The principal amount of such unpaid Installment Payments is payable at a prepayment price equal to the principal amount of such Installment Payments to be prepaid plus accrued interest with respect thereto to the date of prepayment without premium.

(d) Valley Water may prepay the Installment Payments with respect to the Series 2020D Certificates in the order as directed in a written request of Valley Water to the Trustee, as a whole or in part, on any date before June 1, 20__ from any available funds in order to effectuate the prepayment of the Series 2020D Certificates in accordance with Section 3.01(c) of the Trust Agreement. The principal amount of such unpaid Installment Payments is payable at a prepayment price equal to the prepayment price of the Series 2020D Certificates to be prepaid as calculated in accordance with Section 3.01(c) of the Trust Agreement.

Notwithstanding any such prepayment, Valley Water shall not be relieved of its obligations hereunder, including its obligations under Article IV, until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been provided to the written satisfaction of the Corporation).

Section 7.2. Method of Prepayment. Before making any prepayment pursuant to Section 7.1(a), Valley Water may, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Corporation and the Trustee describing such event and specifying the date on which the prepayment of the Certificates will be paid, which date shall be not less than forty-five (45) days nor more than sixty (60) days from the date such notice is given, unless such prepayment must occur on an Interest Payment Date, in which case such date shall be the next Interest Payment Date with respect to which notice of prepayment may be timely given pursuant to the Trust Agreement.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

Section 8.1. Events of Default. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made by Valley Water in the due and punctual payment of any Installment Payment when and as the same shall become due and payable;

(2) if default shall be made by Valley Water in the performance of any of the agreements or covenants required herein to be performed by it, and such default shall have continued for a period of thirty (30) days after Valley Water shall have been given notice in writing of such default or, if such default is not reasonably susceptible to cure within thirty (30) days after notice thereof, such default shall have continued for a period of sixty (60) days; or

(3) if Valley Water shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of Valley Water seeking arrangement or reorganization under the federal

bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of Valley Water or of the whole or any substantial part of its property; or

(4) declaration of an “event of default” under any Contract or Bond as provided by the terms of such Contract or Bond.

Section 8.2. Remedies of the Corporation.

The Corporation shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against Valley Water or any member of Valley Water’s Board of Directors, officer or employee thereof, and to compel Valley Water or any such member of Valley Water’s Board of Directors, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained herein;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Corporation; or

(c) by suit in equity upon the happening of an Event of Default to require Valley Water and any member of Valley Water’s Board of Directors, officers and employees to account as the trustee of an express trust.

Section 8.3. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of Valley Water, which is absolute and unconditional, to pay the Installment Payments to the Corporation at the respective due dates from the Water Utility System Revenues and the other amounts herein committed for such payment, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by the Law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation, Valley Water and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Section 8.4. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter

existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.1. Discharge of Obligations.

(a) all or any portion of the Installment Payments shall have become due and payable in accordance herewith or a written notice of Valley Water to prepay all or any portion of the Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Corporation or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Installment Payments, sufficient moneys and Defeasance Securities, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Installment Payments to their respective Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee;

then and in that event, the right, title and interest of the Corporation herein and the obligations of Valley Water hereunder shall, with respect to all or such portion of the Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Corporation and the obligation of Valley Water to have such moneys and such Defeasance Securities applied to the payment of such Installment Payments).

In such event, upon request of Valley Water, the Trustee shall cause an accounting for such period or periods as may be requested by Valley Water to be prepared and filed with Valley Water and shall execute and deliver to Valley Water all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to Valley Water, after payment of all amounts due the Trustee pursuant to the Trust Agreement, as an overpayment of Installment Payments, all such moneys or such Defeasance Securities held by it pursuant hereto other than such moneys and such Defeasance Securities, as are required for the payment or prepayment of the Installment Payments, which moneys and Defeasance Securities shall continue to be held by the Trustee in trust for the payment of the Installment Payments and shall be applied by the Trustee to the payment of the Installment Payments of Valley Water.

ARTICLE X

MISCELLANEOUS

Section 10.1. Liability of Valley Water Limited to Water Utility System Revenues. Notwithstanding anything contained herein, Valley Water shall not be required to advance any

moneys derived from any source of income other than as provided in the Water Utility Parity System Master Resolution for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. Valley Water may, however, but in no event shall be obligated to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by Valley Water for such purpose.

The obligation of Valley Water to make the Installment Payments is payable as provided in the Water Utility Parity System Master Resolution, and does not constitute a debt of Valley Water or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Section 10.2. Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than Valley Water, the Corporation or the assigns of the Corporation any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of Valley Water or the Corporation shall be for the sole and exclusive benefit of the other party.

Section 10.3. Amendments.

(a) This Agreement may be amended in writing as may be mutually agreed by Valley Water and the Corporation, and upon execution and delivery of the Certificates, by the Owners of a majority in aggregate principal amount of Certificates outstanding; provided that upon execution and delivery of the Certificates, no such amendment shall (a) extend the payment date of any Installment Payment, or reduce the amount of any Installment Payment without the prior written consent of the Owner of each Certificate so affected, (b) reduce the percentage of Certificates the consent of the Owners of which is required for the execution of any amendment of this Installment Purchase Agreement or (c) reduce the percentage of the consent of the owners or holders of outstanding Bonds and Contracts of which is required to provide consent to any amendment or modification of the Water Utility Parity System Master Resolution as set forth in Section 10.3(b) below.

This Installment Purchase Agreement and the rights and obligations of Valley Water and the Corporation hereunder may also be amended or supplemented at any time by an amendment hereof or supplement hereto which shall become binding upon execution by Valley Water and the Corporation, without the written consent of any Owners, but only to the extent permitted by law and only upon receipt of an unqualified opinion of Special Counsel selected by Valley Water and approved by the Corporation to the effect that such amendment or supplement is permitted by the provisions of this Installment Purchase Agreement and is not inconsistent with this Installment Purchase Agreement and does not adversely affect the exclusion of interest on the Certificates received by the Owners from gross income for federal income tax purposes, and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Corporation or Valley Water contained in this Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or Valley Water, and which shall not materially adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Installment Purchase Agreement or in regard to questions arising under this Installment Purchase Agreement, as the Corporation or Valley Water may deem necessary or desirable and which shall not materially adversely affect the interests of the Owners of the Certificates; or

(3) to make such other amendments or modifications which shall not materially adversely affect the interests of the Owners of the Certificates.

(b) The Water Utility Parity System Master Resolution may be amended or modified by Valley Water by a supplemental resolution thereto with the consent of a majority of the owners of outstanding Bonds and Contracts; provided, however, that Valley Water may modify or amend the Water Utility Parity System Master Resolution at any time without the consent of owners of outstanding Bonds and Contracts by a supplemental resolution thereto to: (i) add to the agreements and covenants of Valley Water other agreements and covenants to be observed, or to surrender any right or power therein reserved to Valley Water, or (ii) cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) resolve questions arising thereunder as Valley Water may deem necessary or desirable, and which do not materially adversely affect the interests of the owners of outstanding Bonds and Contracts. Such amendment or modification shall be filed by Valley Water with the applicable Trustee for such outstanding Bonds or Contracts. Valley Water shall give notice of any such amendment or supplement to each Rating Agency then rating the Certificates.

Section 10.4. Successor Is Deemed Included in all References to Predecessor. Whenever either Valley Water or the Corporation is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in Valley Water or the Corporation, and all agreements and covenants required hereby to be performed by or on behalf of Valley Water or the Corporation shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 10.5. Waiver of Personal Liability. No official, officer or employee of Valley Water shall be individually or personally liable for the payment of the Installment Payments, but nothing contained herein shall relieve any official, officer or employee of Valley Water from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.6. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to the Installment Purchase Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

Section 10.7. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of Valley Water or the Corporation shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof.

Section 10.8. Assignment. This Installment Purchase Agreement and any rights hereunder may be assigned by the Corporation, as a whole or in part, without the necessity of obtaining the prior consent of Valley Water. The assignment of this Installment Purchase Agreement to the Trustee shall be done solely in its capacity as Trustee under the Trust Agreement.

Section 10.9. Net Contract. The Installment Purchase Agreement shall be deemed and construed to be a net contract, and Valley Water shall pay absolutely net during the term hereof the Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or setoff whatsoever.

Section 10.10. California Law. This Installment Purchase Agreement shall be construed and governed in accordance with the laws of the State of California.

Section 10.11. Notices. All written notices to be given hereunder shall be given by first class mail, postage prepaid, courier or hand delivery to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to
Valley Water: Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118
Attention: Financing Officer

If to the
Corporation: Santa Clara Valley Water District
Public Facilities Financing Corporation
c/o Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118
Attention: District Counsel

Section 10.12. Effective Date. This Installment Purchase Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid or when there are no longer any Certificates Outstanding.

Section 10.13. Execution in Counterparts. This Installment Purchase Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed and attested this Installment Purchase Agreement by their officers thereunto duly authorized as of the day and year first written above.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Officer

(SEAL)

Attest:

Clerk of the Board of Directors

**SANTA CLARA VALLEY WATER DISTRICT
PUBLIC FACILITIES FINANCING
CORPORATION**

By: _____
President

(SEAL)

Attest:

Secretary

EXHIBIT A

DESCRIPTION OF THE PROJECT

The Water Utility System Improvement Projects includes, but is not limited to, the following Valley Water facilities and projects:

Component A:

Project

Estimated Total Cost \$

Component B:

Project

Estimated Total Cost \$

EXHIBIT B
PURCHASE PRICE

1. The principal amount of payments to be made by Valley Water hereunder is \$_____.
2. The installment payments of principal and interest with respect to the Series 2020C Certificates are payable in the amounts and on the Installment Payment Dates as follows:

Installment Payment Date (One Business Day Prior To)	Component A		Component B		Installment Payments*		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>

* Reflects total principal and interest of Component A and Component B allocated to the Series 2020C Certificates.

3. The Installment Payments of principal with respect to the Series 2020D Certificates are payable in the amounts and the Installment Payments Dates as follows:

<u>Installment Payment Date</u> <u>(One Business Day Prior To)</u>	<u>Installment Payments*</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>

* Reflects total of Component A and Component B allocated to the Series 2020D Certificates.

TRUST AGREEMENT

by and among the

SANTA CLARA VALLEY WATER DISTRICT

and the

SANTA CLARA VALLEY WATER DISTRICT
PUBLIC FACILITIES FINANCING CORPORATION

and

U.S. BANK NATIONAL ASSOCIATION,
as trustee

Dated as of August 1, 2020

RELATING TO

\$ _____

SANTA CLARA VALLEY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS)
SERIES 2020C AND TAXABLE SERIES 2020D

ARTICLE I

DEFINITIONS; EQUAL SECURITY

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EXHIBIT A FORM OF SERIES 2020[C][D] CERTIFICATE OF PARTICIPATION

EXHIBIT B FORM OF WRITTEN REQUEST FOR REQUISITION FROM ACQUISITION AND CONSTRUCTION FUNDS

TRUST AGREEMENT

THIS TRUST AGREEMENT, dated as of August 1, 2020, by and among the SANTA CLARA VALLEY WATER DISTRICT, a flood control and water district duly organized and existing under and by virtue of the laws of the State of California (“Valley Water”), the SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the “Corporation”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association existing under and by virtue of the laws of the United States, as trustee (the “Trustee”);

WITNESSETH:

In consideration of the mutual covenants contained herein and for other valuable consideration, the parties do hereby agree as follows:

ARTICLE I

DEFINITIONS; EQUAL SECURITY

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of the Certificates and of any certificate, opinion, request or other document herein or therein mentioned have the meanings herein specified, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. Capitalized undefined terms used herein shall, unless the context otherwise requires, have the meanings ascribed thereto in the Water Utility Parity System Master Resolution or the Installment Purchase Agreement.

Applicable Spread

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

Authorized Denominations

The term “Authorized Denominations,” means \$5,000 and any integral multiple thereof.

Authorized Officer

The term “Authorized Officer” means the Chief Executive Officer of Valley Water, any acting or interim Chief Executive Officer or, if there is no officer such designated as the Chief Executive Officer, the highest ranking officer of Valley Water (excluding members of the Board of Directors of Valley Water), the Assistant Chief Executive Officer, Operations, the Chief Financial Officer, or the Treasury & Debt Officer.

Beneficial Owners

The term “Beneficial Owners” means those individuals, partnerships, corporations or other entities for whom the Participants have caused the Depository to hold Book-Entry Certificates.

Book-Entry Certificates

The term “Book-Entry Certificates” means the Certificates registered in the name of the nominee of DTC, or any successor securities depository for the Certificates, as the registered owner thereof pursuant to the terms and provisions of Section 2.10 hereof.

Business Day

The term “Business Day” means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California are required or authorized to remain closed, or on which the Federal Reserve system is closed.

Certificate of the Corporation

The term “Certificate of the Corporation” means an instrument in writing signed by the President or the Secretary of the Corporation, or by any other officer of the Corporation duly authorized for that purpose.

Certificate of Valley Water

The term “Certificate of Valley Water” means an instrument in writing signed by the Chair of the Board of Directors or an Authorized Officer, or by any other official of Valley Water duly authorized for that purpose.

Certificate Payment Date

The term “Certificate Payment Date” means, with respect to any Certificate, the Certificate Payment Date designated therein, which is the June 1 on which the principal component of the Installment Payments becomes due and payable.

Certificates

The term “Certificates” means the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C and the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Taxable Series 2020D, delivered in the aggregate principal amount of \$_____.

Certificate Year

The term “Certificate Year” means the period of twelve consecutive months from each September 2 to September 1 in any year during which Certificates are or will be Outstanding; provided, however, that the final Certificate Year shall end on the date on which the Certificates are fully paid or prepaid.

Code

The term “Code” means the Internal Revenue Code of 1986, as amended, and any regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it, or any applicable regulations adopted under the Internal Revenue Code of 1954, as amended.

Comparable Treasury Issue

The term “Comparable Treasury Issue” means, with respect to any applicable optional Prepayment Date for a particular 2020D Certificate, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the particular 2020D Certificate to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the particular 2020D Certificate to be redeemed.

Comparable Treasury Price

The term “Comparable Treasury Price” means, with respect to any applicable optional Prepayment Date for a particular 2020D Certificate, the average of four Reference Treasury Dealer Quotations for that Prepayment Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

Corporate Trust Office of the Trustee

The term “Corporate Trust Office of the Trustee” means the principal corporate trust office of the Trustee in San Francisco, California or such other or additional offices as may be specified to Valley Water by the Trustee in writing.

Costs of Issuance

The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to Valley Water or the Corporation relating to the execution, sale and delivery of the Certificates and the execution and delivery of the Installment Purchase Agreement, including administrative fees, filing and recording costs, settlement costs, interest rate swap termination payments, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, and surety premium, as applicable, fees and charges, financial and other professional consultant fees and expenses, costs of rating agencies or credit ratings, fees for transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

Defeasance Securities

The term “Defeasance Securities” means: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed

directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (4) pre-refunded municipal obligations rated not lower than the rating on securities described in clause (2) above.

Delivery Date

The term “Delivery Date” means the date on which the Certificates are delivered to the original purchaser thereof.

Depository

The term “Depository” means the securities depository acting as Depository pursuant to Section 2.10 hereof.

Designated Investment Banker

The term “Designated Investment Banker” means one of the Reference Treasury Dealers appointed by Valley Water.

DTC

The term “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as securities depository for the Certificates.

Event of Default

The term “Event of Default” shall have the meaning specified in Section 9.02.

Federal Securities

The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year

The term “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 Valley Water as the Fiscal Year of Valley Water.

Fitch

The term “Fitch” means Fitch, Inc., its successor and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency such term shall be deemed to refer to any other nationally recognized rating agency designated by Valley Water.

Information Services

The term “Information Services” means national information services that disseminate securities redemption notices; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as Valley Water may specify in a certificate to the Trustee.

Installment Purchase Agreement

The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of August 1, 2020, by and between Valley Water and the Corporation, as originally executed and as it may from time to time be amended or supplemented in accordance thereof.

Interest Payment Date

The term “Interest Payment Date” means each June 1 and December 1, commencing December 1, 2020, provided, however, if an Interest Payment Date with respect to the Certificates is not a Business Day, interest shall be payable on the next succeeding Business Day, and provided further that the amount paid with respect to Certificates on such succeeding Business Day shall be for the same number of days as if paid on the Interest Payment Date which was not a Business Day.

Investment Agreement.

The term “Investment Agreement” means an investment agreement supported by appropriate opinions of counsel; provided the provider thereof or the guarantor thereof is rated, at the time of execution, equal to at least the Minimum Rating by two of three Rating Agencies.

Letter of Representations or Representation Letter

The term “Letter of Representations” or “Representation Letter” means the letter of Valley Water delivered to and accepted by the Depository on or prior to the Delivery Date as Book-Entry Certificates setting forth the basis on which the Depository serves as depository for such Book-Entry Certificates, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

Maximum Annual Debt Service

The term “Maximum Annual Debt Service” means the maximum annual principal and interest payments under the Installment Purchase Agreement allocable to a particular series of Certificates for any Fiscal Year.

Minimum Rating

The term “Minimum Rating” means “A+”, “A1” or “A+” by S&P, Moody’s or Fitch, respectively.

Moody’s or Moody’s Investors Service

The term “Moody’s Investors Service” or “Moody’s” means Moody’s Investors Service, its successors and assigns, and if such corporation shall for any reason no longer perform the functions

of a securities rating agency, such terms shall be deemed to refer to any other nationally recognized rating agency designated by Valley Water.

Nominee

The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.10 hereof.

Opinion of Counsel

The term “Opinion of Counsel” means a written opinion of special counsel, appointed and paid by the Corporation or Valley Water.

Outstanding

The term “Outstanding,” when used as of any particular time with reference to Certificates of each series, means (subject to the provisions of Section 8.02) all Certificates theretofore or thereupon executed by the Trustee pursuant hereto, except --

- (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Certificates paid or deemed to have been paid within the meaning of Section 10.01 hereof; and
- (3) Certificates in lieu of or in substitution for which other Certificates shall have been executed by the Trustee and delivered pursuant hereto.

Owner

The term “Owner” means any person who shall be the registered owner of any Outstanding Certificate, as shown on the registration books required to be maintained by the Trustee pursuant to Section 2.08 hereof.

Participants

The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Certificates as securities depository.

Permitted Investments

The term “Permitted Investments” means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by Valley Water.

The following obligations may be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow agreements.

- (a) Cash insured at all times by the Federal Deposit Insurance Corporation; and

- (b) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including: U.S. treasury obligations; All direct or fully guaranteed obligations; Farmers Home Administration; General Services Administration; Guaranteed Title XI financing; Government National Mortgage Association (GNMA); and State and Local Government Series.

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

The following obligations may be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

- (c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank; Rural Economic Community Development Administration; Federal Farm Credit Bureau; U.S. Maritime Administration; Small Business Administration; U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration and Federal Financing Bank;
- (d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); Obligations of the Resolution Funding Corporation (REFCORP); Senior debt obligations of the Federal Home Loan Bank System; and Senior debt obligations of other Government Sponsored Agencies;
- (e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's, "A-1" by S&P and "F1" by Fitch and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (f) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's, "A-1" by S&P or "F1" by Fitch and which matures not more than 270 calendar days after the date of purchase;
- (g) Investments in a money market fund rated "AAm", "AAAm" or "AAAm-G" or better by any of S&P, Fitch or Moody's including such funds for which the Trustee or an affiliate provides investment advice for other services;
- (h) Pre-refunded Municipal Obligations defined as follows: 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 which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice:

- (1) which are rated, based on an irrevocable escrow account or fund (the “escrow”), at equivalent ratings as Federal Securities rated by Moody’s, S&P or Fitch, or any successors thereto; or
 - (2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow may be applied only to the payment of such principal and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (i) The following municipal obligations: (1) revenue obligations of states or any department, board, agency or authority thereof rated “A1” or better by Moody’s, “A+” or better by S&P or “A+” or better by Fitch; (2) general obligations of states rated “A3” or better by Moody’s, “A-” or better by S&P or “A-” or better by Fitch; (3) adjustable rate revenue obligations of states or any department, board, agency or authority thereof rated “P-1” or better by Moody’s, “A-1+” or better by S&P or “F-1”+ or better by Fitch; (4) fixed rate revenue obligations of any political subdivision of the State or entity owned, operated or controlled by such a political subdivision rated “A1” or better by Moody’s, “A+” or better by S&P or “A+” or better by Fitch; or (5) adjustable rate revenue obligations of any political subdivision of the State or entity owned, operated or controlled by such a political subdivision rated “P-1” or better by Moody’s, “A-1+” or better by S&P or “F-1+” by Fitch;
 - (j) Investment Agreements;
 - (k) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent that the Trustee is authorized to register such investment in its name;
 - (l) Local Government Investment Pools (LGIP). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code § 6509.7. To be eligible for purchase, the pool must meet the requirements of Government Code § 53601(p);
 - (m) Certificates of deposit insured by the Federal Deposit Insurance Corporation; and
 - (n) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision shall be rated “AA” or better by S&P and Fitch or “Aa2” or better by Moody’s.

The value of the above investments shall be determined as provided in the definition of “Value”.

Prepayment Date

The term “Prepayment Date,” shall mean the date fixed for prepayment of Certificates.

Rating Agencies

The term “Rating Agencies” means S&P, Fitch and Moody’s.

Record Date

The term “Record Date” means the fifteenth day of the month preceding an Interest Payment Date, whether or not such day is a Business Day.

Reference Treasury Dealer

The term “Reference Treasury Dealer” means a primary dealer of United States Government securities in the United States appointed by Valley Water.

Reference Treasury Dealer Quotations

The term “Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any applicable optional Prepayment Date for a particular 2020D Certificate, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time at least three Business Days but no more than 30 Business Days preceding such Prepayment Date.

S&P or Standard & Poor’s Ratings Services

The term “Standard & Poor’s Ratings Services” or “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Series 2020C Acquisition and Construction Fund

The term “Series 2020C Acquisition and Construction Fund” means the Series 2020C Acquisition and Construction Fund established pursuant to Section 4.01 hereof.

Series 2020C Certificate Rebate Fund

The term “Series 2020C Certificate Rebate Fund” means the Series 2020C Certificate Rebate Fund established pursuant to Section 4.01 hereof.

Series 2020C Certificates

The term “Series 2020C Certificates” means the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C, delivered in the aggregate principal amount of \$_____.

Series 2020C Payment Fund

The term “Series 2020C Payment Fund” means the Series 2020C Payment Fund established pursuant to Section 4.01 hereof.

Series 2020D Acquisition and Construction Fund

The term “Series 2020D Acquisition and Construction Fund” means the Series 2020D Acquisition and Construction Fund established pursuant to Section 4.01 hereof.

Series 2020D Certificates

The term “Series 2020D Certificates” means the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Taxable Series 2020D, delivered in the aggregate principal amount of \$_____.

Series 2020D Payment Fund

The term “Series 2020D Payment Fund” means the Series 2020D Payment Fund established pursuant to Section 4.01 hereof.

Securities Depositories

The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as Valley Water may designate in a Written Request of Valley Water delivered to the Trustee.

Securities Exchange Act

The term “Securities Exchange Act” means the Securities Exchange Act of 1934, as amended.

State

The term “State” means the State of California.

Tax Certificate

The term “Tax Certificate” means the Tax Certificate related to the Series 2020C Certificates delivered by Valley Water on the Delivery Date, as the same may be amended or supplemented in accordance with its terms.

Treasury Rate

The term “Treasury Rate” means, with respect to any applicable optional Prepayment Date for a particular Series 2020D Certificate, the yield derived from the most recently published release designated “H.15 Selected Interest Rates” by the Board of Governors of the Federal Reserve System or any successor publication selected by the Designated Investment Banker that reports yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining average life of the Series 2020D Certificate being redeemed. The Treasury Rate will be determined at least three Business Days but no more than 30 Business Days preceding the Prepayment Date and will be calculated by interpolation on a straight-line basis, between the yields on the United States Treasury securities that have a constant maturity (a) closest to and less than the remaining average life of the Series 2020D Certificate being redeemed and (b) closest to and more than the remaining average life of the Series 2020D Certificate being redeemed. The Treasury Rate will be rounded to the nearest 1/100th of 1%.

If, and only if, for more than five consecutive previous Business Days, H.15 Selected Interest Rates or any successor publication, are not available, then the Treasury Rate will be the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the Prepayment Date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Trust Agreement

The term “Trust Agreement” means this Trust Agreement, dated as of August 1, 2020, by and among Valley Water, the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions hereof.

Trustee

The term “Trustee” means U.S. Bank National Association, a national banking association existing under and by virtue of the laws of the United States of America, or any other association or corporation which may at any time be substituted in its place as provided in Section 7.02.

U.S. Governmental Securities Business Day

“U.S. Government Securities Business Day” means any day except for a Saturday, a Sunday, or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading U.S. government securities.

Valley Water

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

Value

“Value,” shall be determined as of the end of each month, means that the value of any investments, which shall be the face amount thereof, plus accrued interest.

Water Utility Parity System Master Resolution

“Water Utility Parity System Master Resolution” means the Water Utility Parity System Master Resolution, Resolution No. 16-10 adopted by the Board of Directors of Valley Water on February 23, 2016, as amended by Resolution No. 16-82 adopted by the Board of Directors of Valley Water on December 13, 2016, as such resolution may be further supplemented and amended from time-to-time.

Written Request of the Corporation

The term “Written Request of the Corporation” means an instrument in writing signed by the President or the Secretary of the Corporation, or by any other officer of the Corporation duly authorized for that purpose.

Written Request of Valley Water

The term “Written Request of Valley Water” means an instrument in writing signed by the Chair of the Board of Directors or an Authorized Officer of Valley Water, or by any other official of Valley Water duly authorized for that purpose.

SECTION 1.02. Equal Security. In consideration of the acceptance of the Certificates by the Owners thereof, the Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates, subject to the agreements, conditions, covenants and provisions contained herein; and all agreements, conditions, covenants and provisions set forth herein to be performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or for any cause whatsoever, except as expressly provided herein or therein.

ARTICLE II

CONDITIONS AND TERMS OF CERTIFICATES

SECTION 2.01. Authorization of Certificates. The Trustee is hereby authorized and directed, upon receipt of a Written Request of Valley Water to execute and deliver the Series 2020C Certificates in the aggregate principal amount of \$_____ and the Series 2020D Certificates in the aggregate principal amount of \$_____, evidencing individual interests in Installment Payments to be paid by Valley Water under the Installment Purchase Agreement.

SECTION 2.02. Denominations, Method and Place of Payment and Dating of Certificates. The Certificates shall be dated the Delivery Date and shall be issued only in fully registered Certificates in denominations of five thousand dollars (\$5,000) or any integral multiple thereof, and shall mature on the dates and in the principal amounts and bear interest at the rates as set forth in the schedule set forth in Section 2.03 hereof. The interest, principal and prepayment premiums, if any, evidenced and represented by the Certificates shall be payable in lawful money of the United States of America. The interest evidenced and represented by the Certificates shall be payable on their respective Interest Payment Dates by check mailed by the Trustee to the respective

Owners thereof as shown in the books required to be kept by the Trustee pursuant to the provisions of Section 2.08 at the close of business on the Record Date next preceding each Interest Payment Date (except that in the case of an Owner of one million dollars (\$1,000,000) or greater in aggregate principal amount of Outstanding Certificates, such payment may, at such Owner's written request, be made by wire transfer of immediately available funds to an account within the United States in accordance with written instructions provided by such Owner prior to the applicable Record Date), and the principal and prepayment premiums, if any, evidenced and represented by the Certificates shall be payable on their respective Certificate Payment Dates or on prepayment prior thereto by check delivered by the Trustee upon surrender thereof by the respective Owners thereof at the Corporate Trust Office of the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificate shall be made only to such Owner as above provided, which payments shall be valid and effectual to satisfy and discharge the liability evidenced and represented by such Certificate to the extent of the sum or sums so paid. All Certificates paid pursuant to the provisions of this section shall be cancelled by the Trustee and shall not be redelivered.

SECTION 2.03. Payment Dates of Certificates. The Certificates evidence and represent interest from the Interest Payment Date next preceding the date of execution thereof by the Trustee, unless such date of execution is after the Record Date, in which case they shall evidence and represent interest from such Interest Payment Date; provided, however, with respect to the first Interest Payment Date, the Certificates shall evidence and represent interest from the Delivery Date; provided, further, that if as of the date of execution of any Certificate interest shall not have been paid when due with respect to any Outstanding Certificates, interest shall be payable from the Interest Payment Date to which interest has been paid or made available for payment with respect to such Outstanding Certificates.

The Series 2020C Certificates shall have Certificate Payment Dates of June 1 in the years and shall evidence and represent principal components of Installment Payments in the amounts, with interest thereon at the rates, as follows:

SERIES 2020C CERTIFICATES

<i>Certificate Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
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The Series 2020D Certificates shall have Certificate Payment Dates of June 1 in the years and shall evidence and represent principal components of Installment Payments in the amounts, with interest thereon at the rates, as follows:

SERIES 2020D CERTIFICATES

<i>Certificate Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
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The interest evidenced and represented by the Certificates shall be computed on the basis of a 360-day year consisting of twelve (12) 30-day months and shall become due and payable on the respective Interest Payment Dates, beginning on the Interest Payment Date following their respective execution dates and continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and shall evidence and represent in sum the portions of the Installment Payments constituting interest components becoming due and payable on the Interest Payment Dates in each year.

The principal and prepayment premiums, if any, evidenced and represented by the Certificates shall become due and payable on their respective Certificate Payment Dates or on prepayment prior thereto, and shall evidence and represent in sum the portions of the Installment Payments constituting principal and prepayment premium components, if any, becoming due and payable on the Certificate Payment Dates or on prepayment prior thereto in each year.

SECTION 2.04. Forms of Certificates. The Certificates, together with the assignment to appear thereon, shall be substantially in the forms set forth on Exhibit A hereto, with appropriate or necessary insertions, omissions and variations as permitted or required hereby.

SECTION 2.05. Execution of Certificates. The Certificates shall be executed by the Trustee by the manual signature of an authorized officer of the Trustee.

SECTION 2.06. Transfer and Payment of Certificates. Any Certificate may, in accordance with its terms, be transferred in the books required to be kept pursuant to the provisions of Section 2.08 by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender, at the Corporate Trust Office of the Trustee, of such Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates of like series and of authorized denominations of the same Certificate Payment Date evidencing and representing the same aggregate

principal amount. The Trustee shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege.

The Trustee may deem and treat the Owner of any Certificate as the absolute owner of such Certificates for the purpose of receiving payment thereof and for all other purposes, whether such Certificates shall be overdue or not, and the Trustee shall not be affected by any notice or knowledge to the contrary; and payment of the interest and principal and prepayment premium, if any, evidenced and represented by the Certificates shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge liability on such Certificate to the extent of the sum or sums so paid.

The Trustee shall not be required to register the transfer of (i) any Certificates during the period established by the Trustee for selection of Certificates for prepayment, or (ii) any Certificate which has been selected for prepayment in whole or in part.

SECTION 2.07. Exchange of Certificates. Certificates may be exchanged at the Corporate Trust Office of the Trustee for a Certificate evidencing and representing a like aggregate principal amount of Certificates of authorized denominations of the same series and maturity. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege.

The Trustee shall not be required to exchange (i) any Certificates during any period established by the Trustee for selection of Certificates for prepayment, or (ii) any Certificates which has been selected for prepayment in whole or in part.

SECTION 2.08. Registration Books. The Trustee will keep at its office sufficient books for the registration of the ownership, transfer and exchange of the Certificates which shall at all times be open to inspection by Valley Water, the Corporation or any Owner or his agent duly authorized in writing during normal business hours with reasonable prior notice, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register the ownership or transfer and exchange of the Certificates in such books as hereinabove provided.

SECTION 2.09. Mutilated, Destroyed, Stolen or Lost Certificates. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall thereupon execute and deliver a new Certificate of like series, tenor, and Authorized Denominations of the same Certificate Payment Date evidencing and representing the same aggregate principal amount in exchange and substitution for the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be cancelled by the Trustee.

If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner, shall thereupon execute and deliver a new Certificate of like series, tenor and Authorized Denominations of the same Certificate Payment Date evidencing and representing the same aggregate principal amount in lieu of and in substitution for the Certificate so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Certificate executed and delivered under this Section and of the expenses which may be incurred by Valley Water and the Trustee in the premises. Any Certificate executed and delivered under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Trust Agreement with all other Certificates executed and delivered under this Trust Agreement. Neither Valley Water, the Corporation nor the Trustee shall be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one and the same.

SECTION 2.10. Special Covenants as to Book-Entry Only System for Certificates.

(a) Except as otherwise provided in subsections (b) and (c) of this Section 2.10, all of the Certificates initially executed and delivered shall be registered in the name of Cede & Co., as nominee for DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Certificates registered in the name of Cede & Co. shall be made on each Interest Payment Date for such Certificates to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Certificates initially shall be executed and delivered in the form of a single executed fully registered certificate for each stated maturity of each series of such Certificates, representing the aggregate principal amount of the Certificates of such maturity. Upon initial issuance, the ownership of all such Certificates shall be registered in the registration records maintained by the Trustee pursuant to Section 2.08 in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee, Valley Water, the Corporation and any paying agent may treat DTC (or its nominee) as the sole and exclusive owner of the Certificates registered in its name for the purposes of payment of the principal or prepayment price and interest evidenced and represented by the Certificates, selecting the Certificates or portions thereof to be prepaid, giving any notice permitted or required to be given to Owners hereunder, registering the transfer of the Certificates, obtaining any consent or other action to be taken by Owners of the Certificates and for all other purposes whatsoever; and neither the Trustee, Valley Water nor the Corporation or any paying agent shall be affected by any notice to the contrary. Neither the Trustee, Valley Water nor the Corporation or any paying agent shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this Section 2.10, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Certificates under or through DTC or any Participant, or any other person which is not shown on the registration records as being an Owner, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal or prepayment price or interest evidenced and represented by the Certificates, (iii) any notice which is permitted or required to be given to Owners of Certificates hereunder, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial prepayment of the Certificates, or (v) any consent given or other action taken by DTC as Owner of Certificates. The Trustee shall pay all principal and premium, if any, and interest evidenced and represented by the Certificates only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge Valley Water's obligations with respect to the payment of the principal and premium, if any, and interest evidenced and represented by the Certificates to the extent of the

sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Certificates will be transferable to such new nominee in accordance with subsection (f) of this Section 2.10.

(c) In the event that Valley Water determines that the Certificates should not be maintained in book-entry form, the Trustee shall, upon the written instruction of Valley Water, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, the Certificates will be transferable in accordance with subsection (f) of this Section 2.10. DTC may determine to discontinue providing its services with respect to the Certificates or a portion thereof, at any time by giving written notice of such discontinuance to Valley Water or the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Certificates will be transferable in accordance with subsection (f) of this Section 2.10. If at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and a successor securities depository is not appointed by Valley Water within 90 days after Valley Water receives notice or becomes aware of such condition, as the case may be, then this Section 2.10 shall no longer be applicable and the Trustee shall execute and deliver certificates representing the Certificates as provided below. Whenever DTC requests Valley Water and the Trustee to do so, the Trustee and Valley Water will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Certificates then Outstanding. In such event, the Certificates will be transferable to such securities depository in accordance with subsection (f) of this Section 2.10, and thereafter, all references in this Trust Agreement to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of this Trust Agreement to the contrary, so long as all Certificates Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and premium, if any, and interest with respect to each such Certificate and all notices with respect to each such Certificate shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) The Trustee is hereby authorized and requested to execute and deliver the Representation Letter and, in connection with any successor nominee for DTC or any successor depository, enter into comparable arrangements, and shall have the same rights with respect to its actions thereunder as it has with respect to its actions under this Trust Agreement.

(f) In the event that any transfer or exchange of Certificates is authorized under subsection (b) or (c) of this Section 2.10, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner thereof of the Certificates to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of Sections 2.06 and 2.07. In the event the Certificates are issued to Owners other than Cede & Co., its successor as nominee for DTC as holder of all the Certificates, another securities depository as holder of all the Certificates, or the nominee of such successor securities depository, the provisions of Sections 2.06 and 2.07 shall also apply to, among other things, the registration, exchange and transfer of the Certificates and the method of payment of principal, premium, if any, and interest evidenced and represented by the Certificates.

ARTICLE III

PREPAYMENT OF CERTIFICATES

SECTION 3.01. Prepayment. The Certificates shall be subject to prepayment prior to their stated maturities only as set forth below:

(a) **Extraordinary Prepayment from Insurance or Condemnation Proceeds.** The Certificates are subject to extraordinary prepayment by Valley Water on any date prior to their respective Certificate Payment Dates, upon notice as hereinafter provided, 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, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

(b) **Optional Prepayment.** The Series 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 hereinafter provided, as a whole or in part by lot 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.

The Series 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 hereinafter provided, as a whole or in part by lot 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.

(c) **Optional Prepayment of Series 2020D Certificates With Make-Whole Payment.** The Series 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 Series 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 Series 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 Series 2020D Certificates are to be prepaid, discounted to the date on which the Series 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 Series 2020D Certificates to be prepaid on the Prepayment Date.

SECTION 3.02. Selection of Certificate for Prepayment. If less than all Outstanding Series 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 Section 3.01 above, the Trustee shall select the Series 2020C Certificates of such maturity date to be prepaid in any manner that it deems appropriate and fair and shall promptly notify Valley Water in writing of the numbers of the Series 2020C Certificates so selected for prepayment. For purposes of such selection, Series 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 term Series 2020C Certificates are designated for prepayment, Valley Water may designate which sinking account payments are allocated to such 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.

SECTION 3.03. 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 pursuant to this Section 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 this Section 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. In the event Valley Water elects to optionally prepay the Certificates in part, it shall deliver to the Trustee a schedule of revised Installment Payments and mandatory prepayments.

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

SECTION 3.04. 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 in Series 2020C Payment Fund or the Series 2020D Payment Fund, as the case may be, 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 Section 3.01 hereof shall cause the schedule of Installment Payments set forth in Exhibit B to the Installment Purchase Agreement to be recalculated by Valley Water in accordance with Section 4.2 of the Installment Purchase Agreement. Such schedule shall be furnished by Valley Water to the Trustee. All Certificates prepaid, pursuant to the provisions of this Article shall be cancelled by the Trustee and shall be delivered to, or upon the order of, Valley Water and shall not be redelivered.

ARTICLE IV

ESTABLISHMENT OF FUNDS; DEPOSIT AND APPLICATION OF PROCEEDS

SECTION 4.01. Establishment of Funds. The Trustee shall establish and maintain the following special trust funds to be held by the Trustee: (i) the Series 2020C Payment Fund, (ii) the Series 2020D Payment Fund, (iii) the Series 2020C Certificate Rebate Fund, (iv) the Series 2020C Acquisition and Construction Fund, and (v) the Series 2020D Acquisition and Construction Fund.

SECTION 4.02. Delivery of Certificates. The Trustee is hereby authorized to execute and deliver the Certificates to the purchaser thereof upon receipt of a Written Request of Valley Water (concurring in by the Corporation) and upon receipt of the proceeds of sale thereof.

SECTION 4.03. Application of Proceeds. Upon the receipt of the proceeds of the Certificates when the same shall have been duly executed and delivered, the Trustee shall deposit the amount of \$_____ in the Series 2020C Acquisition and Construction Fund, and deposit the amount of \$_____ in the Series 2020D Acquisition and Construction Fund. The Trustee may establish a temporary fund or account in its records to facilitate such deposit and transfer.

ARTICLE V

INSTALLMENT PAYMENTS

SECTION 5.01. Pledge of Installment Payments. All Installment Payments shall be paid directly by Valley Water to the Trustee and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Installment Payments received by the Trustee shall be held in trust by the Trustee under the terms hereof. The Installment Payments with respect to the Series 2020C Certificates shall be deposited by the Trustee as and when received in the Series 2020C Payment Fund, which fund the Trustee has established and maintains so long as any Certificates are Outstanding. The Installment Payments with respect to the Series 2020D Certificates shall be deposited by the Trustee as and when received in the Series 2020D Payment Fund, which fund the Trustee has established and maintains so long as any Certificates are Outstanding. All money in the Series 2020C Payment Fund shall be held in trust by the Trustee for the benefit of the Owners of the Series 2020C Certificates and all the money in the Series 2020D Payment Fund shall be held in trust by the Trustee for the benefit of the owner of the Series 2020D Certificates. Valley Water and the Corporation hereby pledge and grant a lien on the Series 2020C Payment Fund to the Trustee for the benefit of the Owners of the Series 2020C Certificates and a lien on the Series 2020D Payment Fund to the Trustee for the benefit of the Owners of the Series 2020D Certificates.

SECTION 5.02. Receipt and Deposit of Installment Payments.

(a) In order to carry out and effectuate the pledge contained herein, subject to the provisions of Section 5.01, the Trustee shall deposit the Installment Payments with respect to the Series 2020C Certificates when and as received in trust in the Series 2020C Payment Fund for the benefit of the Owners of the Series 2020C Certificates. All Installment Payments shall be accounted for through and held in trust. All Installment Payments deposited with the Trustee as herein provided shall nevertheless be allocated, applied and disbursed solely to the purposes and uses hereinafter in this Article set forth, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Trustee.

(b) In order to carry out and effectuate the pledge contained herein, subject to the provisions of Section 5.01, the Trustee shall deposit the Installment Payments with respect to the Series 2020D Certificates when and as received in trust in the Series 2020D Payment Fund for the benefit of the Owners of the Series 2020D Certificates. All Installment Payments shall be accounted for through and held in trust. All Installment Payments deposited with the Trustee as herein provided shall nevertheless be allocated, applied and disbursed solely to the purposes and uses hereinafter in this Article set forth, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Trustee.

(c) Money in the Series 2020C Payment Fund shall be used and withdrawn by the Trustee for the purpose of paying (i) the interest evidenced and represented by the Series 2020C

Certificates as it shall become due and payable (including accrued interest evidenced and represented by the Series 2020C Certificates purchased or prepaid prior to maturity), and (ii) the principal evidenced and represented by the Series 2020C Certificates as it shall become due and payable.

(d) Money in the Series 2020D Payment Fund shall be used and withdrawn by the Trustee for the purpose of paying (i) the interest evidenced and represented by the Series 2020D Certificates as it shall become due and payable (including accrued interest evidenced and represented by the Series 2020D Certificates purchased or prepaid prior to maturity), and (ii) the principal evidenced and represented by the Series 2020D Certificates as it shall become due and payable.

(e) Any moneys which, pursuant to Section 7.1 of the Installment Purchase Agreement, are to be used to prepay the Series 2020C Certificates pursuant to Section 3.01 hereof shall be deposited by the Trustee in the Series 2020C Payment Fund. The Trustee shall, on the scheduled prepayment date, withdraw from the Series 2020C Payment Fund and pay to the Owners entitled thereto an amount equal to the prepayment price of the Series 2020C Certificates to be prepaid on such date plus interest evidenced and represented by the Certificates to the Prepayment Date.

(f) Any moneys which, pursuant to Section 7.1 of the Installment Purchase Agreement, are to be used to prepay the Series 2020D Certificates pursuant to Section 3.01 hereof shall be deposited by the Trustee in the Series 2020D Payment Fund. The Trustee shall, on the scheduled prepayment date, withdraw from the Series 2020D Payment Fund and pay to the Owners entitled thereto an amount equal to the prepayment price of the Series 2020D Certificates to be prepaid on such date plus interest evidenced and represented by the Certificates to the Prepayment Date.

SECTION 5.03. Investment of Moneys in Funds. Moneys in the funds established with the Trustee hereunder shall, in accordance with a Written Request of Valley Water, be invested by the Trustee in Permitted Investments. The Trustee may conclusively rely on any direction contained in a Written Request of Valley Water to invest in investments that such investments are Permitted Investments. In the absence of a Written Request of Valley Water, the Trustee shall invest moneys in clause (g) of the definition of Permitted Investments. The obligations in which moneys in said funds are invested shall mature on or prior to the date on which such moneys are estimated to be required to be paid out hereunder. The Trustee shall sell at the best price obtainable or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment required under this Trust Agreement. Notwithstanding anything herein to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with this Trust Agreement. For purposes of determining the amount of deposit in any fund held hereunder, all Permitted Investments credited to such fund shall be valued at the market value thereof. Except as otherwise provided in this Section, Permitted Investments representing an investment of moneys attributable to any fund and all investment profits or losses thereon shall be deemed at all times to be a part of said fund. To the extent that Permitted Investments are registrable securities, such Permitted Investments shall be registered in the name of the Trustee.

The Trustee may act as principal or agent in the acquisition or disposition of investments and may commingle moneys in funds and accounts for the purpose of investment.

The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates,

whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

Valley Water acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant Valley Water the right to receive brokerage confirmations of security transactions as they occur, Valley Water will not receive such confirmations to the extent permitted by law. The Trustee will furnish Valley Water periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee hereunder.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

SECTION 5.04. Application of the Series 2020C Certificate Rebate Fund.

(a) Absent an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Series 2020C Certificates will not be adversely affected, Valley Water shall cause to be deposited in the Series 2020C Certificate Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. Within the Series 2020C Certificate Rebate Fund, there shall be established two separate accounts designated the “Rebate Account” and the “Alternative Penalty Account.” All money at any time deposited in the Rebate Account or the Alternative Penalty Account shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Series 2020C Certificate Rebate Fund shall be governed by this Section and the Tax Certificate, unless and to the extent that Valley Water delivers to the Trustee an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Series 2020C Certificates will not be adversely affected if such requirements are not satisfied.

(b) The following provisions relate to the Rebate Account and the Alternate Penalty Account of the Series 2020C Certificate Rebate Fund:

(i) Rebate Account. The following requirements shall be satisfied with respect to the Rebate Account:

(A) Annual Computation. Within 55 days of the end of each Certificate Year, Valley Water shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Certificate Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). Valley Water shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(B) Annual Transfer. Within 55 days of the end of each applicable Certificate Year, upon the written direction of a representative of Valley Water, an amount shall be deposited to the Rebate Account by the Trustee from any funds legally available for such

purpose (as specified by Valley Water in the aforesaid written direction), if and to the extent required so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated in accordance with (i) of this Subsection (b)(1). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from a representative of Valley Water, the Trustee shall withdraw the excess from the Rebate Account and then credit the excess to the Series 2020C Payment Fund.

(C) Payment to the Treasury. The Trustee shall pay, as directed in writing by a representative of Valley Water, to the United States Treasury, out of amounts in the Rebate Account,

(X) Not later than 60 days after the end of (A) the fifth Certificate Year, and (B) each applicable fifth Certificate Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Certificate Year; and

(Y) Not later than 60 days after the payment of all the Series 2020C Certificates, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Certificate Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, Valley Water shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (b)(1) shall be made to the Internal Revenue Service Center on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, or shall be made in such other manner as provided under the Code.

(ii) Alternative Penalty Account.

(A) Six-Month Computation. If the 1½% Penalty has been elected, within 85 days of each particular Six-Month Period, Valley Water shall determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six-Month Period. Valley Water shall obtain expert advice in making such determinations.

(B) Six-Month Transfer. Within 85 days of the close of each Six-Month Period, upon the written direction of a representative of Valley Water, the Trustee shall deposit in the Alternative Penalty Account from any legally available source of funds (as specified by Valley Water in the aforesaid written direction), if and to the extent required, so that the balance in the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in Subsection (b)(2)(i) above. In the event that immediately

following the transfer provided in the previous sentence, the amount then on deposit to the credit of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by Subsection (b)(2)(iii) below, the Trustee, at the written direction of a representative of Valley Water, shall withdraw the excess from the Alternative Penalty Account and credit the excess to the Series 2020C Payment Fund.

(C) **Payment to the Treasury.** The Trustee shall pay, as directed in writing by a representative of Valley Water, to the United States Treasury, out of amounts in the Alternative Penalty Account, not later than 90 days after the close of each Six-Month Period the 1½% Penalty, if applicable and payable, computed in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time of any payment required to be made from the Alternative Penalty Account, the amount in such account is not sufficient to make such payment when such payment is due, Valley Water shall calculate the amount of such deficiency and direct the Trustee to deposit an amount received from any legally available source of funds equal to such deficiency into the Alternative Penalty Account prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (b)(2) shall be made to the Internal Revenue Service on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T or shall be made in such other manner as provided under the Code.

(c) **Disposition of Unexpended Funds.** Any funds remaining in the Series 2020C Certificate Rebate Fund after prepayment and payment of the principal and interest evidenced and represented by the Series 2020C Certificates, the payments described in Subsection (b)(1)(iii) or (b)(2)(iii) (whichever is applicable), may be withdrawn by Valley Water and utilized in any manner by Valley Water.

(d) **Survival of Defeasance.** Notwithstanding anything in this Section or this Trust Agreement to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance of the Series 2020C Certificates.

(e) **Duty of Trustee.** The Trustee shall be fully protected and shall be deemed to have complied with the provisions of this Section 5.04 if it complies with the written directions of Valley Water delivered pursuant to this Section 5.04 and the Trustee shall have no responsibility to enforce compliance by Valley Water with the Tax Certificate.

SECTION 5.05. Application of Series 2020C Acquisition and Construction Fund and Series 2020D Acquisition and Construction Fund. Amounts on deposit in the Series 2020C Acquisition and Construction Fund may be used and withdrawn by Valley Water, upon filing a Written Request of Valley Water with the Trustee in the form attached hereto as Exhibit B, for the payment for the payment of Costs of Issuance, for the costs of the acquisition and/or construction of the Project or to reimburse Valley Water for previous costs expended in the acquisition and/or construction of the Project. Amounts on deposit in the Series 2020D Acquisition and Construction Fund may be used and withdrawn by Valley Water, upon filing a Written Request of Valley Water with the Trustee, for the payment of Costs of Issuance, for the costs of the acquisition and/or construction of the Project or to reimburse Valley Water for previous costs expended in the acquisition and/or construction of the Project.

Within the Series 2020C Acquisition and Construction Fund and the Series 2020D Acquisition and Construction Fund the Trustee shall, in accordance with a Written Request of Valley Water with the Trustee, establish such accounts therein in order to provide for the accounting of any

component or group of components constituting a portion of the Project, including Costs of Issuance Accounts.

When all Costs of Issuance have been paid and the acquisition and/or construction of the Project has been completed, Valley Water shall file a Written Request of Valley Water with the Trustee directing the Trustee to transfer any remaining balance of money in the Series 2020C Acquisition and Construction Fund to the Series 2020C Certificate Rebate Fund an amount to the extent necessary to pay Rebatable Arbitrage and any remaining balance to the Series 2020C Payment Fund and applied as provided in the Trust Agreement.

When all Costs of Issuance have been paid and the acquisition and/or construction of the Project has been completed, Valley Water shall file a Written Request of Valley Water with the Trustee directing the Trustee to transfer any remaining balance of money in the Series 2020D Acquisition and Construction Fund to the Series 2020D Payment Fund and applied as provided in the Trust Agreement.

Each Written Request of Valley Water shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

ARTICLE VI

COVENANTS

SECTION 6.01. Compliance with Trust Agreement; Compliance of Laws and Regulations. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the provisions hereof; and neither the Corporation nor Valley Water will suffer or permit any default by them to occur hereunder, but each will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by them.

The Corporation and Valley Water will faithfully observe and perform all lawful and valid obligations or regulations now hereafter imposed on them by contract, or prescribed by any state or national law, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not be abandoned, forfeited or in any manner impaired.

SECTION 6.02. Accounting Records and Statements. The Trustee shall keep proper books of record and account in accordance with industry standards in which complete and correct entries shall be made of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the Installment Payments and the proceeds of the Certificates or the obligation which they evidence and represent. Such records shall specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and shall set forth, in the case of each investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, and (d) the amounts and dates of any payments made with respect thereto. Such records shall be open to inspection by any Owner or his agent duly authorized in writing at reasonable hours and under reasonable conditions and upon reasonable written request during the

regular business hours of the Trustee on any Business Day. As soon as available after June 30, 2020, and continuing after each June 30th so long as any Certificates are Outstanding, the Trustee will furnish to the Corporation and to any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, deposits and disbursements of the money held hereunder for the preceding fiscal year. In addition, the Trustee shall provide Valley Water with a monthly accounting of the funds and accounts held hereunder; provided, that the Trustee shall not be obligated to provide an accounting for any fund or account that (a) has a balance of \$0.00 and (b) has not had any activity since the last reporting date.

SECTION 6.03. Installment Purchase Agreement. The Corporation will at all times maintain and vigorously enforce all of its rights under the Installment Purchase Agreement, and will promptly collect or cause to be collected all Installment Payments as the same become due under the Installment Purchase Agreement, and will promptly and vigorously enforce its rights against any person who does not pay such Installment Payments as they become due under the Installment Purchase Agreement. The Corporation and Valley Water will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Purchase Agreement by the purchaser thereunder.

SECTION 6.04. Other Liens. Valley Water will keep the Project free from judgments, mechanics, and materialmen's liens (except those arising from the acquisition, construction and installation of the Project) and free from all liens, claims, demands and encumbrances of whatsoever prior nature or character to the end that the security for the Certificates provided herein will at all times be maintained and preserved free from any claim or liability which might hamper Valley Water in conducting its business or interfere with Valley Water's operation of the Project, and the Trustee at its option (after first giving Valley Water thirty (30) days written notice to comply therewith and failure of Valley Water to so comply within such period) may (but shall not be obligated to) defend against any and all actions or proceedings in which the validity hereof is or might be questioned, or may pay or compromise any claim or demand asserted in any such action or proceeding; provided, however, that in defending such actions or proceedings or in paying or compromising such claims or demands the Trustee shall not in any event be deemed to have waived or released Valley Water from liability for or on account of any of its agreements and covenants contained herein, or from its liability hereunder to defend the validity hereof and the pledge of the Installment Payments made herein and to perform such agreements and covenants.

SECTION 6.05. Prosecution and Defense of Suits. Valley Water will promptly from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Project, whether now existing or hereafter developing, and shall prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and hold the Trustee harmless from all loss, cost, damage and expense, including attorney's fees, which it may incur by reason of any such defect, cloud, suit, action or proceeding.

Valley Water will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim arising out of the receipt, application or disbursement of any of the Installment Payments or involving the rights of the Trustee hereunder; provided that the Trustee at its election may appear in and defend any such suit, action or proceeding.

SECTION 6.06. Further Assurances. Whenever and so often as requested to do so by the Trustee, Valley Water will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them hereby.

SECTION 6.07. Recordation and Filing. Valley Water will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain at all times a security interest in the money in the Series 2020C Payment Fund and the Series 2020D Payment Fund hereunder in such manner, at such times and in such places as may be required in order to fully perfect, preserve and protect the benefit, protection and security of the respective Owners and the rights of the Trustee hereunder (with copies of each such document being forwarded to the Trustee), and Valley Water will do whatever else may be necessary or be reasonably required in order to perfect and continue the pledge of and lien on the money in the funds herebefore described.

SECTION 6.08. Tax Covenants. Notwithstanding any other provision of this Agreement, absent an Opinion of Counsel that the exclusion from gross income of interest with respect to the Series 2020C Certificates will not be adversely affected for federal income tax purposes, Valley Water covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. Valley Water will not take or omit to take any action or make any use of the proceeds of the Series 2020C Certificates or of any other moneys or property which would cause the Series 2020C Certificates to be “private activity bonds” within the meaning of Section 141 of the Code.

(b) Arbitrage. Valley Water will make no use of the proceeds of the Series 2020C Certificates or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Series 2020C Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) Federal Guarantee. Valley Water will make no use of the proceeds of the Series 2020C Certificates or take or omit to take any action that would cause the Series 2020C Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) Information Reporting. Valley Water will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(e) Miscellaneous. Valley Water will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Series 2020C Certificates and will comply with the covenants and requirements stated therein and incorporated by reference herein.

This Section shall not be applicable to, and nothing contained herein shall be deemed to prevent Valley Water from causing the Trustee to execute and deliver, Series 2020C Certificates the interest with respect to which has been determined by Special Counsel to be subject to federal income taxation.

ARTICLE VII

THE TRUSTEE

SECTION 7.01. Employment and Duties of the Trustee. The Corporation and Valley Water hereby appoint and employ U.S. Bank National Association, in San Francisco, California, as Trustee to receive, deposit and disburse the Installment Payments as provided herein, to prepare, execute, deliver, transfer, exchange and cancel the Certificates as provided herein, to pay the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates to the Owners thereof as provided herein and to perform the other obligations contained herein; all in the manner provided herein and subject to the conditions and terms hereof. By executing and delivering the Trust Agreement, the Trustee undertakes to perform such obligations (and only such obligations) as are specifically set forth herein, and no implied covenants or obligations shall be read herein against the Trustee.

Prior to any resignation by the Trustee pursuant to Section 7.02, the Trustee will faithfully observe and perform all lawful and valid obligations or regulations now or hereafter imposed on it by contract, or prescribed by any state or federal law, or by any officer, board or commission having jurisdiction or control over the Trustee, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by it, including its right to exist and carry on its business, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not be abandoned, forfeited or in any manner impaired.

Whenever provision is made herein for the cancellation by the Trustee of any Certificates, the Trustee shall destroy such Certificates and deliver a certificate of such destruction to Valley Water.

SECTION 7.02. Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Trust Agreement and no implied duties or obligations shall be read into this Trust Agreement against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Trust Agreement, and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) So long as no Event of Default has occurred and is continuing, upon thirty (30) days' written notice to the Trustee, Valley Water may remove the Trustee at any time and shall remove the Trustee at any time requested to do so by an instrument or concurrent instruments in writing, or in the case of the Certificates, the Owners of the Certificates of not less than a majority in aggregate amount of Certificates then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may resign by giving written notice of such resignation to Valley Water and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the certificate register. Upon receiving such notice of resignation, Valley Water shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within ninety (90) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of Valley Water, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Trust Agreement shall signify its acceptance of such appointment by executing and delivering to Valley Water and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless, at the written request of Valley Water or of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Trust Agreement and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, Valley Water shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, such successor Trustee shall mail a notice of the succession of such Trustee to the trusts hereunder by first class mail, postage prepaid, to the Owners at their addresses listed in the bond register.

(e) Any Trustee appointed under the provisions of this Trust Agreement shall be a trust company or bank having trust powers, having a corporate trust office in California, the combined capital, surplus and undivided profits of such trust company or bank (or in the event that such trust company or bank is a member of a bank holding company system, of its bank holding company) of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

(f) No provision in this Trust Agreement shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder.

(g) The Trustee shall not be responsible for the sufficiency, timeliness or payment of the Installment Payments, the maintenance of insurance as required by the Installment Purchase

Agreement or reviewing any report or certificate required to be provided hereunder or under the Installment Purchase Agreement.

(h) The Trustee shall not be accountable for the use or application by Valley Water, the Corporation or any other party of any funds which the Trustee has released under this Trust Agreement.

(i) The Trustee may employ attorneys, agents or receivers in the performance of any of its duties hereunder and shall not be answerable for the misconduct of any such attorney, agent or receiver selected by it with reasonable care.

SECTION 7.03. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (e) of Section 7.02, shall succeed to the rights and obligations of such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 7.04. Compensation and Indemnification. Valley Water shall pay the Trustee, or cause the Trustee to be paid, reasonable compensation for its services rendered hereunder and shall reimburse the Trustee for reasonable expenses (including reasonable fees and expenses of its attorneys) incurred by the Trustee in the performance of its obligations hereunder.

Valley Water agrees, to the extent permitted by law, to indemnify the Trustee and its respective officers, directors, members, employees, attorneys and agents for, and to hold them harmless against, any loss, liability or expense incurred without negligence or willful misconduct on their part arising out of or in connection with the acceptance or administration of the trusts imposed by this Trust Agreement, including performance of their duties hereunder, including the costs and expenses of defending themselves against any claims or liability in connection with the exercise or performance of any of their powers or duties hereunder. Such indemnity shall survive the termination or discharge of the Trust Agreement and resignation or removal of the Trustee.

SECTION 7.05. Liability of Trustee.

(a) The recitals of facts herein and in the Certificates contained shall be taken as statements of Valley Water, and the Trustee assumes no responsibility for the correctness of the same, and makes no representations as to the validity or sufficiency of this Trust Agreement, the Installment Purchase Agreement or of the Certificates, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Certificates assigned to or imposed upon it. The Trustee shall, however be responsible for its representations contained in its certificate of execution on the Certificates. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the Owner of Certificates with the same rights it would have if it were not Trustee or and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate amount of Certificates then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless the Trustee shall have been negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of the Certificates, of not less than 25% in aggregate amount of Certificates, at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Trust Agreement.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Trust Agreement, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated hereunder shall not be construed as a mandatory duty.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder unless and until it shall have actual knowledge thereof, or shall have received written notice thereof at the Corporate Trust Office of the Trustee. Except as otherwise expressly provided herein, and subject to Section 7.02, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Certificates, or as to the existence of an Event of Default hereunder or thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

(f) The Trustee makes no representations with respect to any information, statement, or recital in, and shall have no liability with respect to, any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

(g) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(h) The permissive right of the Trustee to do things enumerated in this Trust Agreement shall not be construed as a duty.

SECTION 7.06. Right to Rely on Documents. The Trustee shall be protected in acting, and may conclusively rely, upon any notice, resolution, request, requisition, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and need not conduct any independent investigation of the matters covered therein. The Trustee may consult with counsel, who may be counsel but need not of or to Valley Water, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by this Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of Valley Water, and such Certificate of Valley Water shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Trust Agreement in reliance upon such

Certificate of Valley Water, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

SECTION 7.07. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Trust Agreement shall be retained in its possession and shall be subject at all reasonable times to the inspection of Valley Water and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

ARTICLE VIII

AMENDMENT OF THE TRUST AGREEMENT

SECTION 8.01. Amendment of the Trust Agreement. (a) This Agreement and the rights and obligations of Valley Water and of the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 8.02 hereof, shall have been filed, provided, however, that no such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest or yields-to-maturity, as the case may be, represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its written consent thereto.

(b) This Agreement and the rights and obligations of the Corporation and Valley Water and of the Owners of the Certificates may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes —

(i) to add to the covenants and agreements of the Corporation or Valley Water contained in this Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or Valley Water, and which shall not adversely affect the interests of the Owners of the Certificates;

(ii) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the Corporation or Valley Water may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates; and

(iii) to make any other amendments or modifications as may be determined by Valley Water and the Corporation which are not materially adverse to the interests of the Owners of the Certificates.

SECTION 8.02. Disqualified Certificates. Certificates owned or held by or for the account of the Corporation or Valley Water shall not be deemed Outstanding for the purpose of any

consent or other action or any calculation of Outstanding Certificates provided in this article, and shall not be entitled to consent to or take any other action provided in this article.

SECTION 8.03. Endorsement or Replacement of Certificates After Amendment. After the effective date of any action taken as hereinabove provided, the Corporation may determine that the Certificates may bear a notation by endorsement in form approved by the Corporation as to such action, and in that case upon demand of the Owner of any Outstanding Certificates and presentation of his Certificate for such purpose at the Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Corporation or Valley Water shall so determine, new Certificates so modified as, in the opinion of the Corporation or Valley Water, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Certificate such new Certificates shall be exchanged at the Corporate Trust Office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

SECTION 8.04. Amendment by Mutual Consent. The provisions of this article shall not prevent any Owner from accepting any amendment as to the particular Certificates owned by him, provided that due notation thereof is made on such Certificates.

ARTICLE IX

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

SECTION 9.01. Notice of Non-Payment. In the event of delinquency in the payment of any Installment Payments due by Valley Water pursuant to the Installment Purchase Agreement, the Trustee shall, after one business day following the date upon which such delinquent Installment Payment was due, as soon as practicable give written notice of the delinquency and the amount of the delinquency to Valley Water and the Corporation.

SECTION 9.02. Action on Default or Termination. Upon the occurrence of an Event of Default (as that term is defined in the Installment Purchase Agreement), which event shall constitute a default hereunder, and in each and every such case during the continuance of such Event of Default, the Trustee shall be entitled upon notice in writing to Valley Water, to exercise the remedies provided to the Corporation in the Installment Purchase Agreement.

SECTION 9.03. Proceedings by Trustee. Upon the happening and continuance of any Event of Default the Trustee shall do the following:

(a) by mandamus, or other suit, action or proceeding at law or in equity, to enforce its rights against the Corporation or Valley Water or any director, officer or employee of Valley Water, and to compel the Corporation or Valley Water or any such director, officer or employee of Valley Water to observe or perform its or his duties under applicable law and the agreements, conditions, covenants and terms contained herein required to be observed or performed by it or him;

(b) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(c) by suit in equity upon the happening of an Event of Default hereunder to require the Corporation and Valley Water and the directors, officers and employees of Valley Water to account as the trustee of an express trust.

SECTION 9.04. Non-Waiver. A waiver of any default hereunder or breach of any obligation by the Trustee hereunder or by the Corporation or Valley Water under the Installment Purchase Agreement shall not affect any subsequent default hereunder or any subsequent breach of an obligation by the Trustee hereunder or impair any rights or remedies on any such subsequent default hereunder or on any such subsequent breach of an obligation by the Trustee hereunder. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default hereunder shall impair any such right or remedy or shall be construed to be a waiver of any such default hereunder or an acquiescence therein, and every right or remedy conferred upon the Trustee by applicable law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Corporation or Valley Water, the Trustee, the Corporation and Valley Water shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

SECTION 9.05. Application of Funds. All moneys on deposit in the funds and accounts held hereunder (other than the Series 2020C Certificate Rebate Fund) and all moneys received by the Trustee pursuant to any right given or action taken under the provisions of this article or of Article IV of the Installment Purchase Agreement shall be deposited in segregated accounts in the Series 2020C Payment Fund and the Series 2020D Payment Fund, and shall be applied by the Trustee in the following order and upon presentation of the several Certificates and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid.

First, Costs and Expenses: ratably to the payment of the costs and expenses of the Trustee and then of the Owners in declaring such Event of Default, including reasonable compensation to its or their agents, accountants and counsel;

Second, Interest: to the payment to the persons entitled thereto of all payments of interest evidenced and represented by the Certificates then due, and, if the amount available shall not be sufficient to pay in full any payment or payments of interest coming due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal evidenced and represented by any Certificates which shall have become due, whether on the Certificate Payment Date or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest evidenced and represented by the Certificates to be paid at a rate equal to the rate or rates of interest then applicable to the Certificates if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of interest, principal and prepayment premiums, if any, due on such date to the persons entitled thereto, without any discrimination or preference.

SECTION 9.06. Remedies Not Exclusive. No remedy conferred herein upon or reserved herein to the Trustee is intended to be exclusive and all remedies shall be cumulative and each remedy shall be in addition to every other remedy given hereunder or now or hereafter existing under applicable law or equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other applicable law.

SECTION 9.07. No Liability by the Corporation to the Owners. Except as expressly provided herein, the Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by Valley Water, or with respect to the observance or performance by Valley Water of the other agreements, conditions, covenants and terms contained in the Installment Purchase Agreement or herein required to be observed or performed by it, or with respect to the performance by the Trustee of any obligation contained herein required to be performed by it.

SECTION 9.08. No Liability by Valley Water to the Owners. Except for the payment when due of the Installment Payments and the observance and performance of the other agreements, conditions, covenants and terms contained in the Installment Purchase Agreement or herein required to be observed or performed by it, Valley Water shall not have any obligation or liability to the Owners with respect hereto or the preparation, execution, delivery, transfer, exchange or cancellation of the Certificates or the receipt, deposit or disbursement of the Installment Payments by the Trustee, or with respect to the performance by the Trustee of any obligation contained herein required to be performed by it.

SECTION 9.09. No Liability by the Trustee to the Owners. Except as expressly provided herein, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by Valley Water, or with respect to the observance or performance by Valley Water of the other agreements, conditions, covenants and terms contained in the Installment Purchase Agreement or herein required to be observed and performed by Valley Water. The recitals of facts, covenants and agreements contained herein and in the Certificates shall be taken as statements, covenants and agreements of Valley Water and the Corporation, and the Trustee neither assumes any responsibility for the accuracy of the same, nor makes any representations as to the validity or sufficiency of the Trust Agreement or of the certificates nor shall incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Certificates assigned to or imposed upon the Trustee.

SECTION 9.10. Actions by the Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated, and the Trustee is hereby appointed (and the successive respective Owners, by taking and holding the same, shall be conclusively deemed so to have appointed the Trustee) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any suit, action, or proceeding and to do perform any and all acts and things for and on behalf of the respective Owners, as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact; provided, that the Trustee need not institute any such suit, action or proceeding until it shall have been first provided with indemnity adequate to it.

SECTION 9.11. Power of the Trustee to Control Proceedings. In the event that the Trustee, upon the occurrence of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder whether upon its own discretion, it shall

have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action.

ARTICLE X

DEFEASANCE

SECTION 10.01. Discharge of Certificates and Trust Agreement.

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of any Outstanding Certificates the interest and principal and prepayment premiums, if any, evidenced and represented thereby at the times and in the manner stipulated herein and therein, then such Owners evidenced and represented thereby shall cease to be entitled to the pledge of and lien on the moneys in the Series 2020C Payment Fund and the Series 2020D Payment Fund, as provided herein, and all agreements, covenants and other obligations of the Corporation and Valley Water to said Owners hereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Corporation and Valley Water all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to Valley Water all money or securities held by it pursuant hereto which are not required for the payment of the interest and principal and prepayment premiums, if any, evidenced and represented thereby.

(b) Any Outstanding Certificates shall on their Certificate Payment Dates or their dates of prepayment prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if there shall be on deposit with the Trustee money held in trust for the benefit of the Owners of such Certificates which is sufficient to pay the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificates payable on and prior to their Certificate Payment Dates or their dates of prepayment prior thereto.

Any Outstanding Certificates shall prior to their Certificate Payment Date or prepayment date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Certificates are to be prepaid on any date prior to their respective Certificate Payment Date, Valley Water shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of Section 3.03 of this Trust Agreement, notice of prepayment of such Certificates on said prepayment date, said notice to be given in accordance with Section 3.03 of this Trust Agreement, (2) there shall have been irrevocably deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Defeasance Securities the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall, as verified by an independent certified public accountant be sufficient to pay when due the interest evidenced and represented by such Certificates on and prior to their respective Certificate Payment Date or prepayment date thereof, as the case may be, (3) in the event such Certificates are not by their terms subject to prepayment within the next succeeding sixty (60) days, Valley Water shall have given the Trustee in form satisfactory to it irrevocable instructions to provide as soon as practicable, a notice to the Owners of such Certificates that the deposit required by clause (2) above has been made with the Trustee and that such Certificates are deemed to have been paid in accordance with this Section and stating the maturity date or prepayment date upon which money is to be available for the payment of the principal of and prepayment premiums, if any, on such Certificates, and (4) in the

case of Book-Entry Certificates, the Trustee shall give notice to the Depository of the prepayment of all or part of such Book-Entry Certificates on the date proceeds or other funds are deposited in escrow with respect to such Book-Entry Certificates.

SECTION 10.02. Unclaimed Money. Anything contained herein to the contrary notwithstanding, the Trustee shall notify Valley Water and the Corporation of any money held by the Trustee in trust for the payment and discharge of any of the Certificates which has remained unclaimed for two (2) years after the date when such Certificates have become due and payable, either at their stated maturity dates or by call for prepayment prior to maturity, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee. The Trustee shall at the Written Request of Valley Water repay such money to Valley Water as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to Valley Water for the payment of such Certificates.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. Liability of Valley Water Limited to Installment Payments. Notwithstanding anything contained herein to the contrary, Valley Water shall not be required to advance any money derived from any source of income other than the Installment Payments as provided herein for the payment of the interest or principal or prepayment premiums, if any, evidenced and represented by the Certificates or for the performance of any agreements or covenants herein contained. Valley Water may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose.

The Certificates shall be payable solely from the Installment Payments and amounts on deposit in the funds established hereunder (other than amounts on deposit in the Series 2020C Certificate Rebate Fund created pursuant to Section 5.07). The Certificates do not constitute a debt or liability of Valley Water or of the State of California and neither the faith and credit of Valley Water nor of the State are pledged to the payment of the principal, or interest evidenced and represented by the Certificates.

SECTION 11.02. Benefits of the Trust Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity other than the Corporation, Valley Water, the Trustee and the Owners any right, remedy or claim under or by reason hereof. Any agreement or covenant required herein to be performed by or on behalf of the Corporation, Valley Water or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Trustee and the Owners.

SECTION 11.03. Successor is Deemed Included in All References to Predecessor. Whenever herein either the Corporation, Valley Water or any member, officer or employee thereof is named or referred to, such reference shall be deemed to include the respective successor to the powers, duties and functions with respect to the administration, control and management of the Project that are presently vested in the Corporation, Valley Water or such member, officer or employee, and all agreements and covenants required hereby to be performed by or on behalf of the Corporation, Valley Water or any member, officer or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 11.04. Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn before such notary public or other officer. The ownership of any Certificates and the amount, maturity, number and date of holding the same may be proved by the registration books relating to the Certificates at the Corporate Trust Office of the Trustee.

Any declaration, request or other instrument or writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by Valley Water in good faith and in accordance therewith.

SECTION 11.05. Waiver of Personal Liability. No member, officer or employee of Valley Water shall be individually or personally liable for the payment of the interest or principal or prepayment premiums, if any, evidenced and represented by the Certificates by reason of their delivery, but nothing herein contained shall relieve any member, officer or employee of Valley Water from the performance of any official duty provided by any applicable provisions of law or hereby.

SECTION 11.06. Acquisition of Certificates by Valley Water. All Certificates acquired by Valley Water, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

SECTION 11.07. Destruction of Cancelled Certificates. Whenever provision is made for the return to Valley Water of any Certificates which have been cancelled pursuant to the provisions hereof, Trustee shall destroy such Certificates and furnish to Valley Water a certificate of such destruction.

SECTION 11.08. Funds. Any fund required herein to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such accounts and funds shall at all times be maintained in accordance with sound industry practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts hereunder as it deems necessary or appropriate to perform its obligations under this Trust Agreement.

SECTION 11.09. Article and Section Readings and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith," "hereunder" and other words of similar import refer to the Trust Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

SECTION 11.10. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of Valley Water, the Corporation or the Trustee shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof or of the Certificates, and the Owners shall retain all the benefit, protection and security afforded to them hereunder or any applicable provisions of law. Valley Water, the Corporation and the Trustee hereby declare that they would have executed and delivered the Trust Agreement and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the delivery of the Certificates pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 11.11. Execution in Several Counterparts. This Trust Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as Valley Water, the Corporation and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 11.12. Law Governing. This Trust Agreement shall be governed exclusively by the provisions hereof and by the laws of the State as the same from time to time exist.

SECTION 11.13. Notices. All approvals, authorizations, consents, demands, designations, notices, offers, requests, statements or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States first-class postage prepaid, namely:

If to the Trustee:

U.S. Bank National Association
One California Street, Suite 1000
San Francisco, California 94111
Attention: Global Corporate Trust Services

If to the Corporation:

Santa Clara Valley Water District
Public Facilities Financing Corporation
c/o Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118
Attention: District Counsel

If to Valley Water:

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118
Attention: Treasury/Debt Officer

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be signed by one of their officers thereunder duly authorized, all as of the day and year first above written.

SANTA CLARA VALLEY WATER DISTRICT

(SEAL)

By: _____
Authorized Officer

ATTEST:

Clerk of the Board of Directors

SANTA CLARA VALLEY WATER DISTRICT
PUBLIC FACILITIES FINANCING
CORPORATION

(SEAL)

By: _____
President

ATTEST:

Secretary

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

FORM OF SERIES 2020 CERTIFICATE OF PARTICIPATION

No. R-__

\$_____

Revenue Certificate of Participation
(Water Utility System Improvement Projects)
[Series 2020C] [Taxable Series 2020D]
Evidencing and Representing a Proportionate,
Undivided Interest of the Owner Hereof
in Installment Payments to Be Made
by the
SANTA CLARA VALLEY WATER DISTRICT
to the
Santa Clara Valley Water District Public Facilities Financing Corporation
under and pursuant to the
Installment Purchase Agreement

Interest Rate *Maturity Date* *Dated Date* *CUSIP*
_____ % June 1, _____ _____, 2020 _____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL SUM: _____ DOLLARS

THIS IS TO CERTIFY that the Registered Owner (specified above) of this Certificate of Participation (the "Certificate") is the owner of an undivided interest in the right to receive the Installment Payments (as defined below) payable by the Santa Clara Valley Water District ("Valley Water") pursuant to the Installment Purchase Agreement (described below) on the maturity date specified above (subject to any right of prior prepayment provided for) the principal sum specified above, together with interest evidenced and represented hereby at the interest rate per annum specified above on December 1, 2020, and on each December 1 and June 1 thereafter (the "Interest Payment Dates") from the Interest Payment Date next preceding the date of execution hereof, unless such date of execution is during the period commencing after the fifteenth day of the month preceding an Interest Payment Date (the "Record Date") through and including the next succeeding Interest Payment Date, in which event this Certificate shall represent interest from such Interest Payment Date and with respect to the first Interest Payment Date, this Certificate shall represent interest from the Dated Date until the principal evidenced and represented hereby shall have been paid; provided, however, that if on the date of execution of this Certificate, interest is then in default on the Certificates, this Certificate shall evidence interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Certificate.

The principal evidenced and represented by this Certificate shall be payable (without notice of payment to the registered owner hereof) in lawful money of the United States of America at the Corporate Trust Office (as defined in the Trust Agreement) of U.S. Bank National Association,

(herein, together with any successor as trustee under the hereinafter defined Trust Agreement, called the “Trustee”) upon presentation and surrender of this Certificate.

Payment of interest evidenced and represented by this Certificate due on or before the maturity or prior prepayment hereof shall be made to the person in whose name this Certificate is registered, as of the Record Date preceding the applicable Interest Payment Date, on the registration books kept by the Trustee at its Corporate Trust Office such interest to be paid by check mailed by first class mail by the Trustee on such Interest Payment Date to the registered owner at his address as it appears on such books; provided that upon the written request of an Owner of \$1,000,000 or greater in aggregate principal amount of outstanding Certificates received by the Trustee prior to the applicable Record Date, interest shall be paid by wire transfer in immediately available funds to an account within the United States of America. Interest evidenced and represented by this Certificate shall be payable in lawful money of the United States of America. Interest on the Certificates shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

This Certificate is one of a duly authorized issue of Certificates of Participation of Valley Water designated as the “Revenue Certificates of Participation (Water Utility System Improvement Projects), [Series 2020C] [Taxable Series 2020D]” in the aggregate principal amount of _____ Dollars (\$_____), all of like tenor and date (except for variations relating to Certificates (as may be required to designate varying numbers, maturities and interest rates), and is executed and delivered, together with the Revenue Certificates of Participation (Water Utility System Improvement Projects), [Taxable Series 2020D] [Series 2020C] in the aggregate principal amount of _____ Dollars (\$_____) (together with the [Series 2020C][Series 2020D] Certificates, the “Certificates”), under and pursuant to the provisions of 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 (the “Corporation”) and the Trustee (copies of which are on file at the Corporate Trust Office of the Trustee).

The Certificates are executed and delivered to provide funds for financing public facilities of Valley Water and to reimburse Valley Water for previous amounts expended on the financing of public facilities. The Certificates are payable solely from installment payments (the “Installment Payments”) paid by Valley Water for the purchase of the Project pursuant to an Installment Purchase Agreement, dated as of August 1, 2020, by and between Valley Water and the Corporation (the “Installment Purchase Agreement”), including interest or profits from the investment of money in certain funds established under the Trust Agreement for the payment of the Certificates (other than amounts on deposit in the Series 2020C Certificate Rebate Fund) and amounts on deposit in the funds established under the Trust Agreement (other than amounts on deposit in the Series 2020C Certificate Rebate Fund). The Installment Payments do not constitute a debt or liability of Valley Water or of the State of California in contravention of any constitutional or statutory debt limit and neither the faith and credit of Valley Water nor of the State of California are pledged to the payment of the principal or interest evidenced and represented by the Certificates.

The Certificates are subject to extraordinary prepayment by Valley Water on any date prior to their respective Certificate Payment Dates, upon notice as hereinafter provided, 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 five thousand dollars (\$5,000) and any integral multiple thereof and from net proceeds of insurance awards or condemnation proceedings 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 Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

The [Series 2020C Certificates] [Series 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 hereinafter provided, as a whole or in part by lot 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.

[The Series 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 Series 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 Series 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 Series 2020D Certificates are to be prepaid, discounted to the date on which the Series 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 Series 2020D Certificates to be prepaid on the Prepayment Date.]

Notice of prepayment of this Certificate shall be given by the Trustee not less than twenty (20) days 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 subject to and in accordance with provisions of the Trust Agreement with respect thereto. If notice of prepayment has been duly given as aforesaid and money for the payment of the above-described prepayment price is held by the Trustee, in the [Series 2020C/Series 2020D] Payment Fund then this Certificate so called for prepayment shall, on the prepayment date designated in such notice, become due and payable at the above-described prepayment price; and from and after the date so designated, interest evidenced and represented on this Certificate shall cease to accrue and the registered owner of this Certificate shall have no rights in respect hereto except to receive payment of the prepayment price hereof.

This Certificate is transferable only in the books required to be kept for that purpose at the Corporate Trust Office of the Trustee by the registered owner hereof in person or by his duly authorized attorney, upon surrender of this Certificate together with a duly executed written instrument of transfer in a form approved by the Trustee and thereupon a new fully registered Certificate or Certificates will be executed and delivered, by the Trustee of like series and of authorized denominations of the same Certificate Payment Date evidenced and representing the same aggregate principal amount a Certificate will be issued to the transferee in exchange therefor. This Certificate may be exchanged at the Corporate Trust Office of the Trustee for the same aggregate principal amount evidenced and represented by a Certificate of authorized denominations. The

Trustee shall not be required to register the transfer of or exchange (i) any Certificates during the period established by the Trustee for the selection of Certificates for prepayment, or (ii) any Certificate which has been selected for prepayment in whole or in part.

The Trustee may treat the registered owner hereof as the absolute owner hereof all purposes, whether or not this Certificate shall be overdue, and the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest and principal prepayment premiums and represented by the Certificate shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability evidenced and represented by this Certificate to the extent of the sum or sums so paid.

The Trust Agreement and the rights and obligations of Valley Water, the Corporation and of the registered owners of the Certificates may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Trust Agreement, but no such modification or amendment shall (i) extend the maturity of this Certificate or reduce the rate of interest or yields-to-maturity, as the case may be hereon or extend the time of payment of interest, or reduce the amount of principal hereon, or reduce any premium payable on the prepayment hereon without the consent of the registered owner of this Certificate, (ii) reduce the percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification or, (iii) modify any rights or obligations of the Trustee of the Corporation without its prior written assent thereto, all as more fully set forth in the Trust Agreement.

If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the registered owners of any outstanding Certificates the interest and the principal and the prepayment premiums, if any, evidenced and represented thereby at the times and in the manner stipulated herein and in the Trust Agreement, then the registered owners of such Certificates shall cease to be entitled to the pledge of and lien on the moneys in the [Series 2020C Payment Fund] [Series 2020D Payment Fund], as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and Valley Water to the registered owners of such Certificates under the Trust Agreement shall thereupon cease, terminate and become void and be discharged and satisfied.

This Certificate shall not be entitled to any benefit, protection or security under the Trust Agreement or become valid or obligatory for any purpose until executed and dated by the Trustee.

Valley Water certified that all acts and proceedings required by law necessary to make this Certificate, when executed by the Trustee and duly issued, the valid, binding and legal special obligation of Valley Water have been done and taken, and have been in all respects duly authorized.

The Trustee has executed this Certificate solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not liable for the obligations evidenced by the Certificates except from amounts held by it in its capacity as Trustee under the Trust Agreement.

IN WITNESS WHEREOF, this Certificate has been executed by the manual signature of an authorized officer of the Trustee as of the date set forth below.

Date of Execution: September __, 2020

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Authorized Officer

[FORM OF ASSIGNMENT TO CERTIFICATES]

For value received the undersigned hereby sells, assigns and transfers unto _____

(name, address and social security number or other identifying number)

the within certificate and all rights thereunder, and hereby irrevocably constitutes and appoints _____, attorney, to transfer the within Certificate on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

NOTE: The signature(s) to this Assignment must correspond with the name(s) as written upon the face of the within Certificate in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

NOTE: Signature(s) must be guaranteed by an eligible guarantor institution

EXHIBIT B

**FORM OF WRITTEN REQUEST FOR REQUISITION FROM ACQUISITION AND
CONSTRUCTION FUNDS**

§ _____
SANTA CLARA VALLEY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS)
SERIES 2020C AND TAXABLE SERIES 2020D

The undersigned hereby states and certifies:

(i) that the undersigned is the duly appointed, qualified and acting [Title of Authorized Officer] of the Santa Clara Valley Water District (“Valley Water”), and as such, is familiar with the facts herein certified and is authorized to certify the same;

(ii) that, pursuant to Section 5.05 of that certain 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 (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”), the undersigned hereby requests the Trustee to disburse the following amounts from the Series 2020[C][D] Acquisition and Construction Fund established under the Trust Agreement, to the payees designated on the attached Exhibit 1;

(iii) that each obligation mentioned herein has been incurred by Valley Water and is a proper charge against the Acquisition Fund;

(iv) that there has not been filed with or served upon Valley Water or the Corporation notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the payees named on the attached Exhibit 1, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen’s or mechanics’ liens accruing by mere operation of law.

SANTA CLARA VALLEY WATER DISTRICT

[Title of Authorized Officer]

EXHIBIT 1

ACQUISITION FUND DISBURSEMENTS

<i>Item Number</i>	<i>Payee Name and Address</i>	<i>Purpose of Obligation</i>	<i>Amount</i>
_____			_____
_____			_____
_____			_____
_____			_____
_____			_____

ASSIGNMENT AGREEMENT

by and between

SANTA CLARA VALLEY WATER DISTRICT PUBLIC FINANCING CORPORATION

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of August 1, 2020

RELATING TO

\$ _____

SANTA CLARA VALLEY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS)
SERIES 2020C AND TAXABLE SERIES 2020D

ASSIGNMENT AGREEMENT

This Assignment Agreement is made and entered into as of August 1, 2020 by and between SANTA CLARA VALLEY WATER DISTRICT PUBLIC FINANCING CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee");

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

SECTION 1. Assignment.

The Corporation, for good and valuable consideration in hand received, does hereby sell, assign and transfer to the Trustee without recourse, for the benefit of the owners of the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2020C and Taxable Series 2020D (together, the "Certificates"), to be executed and delivered by the Trustee pursuant to the Trust Agreement, dated as of August 1, 2020 (the "Trust Agreement"), by and among the Santa Clara Valley Water District ("Valley Water"), the Corporation and the Trustee, all of its rights, title, and interest in the Installment Purchase Agreement, dated as of August 1, 2020 (the "Installment Purchase Agreement"), by and between Valley Water and the Corporation, including the right to receive all installment payments from Valley Water under the Installment Purchase Agreement (but not including the right to be indemnified or the right to receive notices pursuant to the Installment Purchase Agreement), together with any and all of the other rights of the Corporation under the Installment Purchase Agreement as may be necessary to enforce payment of such installment payments when due or otherwise to protect the interests of the owners of the Certificates.

All rights assigned by the Corporation shall be administered by the Trustee as assignee thereof according to the provisions of the Trust Agreement and for the equal and proportionate benefits of the Owners of the Certificates. This assignment is absolute and presently effective.

SECTION 2. Acceptance.

The Trustee hereby accepts the foregoing assignment for the purpose of securing the right assigned to it to receive all such installment payments from Valley Water under the Installment Purchase Agreement and the other rights assigned to it, subject to the terms and provisions of the Trust Agreement, and all such installment payments shall be applied and the rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

SECTION 3. Conditions.

This Assignment Agreement shall confer no rights or impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. This Assignment Agreement shall constitute a complete assignment by the Corporation of all of its rights and obligations under and pursuant to the Installment Purchase Agreement, except as otherwise provided herein.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment Agreement by their officers thereunto duly authorized as of the day and year first written above.

SANTA CLARA VALLEY WATER
DISTRICT PUBLIC FACILITIES
FINANCING CORPORATION

By: _____
President

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Authorized Officer

BOARD AGENDA MEMORANDUM

SUBJECT:

Adopt Resolution Authorizing the Issuance of Not to Exceed \$120 Million Water System Refunding Revenue Bonds, Authorizing the Execution and Delivery of Not to Exceed \$155 Million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents, and Authorizing Certain Acts in Connection Therewith.

RECOMMENDATION:

- A. Adopt the Resolution AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$120 MILLION REFUNDING REVENUE BONDS, AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$155 MILLION REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS, AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH; and
- B. Authorize and direct the Chief Executive Officer, Assistant Chief Executive Officer-Operations, Chief Financial Officer, Treasury and Debt Officer, District Counsel, the Clerk of the Board, and such other officers and staff of the Santa Clara Valley Water District, acting singly, to do any and all things, and to execute and deliver any and all documents, which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Refunding Revenue Bonds and the Revenue Certificates of Participation.

SUMMARY:

Approval of staff recommendations will allow the Santa Clara Valley Water District ("Valley Water") (a) to issue a principal amount of up to \$120 million of Water System Refunding Revenue Bonds, Series 2020A (Tax-Exempt) and Series 2020B (Taxable) (the "2020A Bonds" and the "2020B Bonds," respectively and collectively, the "Bonds"); and (b) cause the Santa Clara Valley Water District Public Facilities Financing Corporation to execute and deliver up to \$155 million of Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C (Tax-Exempt) and Series 2020D (Taxable) (the "2020C Certificates" and the "2020D Certificates," respectively and collectively, the "Certificates") (the Bonds and Certificates, together, the "Obligations"). The proceeds of the Obligations will be used to: (i) refund the currently outstanding Commercial Paper Certificates, Series A (Tax-Exempt) and Series B (Taxable) issued to finance projects for the water utility system (the "Outstanding CP"); (ii) acquire and/or construct, or reimburse the cost of the acquisition or construction of, certain water utility system capital improvements; and (iii) pay costs of issuance of the Obligations.

Method of Sale and Financing Plan

The Obligations will be sold on a negotiated basis utilizing a team of underwriters including Siebert, Cisneros, Shank & Co., LLC (“Siebert”) as the senior manager, and Piper Sandler & Co. (“Piper”) and Alamo Capital as co-managers (collectively, the “Underwriters”). Siebert is a full-service, woman- and minority-owned investment banking and financial services company, founded in 1996 and headquartered in Oakland, California, with offices across the country, including a municipal trading desk in Oakland. Piper is an investment bank and institutional securities firm with offices around the country, including San Francisco, California. Alamo Capital is a small, woman-owned firm based in Walnut Creek, California. The Underwriters provide broad sales coverage to both institutional and retail investors that is expected to generate good demand for the Obligations. Both Siebert and Piper have provided information illustrating the firms’ commitments to corporate social responsibilities and policies, including diversity and inclusion in hiring, governance, and procurement, community involvement, and environmental stewardship.

The financing plan calls for the Obligations to be sold at fixed interest rates, repaid over 30 years, and structured with level annual debt service (i.e., principal and interest) payments. The Obligations will be structured to result in low borrowing costs while achieving certain business objectives and flexibility by utilizing financial structuring techniques. The structuring techniques may include amortizing the Certificates sooner than the Bonds to minimize the additional cost of certificates of participation compared to revenue bonds; deferring principal and/or capitalizing interest in the near term to provide groundwater rate relief; adjusting coupons; providing for flexibility to redeem the bonds prior to maturity; and other financial structuring techniques. The final structure of the Obligations will be determined during the pricing period in September pending market conditions, investor demand, and the interest rate environment.

The Obligations will be issued under the Valley Water’s Water Utility System Parity Master Resolution (16-10), adopted on February 23, 2016 (as amended, the “Parity Master Resolution”). The authority to issue the revenue refunding Bonds is provided in Section 25.1 of the District Act and Sections 53580-53589.5 of the California Government code. Section 5 of the District Act provides Valley Water the authority to execute and deliver an Installment Purchase Agreement, which will secure the Certificates to be executed and delivered by the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Financing Corporation”), for the acquisition and/or construction of new facilities or improvements.

Outstanding debt previously issued under the Parity Master Resolution (“Parity Debt”) is currently rated ‘AA+’ by Fitch Ratings (“Fitch”) and ‘Aa1’ by Moody’s Investors Service (“Moody’s”). Staff is requesting ratings for the Obligations from Fitch and Moody’s and anticipates receiving similar high-grade credit ratings for this transaction.

Estimated Sources and Uses of Bond Proceeds

The estimated sources and uses of funds for the Obligations are set forth below. The total principal amount shown in the table below is based on the current financing plan, which forecasts a principal amount of Obligations that is lower than the total not-to-exceed authorization of \$275 million (\$120 million of Bonds and \$155 million of Certificates). The not-to-exceed authorization allows for flexibility to adjust for differing financing structures and to buffer against market volatility.

	2020 Bonds	2020 Certificates	Total
Sources			
Principal Amount	\$ 97,415,000	\$ 122,830,000	\$ 220,245,000
Net Original Issue Premium/(Discount)	7,564,511	13,075,816	20,640,327
TOTAL	\$ 104,979,511	\$ 135,905,816	\$ 240,885,327
Uses			
Commercial Paper	\$ 104,655,000	\$ -	\$ 104,655,000
New Project Funds	-	135,500,000	135,500,000
Costs of Issuance	194,613	245,387	440,000
Underwriters' Fee	125,549	158,303	283,852
Miscellaneous	4,349	2,126	6,475
TOTAL	\$ 104,979,511	\$ 135,905,816	\$ 240,885,327

Good Faith Estimated Costs

Pursuant to State Senate Bill 450, Siebert provided the following good faith estimates with respect to the Obligations: (1) the "true interest cost" is currently estimated to be 2.50%; (2) the "finance charge" (which means the sum of all fees and charges paid to third parties) is estimated to be \$723,852; (3) the "amount of proceeds" received by Valley Water (which is net of the finance charge) is estimated to be \$240,161,475; and (4) the "total payment amount" (which means the sum of all debt service payments to the final maturity) is estimated to be \$345,179,776. Estimates are based on market conditions as of July 20, 2020. Actual results will differ depending on market conditions on the day the Obligations are priced and sold in September 2020.

Security

The obligation of Valley Water to pay principal of and interest on the Bonds and the Installment Purchase Agreement is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from Net Water Utility System Revenues pursuant to the Parity Master Resolution. Water Utility System Revenues are

pledged first to the payment of maintenance and operation costs, second to the payments associated with \$17.3 million of outstanding debt issued pursuant to the Senior Master Resolution, and, subsequently, the net amount remaining is pledged to the payment of principal of and interest on Parity Debt, including the Bonds and Certificates.

Financing Documents

The following financing documents, in substantially final form, are attached for Board review and/or approval: Resolution of the Board, attached to which are the Preliminary Official Statement, Continuing Disclosure Agreements, Indenture of Trust (Bonds), Trust Agreement (Certificates), Installment Purchase Agreement, Bond Purchase Contract, and Certificate Purchase Contract (Attachments 1-8).

Issuance Costs

The estimated total costs of issuance in the amount of \$440,000 will be paid from the proceeds of the debt issuances upon or shortly after closing:

Description	Estimate
Rating Fees (Fitch/Moody's)	\$ 189,500
Bond Counsel	150,000
Municipal Advisor	70,000
Trustee	15,000
Printing (Official Statement)	4,000
Contingency	11,500
Total	\$ 440,000

Additionally, underwriting costs in the estimated amount of approximately \$284,000 will be paid at closing to the Underwriters to reimburse expenses incurred (e.g., underwriter's counsel) and as compensation for selling the securities.

Financing Corporation Approval

Valley Water is required to cause the Certificates to be executed and delivered through the Santa Clara Valley Water District Public Facilities Financing Corporation. The Financing Corporation approved the resolution authorizing the Certificates and related matters on August 19, 2020.

Financing Schedule

The Obligations are scheduled to be priced on September 1-2, 2020, and the sale is scheduled to close on September 16, 2020. The current financing schedule is as follows:

<u>Description</u>	<u>Date</u>
Financing Corporation approval	August 19, 2020
Board approval	August 25, 2020
Receive credit ratings	August 26, 2020
Post Preliminary Official Statement	August 26, 2020
Bond Pricing and Sale	September 1-2, 2020
Closing	September 16, 2020

Valley Water Disclosure Responsibilities

Valley Water’s Board and executive team are responsible for ensuring that no material facts are omitted or misstated in the Preliminary Official Statement in accordance with federal securities laws and disclosure requirements outlined in the Valley Water’s Debt Management Policy (Attachment 9).

As the primary securities offering document to potential investors, the Preliminary Official Statement must contain all material information relevant to the Obligations and the security thereof. The materiality standard is determined in context of all the facts and circumstances and is based on whether or not there is a substantial likelihood that a reasonable or prospective investor would consider the information important in deciding whether or not to invest. Confidentiality and political considerations are not exceptions to the requirement for full disclosure. If the Board, executive team, or any Valley Water staff contributing to and/or reviewing the Preliminary Official Statement has concerns about the accuracy or completeness of the disclosure, those concerns should be raised and discussed with the Valley Water’s Chief Financial Officer and the debt management staff immediately. Additionally, per federal securities law, Valley Water has an obligation to provide material updates, if any, to the Official Statement up to 25 days after the closing date of the Obligations (in addition to continuing disclosure obligations laid out in the Continuing Disclosure Agreement).

For additional information on municipal disclosure responsibilities and consequences of non-compliance with securities laws, attached is a presentation entitled “Disclosure Responsibilities Under the Federal Securities Laws” made to Valley Water staff, and board-members of Valley Water and the Financing Corporation, on July 7, 2020 by Stradling, Yocca, Carlson & Rauth, bond counsel for the Obligations (Attachment 10).

FINANCIAL IMPACT:

The estimated total costs of issuance in the amount of \$440,000 plus underwriter’s fees of approximately \$284,000 will be paid from the proceeds of the debt issuance. The Fiscal Year 2020-21 operating budget for the Water Utility Enterprise includes sufficient funds for debt service costs for the Obligations.

CEQA:

The recommended action does not constitute a project under California Environmental Quality Act (CEQA) because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment, as outlined in the State CEQA Guidelines, Section 15060(c)(2).

ATTACHMENTS:

Attachment 1: Resolution

Attachment 2: Preliminary Official Statement

Attachment 3: Continuing Disclosure Agreements

Attachment 4: Indenture of Trust (Bonds)

Attachment 5: Trust Agreement (Certificates)

Attachment 6: Installment Purchase Agreement

Attachment 7: Bond Purchase Contract

Attachment 8: Certificate Purchase Contract

Attachment 9: Debt Management Policy

Attachment 10: Federal Securities Laws - Disclosure Responsibilities

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

**BOARD OF DIRECTORS
SANTA CLARA VALLEY WATER DISTRICT**

RESOLUTION NO. 20-

**AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$120,000,000 WATER
SYSTEM REFUNDING REVENUE BONDS, AUTHORIZING THE EXECUTION
AND DELIVERY OF NOT TO EXCEED \$155,000,000 REVENUE CERTIFICATES
OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN
DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH**

WHEREAS, the Santa Clara Valley Water District (“Valley Water”) is a flood control and water district duly organized and existing under and pursuant to the Constitution and laws of the State of California; and

WHEREAS, Valley Water has previously financed the acquisition of certain capital improvements to the water utility system equipment and facilities of Valley Water by causing the execution and delivery of the Commercial Paper Certificates, Series A (Tax-Exempt) and the Commercial Paper Certificates, Series B (Taxable) (the “Outstanding CP”) pursuant to a resolution of the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”); and

WHEREAS, Valley Water has determined that it would be in the best interests of Valley Water and citizens of the community to authorize refunding bonds in one or more series (the “Refunding Bonds”) to refund the Outstanding CP; and

WHEREAS, the Board of Directors of Valley Water (the “Board”) proposes to acquire additional water utility system equipment and facilities and to reimburse Valley Water for costs previously expended to acquire certain water utility system equipment and facilities and the Corporation has agreed to assist Valley Water in such acquisition and reimbursement; and

WHEREAS, Valley Water has determined that it would be in the best interests of Valley Water and citizens of the community to authorize the entry into an installment purchase agreement and the preparation and delivery of revenue certificates of participation (the “Certificates”) in one or more series to finance the acquisition of and to reimburse the costs of such water utility system equipment and facilities.

NOW, THEREFORE BE IT RESOLVED that the Board of Directors of the Santa Clara Valley Water District does hereby find, determine, declare, and resolve as follows:

Section 1. Authorization of Refunding Bonds. This Board hereby authorizes the issuance, sale and delivery of one or more series of Refunding Bonds in an aggregate principal amount not to exceed \$120,000,000 in accordance with the terms and provisions of the Indenture of Trust referred to in Section 2 below and the Water Utility Parity System Master Resolution (as defined in such Indenture of Trust), the interest on which may be taxable or tax-exempt; provided however that in no event shall the true interest cost of the Refunding Bonds exceed 4.00% per annum. The purposes for which the proceeds of the sale of the Refunding Bonds shall be expended are to pay the Outstanding CP, and to pay the costs of the sale and delivery of the Refunding Bonds.

Section 2. Indenture. The Indenture of Trust with respect to the Refunding Bonds, in substantially the form on file with Valley Water, and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Chief Executive Officer,

the Assistant Chief Executive Officer, Operations, the Chief Financial Officer (or any acting or interim of such positions) and the Clerk of the Board or the designee thereof (each an "Authorized Officer" and together the "Authorized Officers"), are hereby each individually authorized and directed to execute and deliver the Indenture of Trust with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.

Section 3. Authorization of Certificates of Participation. This Board hereby authorizes the preparation, sale and delivery by the Corporation of one or more series of Certificates in an aggregate principal amount not to exceed \$155,000,000 in accordance with the terms and provisions of the Trust Agreement referred to in Section 5 below. The purposes for which the proceeds of the sale of the Certificates shall be expended are to finance the acquisition and/or construction by Valley Water of certain capital improvements to the water utility system of Valley Water and to reimburse Valley Water for costs previously expended to acquire and/or construct certain water utility system equipment and facilities as described in the Installment Purchase Agreement referred to in Section 4 below, and to pay the costs of the sale and delivery of the Certificates.

Section 4. Installment Purchase Agreement. The Installment Purchase Agreement with respect to the Certificates in substantially the form on file with Valley Water and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. Each Authorized Officer is individually authorized and directed to execute and deliver the Installment Purchase Agreement with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.

Section 5. Trust Agreement. The Trust Agreement with respect to the Certificates, in substantially the form on file with Valley Water and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. Each Authorized Officer is individually authorized and directed to execute and deliver the Trust Agreement with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.

Section 6. Purchase Contracts for the Refunding Bonds. One or more Purchase Contracts relating to the Refunding Bonds by and between Valley Water and the representative of the underwriters named therein (the "Bond Purchase Contracts"), in substantially the form on file with Valley Water and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. Each Authorized Officer or the Treasury and Debt Officer is individually authorized and directed to execute and deliver such Bond Purchase Contracts with such changes, insertions and omissions as may be approved by such Authorized Officer or the Treasury and Debt Officer executing the same, said execution being conclusive evidence of such approval; provided, that the underwriting discount shall not exceed 0.2 of 1%.

Section 7. Purchase Contracts for the Certificates. One or more Purchase Contracts relating to the Certificates by and between Valley Water and the representative of the underwriters named therein (the "Certificate Purchase Contracts"), in substantially the form on file with Valley Water and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. Each Authorized Officer or the Treasury and Debt Officer is individually authorized and directed to execute and deliver such Certificate Purchase

Contracts with such changes, insertions and omissions as may be approved by such Authorized Officer or the Treasury and Debt Officer executing the same, said execution being conclusive evidence of such approval; provided, that the underwriting discount shall not exceed 0.2 of 1%.

Section 8. Preliminary Official Statement and Official Statement. The preparation and distribution of the Preliminary Official Statement relating to the Refunding Bonds and the Certificates in substantially the form on file with Valley Water, is hereby approved. Each Authorized Officer is individually authorized to sign a certificate pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 relating to the Preliminary Official Statement and each Authorized Officer is individually authorized and directed to execute, approve and deliver the Official Statement in the form of the Preliminary Official Statement which, upon execution as authorized below, are made a part hereof as though set forth in full herein, with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval. The underwriters for the Refunding Bonds and the Certificates are hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the initial purchase of the Refunding Bonds and the Certificates and are directed to deliver copies of any final Official Statement to all actual initial purchasers of the Refunding Bonds and the Certificates.

Section 9. Continuing Disclosure Agreements. The Continuing Disclosure Agreement relating to the Refunding Bonds and the Continuing Disclosure Agreement relating to the Certificates in substantially the forms on file with Valley Water and, upon execution as authorized below, made a part hereof as though set forth in full herein, are hereby approved. Each Authorized Officer is individually authorized and directed to execute and deliver the Continuing Disclosure Agreements with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.

Section 10. Payment of Outstanding CP. Each Authorized Officer and such other officers and staff of Valley Water are authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which such officers may deem necessary or advisable in order to pay the Outstanding CP from a portion of the proceeds of the Refunding Bonds.

Section 11. Trustee. U.S. Bank National Association, San Francisco, California is hereby appointed to act as trustee under the Indenture of Trust with respect to the Refunding Bonds.

Section 12. Good Faith Estimate of Certain Costs. The Board acknowledges that the good faith estimates of certain costs required by Section 5821.1 of the California Government Code are disclosed in the staff report and are available to the public at the meeting at which this resolution is approved.

Section 13. Other Actions. The Authorized Officers and such other officers and staff of Valley Water are authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Refunding Bonds, and the delivery of the Indenture of Trust, the Installment Purchase Agreement, the Trust Agreement, the Continuing Disclosure Agreements, the Purchase Contracts, the Preliminary Official Statement and the Official Statement, and otherwise effectuate the purposes of this Resolution, and such actions in

Authorizing the Issuance of Not to Exceed \$120,000,000 Water System Refunding Revenue Bonds, Authorizing the Execution and Delivery of Not to Exceed \$155,000,000 Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Acts in Connection Therewith

Resolution No. 20-

connection therewith previously taken by such officers and staff are hereby ratified and confirmed.

Section 14. Definitions. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given to such terms in the Indenture of Trust, unless the context otherwise clearly requires.

Section 15. Effect. This resolution shall take effect immediately.

PASSED and ADOPTED by the Board of Directors of the Santa Clara Valley Water District by the following vote on August 25, 2020:

AYES: Directors

NOES: Directors

ABSENT: Directors

ABSTAIN: Directors

SANTA CLARA VALLEY WATER DISTRICT

NAI HSEUH
Chair, Board of Directors

ATTEST: MICHELE L. KING, CMC

Clerk, Board of Directors

Authorizing the Issuance of Not to Exceed \$120,000,000 Water System Refunding Revenue Bonds, Authorizing the Execution and Delivery of Not to Exceed \$155,000,000 Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Acts in Connection Therewith

Resolution No. 20-



I hereby certify that the foregoing is a full, true and correct copy of the original thereof on file in my office.

DATED: August 25, 2020

MICHELE L. KING, CMC
Clerk, Board of Directors

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

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST __, 2020

NEW ISSUE-Book Entry Only

See "RATINGS" herein.

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

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

\$ _____ *
Series 2020A

\$ _____ *
Taxable Series 2020B

\$ _____ *
Series 2020C

\$ _____ *
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 June 30, 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 June 30, 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

* Preliminary, subject to change.

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.

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 September __, 2020.

Siebert Williams Shank & Co., LLC

Alamo Capital

Piper Sandler

Dated: September __, 2020

MATURITY SCHEDULES

\$ _____*

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

\$ _____
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 _____

\$ _____

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

\$ _____*
Series 2020C

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

\$ _____*
Taxable Series 2020D

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

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SANTA CLARA VALLEY WATER DISTRICT

5750 Almaden Expressway
San Jose, California 95118

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Michele L. King, CMC, Clerk of the Board

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Sacramento, California

TRUSTEE

U.S. Bank National Association
San Francisco, California

MUNICIPAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the 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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\$ _____^{*}
**Santa Clara Valley Water District
Water System Refunding Revenue Bonds
Series 2020A and Taxable Series 2020B**

\$ _____^{*}
**Santa Clara Valley Water District
Revenue Certificates of Participation
(Water Utility System Improvement Projects)
Series 2020C and Taxable Series 2020D**

\$ _____^{*}
Series 2020A

\$ _____^{*}
Taxable Series 2020B

\$ _____^{*}
Series 2020C

\$ _____^{*}
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) \$ _____^{*} 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) \$ _____^{*} 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 June 30, 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. Valley Water expects to place 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 \$_____ aggregate principal amount of Commercial Paper Certificates, \$_____ 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 \$_____ 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 \$_____ * and the 2020B Bonds will be issued in the aggregate principal amount of \$_____. 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 (June 1)</i>	<i>Principal Amount</i>
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*

* Final Maturity.

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

* 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, 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 December 1, 202__ 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:

Redemption Date	Principal
(June 1)	Amount

*

* 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 and within maturities 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 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 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. Whenever provision is made in the Indenture for the redemption of less than all of the 2020B Bonds which are not 2020B Term Bonds, the Trustee will select such 2020B 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.

If the 2020B Term 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 Term Bonds, if less than all of the 2020B Term Bonds of a maturity are called for prior redemption, the particular 2020B Term 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 Term Bonds are held in book-entry form, the selection for redemption of such 2020B Term 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 Term Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

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 Term 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.

There is no requirement to redeem the 2020B Bonds from insurance or condemnation proceeds on a pro rata or other basis.

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 \$ _____* and the 2020D Certificates will be executed and delivered in the aggregate principal amount of \$ _____*. 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.”

* Preliminary, subject to change.

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 by lot 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.

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.

There is no requirement to prepay the 2020C Certificates from insurance or condemnation proceeds on a pro rata or other basis.

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 by lot 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 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 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.

There is no requirement to prepay the 2020D Certificates from insurance or condemnation proceeds on a pro rata or other basis.

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 (e) 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 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 Elsman, 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 most recently, the Deputy Operating Officer of Watersheds Design & Construction. Ms. Richardson is a registered Civil Engineer in California and has served as one of the two Designated Engineers for 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.

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.

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 _____, 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.*”

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	\$17,340,000
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	36,990,000
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	44,480,000
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 1, 2020, Valley Water had \$[102.7] million in Commercial Paper Certificates outstanding which were issued to finance the following projects: \$[72.7] 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.

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.

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.

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⁾**

Fiscal Year	Zone	Groundwater		Treated Water		Surface Water		Reclaimed Water	
		Non-Agricultural	Agricultural	Non-Contract	Contract	Non-Agricultural	Agricultural	Non-Agricultural	Agricultural
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	181,150	26,484	207,634	(10.37)

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⁾	\$103,545,000	\$152,925,000	\$2,820,000	\$259,290,000	13.88%
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 1, 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 Elsmar, and two small water treatment plants, within the County. Valley Water does not currently receive revenue from the sale of water from SFPUC, Williams and Elsmar Reservoir, and recycled water facilities other than the SCRWA Reclamation Facility. However, all the sources of supply contribute to water supply reliability in the County and, therefore, are considered together in this discussion.

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

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 April 16, 2019, relating to its Central Valley Project Water System Revenue Bonds Series BA (“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.

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 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 expects to file 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.

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

VALLEY WATER FACILITIES

Local Reservoirs

General. Valley Water owns, operates, and maintains a County-wide water conservation and distribution system to convey water for recharge and treatment. Included are 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”) has been introduced in the State Legislature for the purpose of 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. As of August 1, 2020, AB 3005 had been approved unanimously by the State Assembly and was referred to policy committee in the State Senate.

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” below.
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, 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.

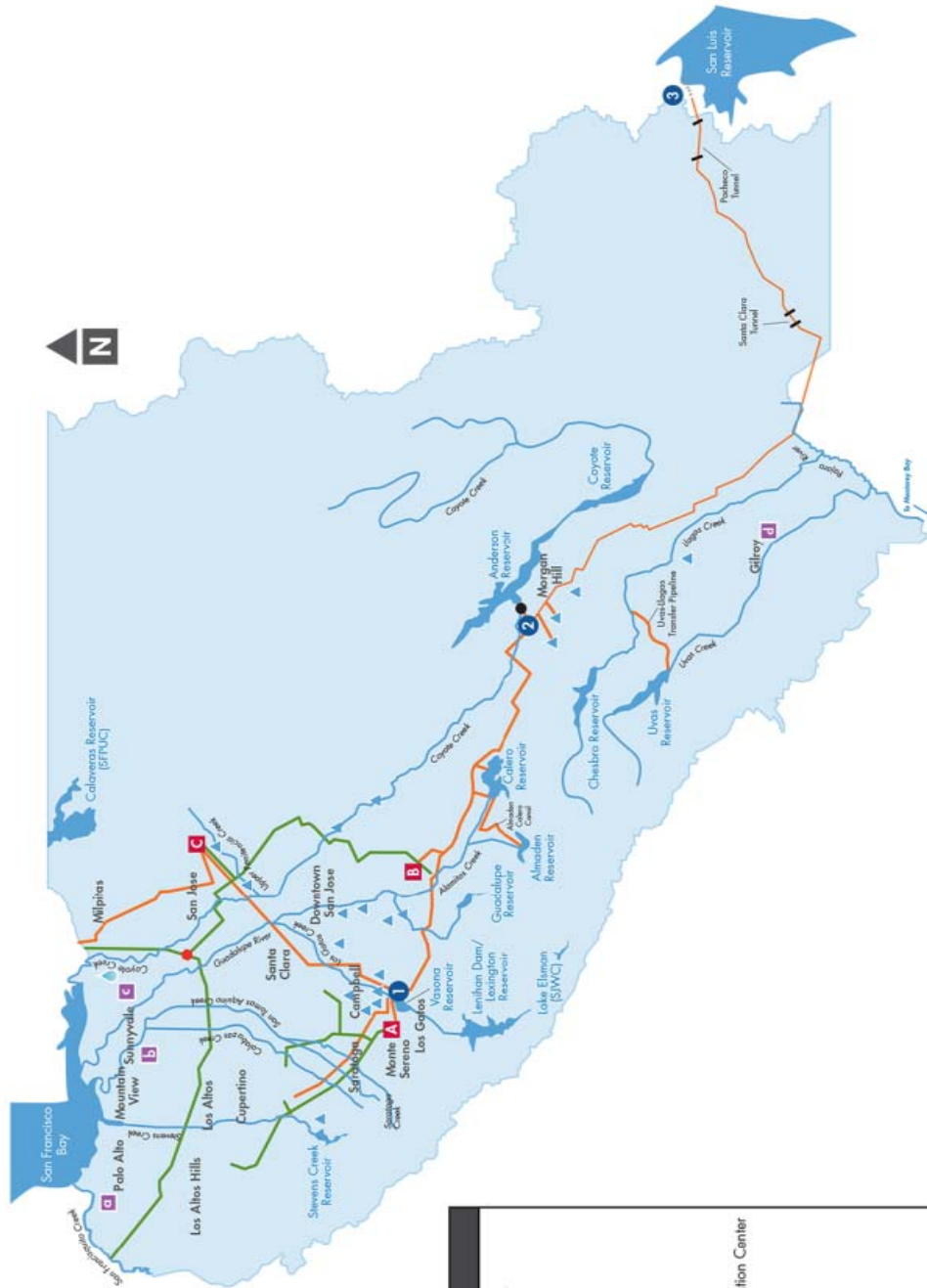
A project was completed in December 2007 to obtain adequate spare pipe which will reduce outage periods from seismic damage to pipelines. Studies are in progress to further evaluate ways of mitigating the damage and minimizing loss of water and impacts to level of service. Independent studies completed in 20__ 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



Legend

- Lakes, reservoirs, rivers, creeks, & bays
- Raw water pipeline
- Drinking water pipeline
- Pump Plants
 - 1. Vasona
 - 2. Coyote
 - 3. Pacheco
- Drinking Water Treatment Plants
 - A. Rinconada
 - B. Santa Teresa
 - C. Penitencia
- Silicon Valley Advanced Water Purification Center
- Anderson Hydroelectric Facility
- Local wastewater treatment plant and recycled water provider
 - a. Palo Alto
 - b. Sunnyvale
 - c. San Jose-Santa Clara
 - d. South County
- Recharge Ponds

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>40,270</u>	<u>38,047</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.

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.

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 Bay-

Delta 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 (Sac. 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* (Sac. 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 (Sac. 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).

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 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.

The SWRCB is responsible for developing and modifying the Bay-Delta Water Quality Control Plan ("Bay-Delta Plan"), which establishes water quality control measures needed to provide reasonable protection of beneficial uses of water in the Bay-Delta watershed. The SWRCB also implements the Bay-Delta Plan through water rights and other measures and otherwise administers water rights in the Bay-Delta Watershed.

The SWRCB is in the process of developing and implementing updates to the Bay-Delta Plan including establishing flow objectives for priority tributaries to the Bay-Delta to protect beneficial uses in the Bay-Delta watershed. These updates are occurring in phases. Phase 1 of this work involves developing flow objectives for the Lower San Joaquin River and its major salmon bearing tributaries and updating the southern Delta salinity objectives included in the Bay-Delta Plan. Phase 2 involves other comprehensive changes to the

Bay-Delta Plan to protect beneficial uses not addressed in Phase 1 (i.e., Delta outflows, Sacramento River and other major tributary flows, export limits, reverse flows, etc.). Phase 3 will involve changes to water rights and other measures to implement changes to the Bay-Delta Plan from Phases 1 and 2.

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

On January 11, 2019, 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.

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.

A cost estimate prepared for a similarly configured California Water Fix alternative resulted in an estimated cost for the project is \$[12] billion (in 2019 dollars). The DCA is currently preparing a cost estimate for the Delta Conveyance project that is expected to be available in late 2020. Such cost estimate may differ materially from the \$[12] billion estimate provided for the single tunnel California Water Fix alternative.

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.

Allocation of Water Deficiencies

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

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

Water Banking

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

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

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 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 FY 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.

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 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.

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 for Fiscal Year 2018-19. 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⁾**

	<i>2019-20⁽²⁾</i>	<i>2020-21⁽²⁾</i>	<i>2021-22</i>	<i>2022-23</i>	<i>2023-24</i>
Water Utility System Revenues					
Groundwater Charges ⁽³⁾	\$103,545	\$121,105	\$146,818	\$159,592	\$173,501
Treated Water Charges ⁽⁴⁾	152,925	137,399	165,020	178,902	194,049
Surface and Recycled Water Charges ⁽⁵⁾	2,820	2,562	3,045	3,356	3,615
Property Taxes ⁽⁶⁾	8,466	8,217	8,442	8,738	9,044
Investment Income ⁽⁷⁾	5,300	3,500	1,787	1,915	1,961
Operating Grants/Intergovernmental Services	1,162	1,242	1,357	1,403	1,179
Transfers In ⁽⁸⁾	1,064	593	1,751	2,033	2,347
Transfers Out ⁽⁹⁾	(2,478)	(6,215)	(3,453)	(4,443)	(8,073)
Other ⁽¹⁰⁾	<u>1,092</u>	<u>1,101</u>	<u>1,033</u>	<u>1,041</u>	<u>1,050</u>
Total Revenues	<u>\$273,896</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⁾	\$76,978	\$78,501	\$100,132	\$96,513	\$93,515
Water Treatment ⁽¹²⁾	40,213	43,914	45,927	48,298	50,017
Transmission And Distribution ⁽¹³⁾					
Raw Water	16,588	15,331	16,761	17,952	18,701
Treated Water	2,243	2,608	2,591	2,793	2,982
Administration and General ⁽¹⁴⁾	<u>27,365</u>	31,336	33,308	36,453	36,525
Total Operating Expenses	<u>\$163,387</u>	\$171,690	\$198,719	\$202,009	\$201,740
Net Water Utility System Revenues	\$110,509	\$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⁾	<u>511</u>	-	-	-	-
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	\$108,220	\$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⁾	<u>-</u>	<u>-</u>	<u>2,657</u>	<u>13,426</u>	<u>26,168</u>
Total Parity Debt Service	\$30,845	\$36,604	\$46,515	\$57,282	\$70,004
Parity Obligations Debt Service Coverage	3.51	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	\$77,050	\$56,701	\$73,606	\$86,913	\$98,006
Senior Debt Service Coverage	48.28	54.92	71.39	84.71	99.57
Senior, Parity and Subordinate Obligations Debt Service Coverage	3.30	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 2019-20 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 \$97,400,000 and true interest cost of 2.82%; Certificates based on a principal amount of \$122,800,000 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, \$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 for those members enrolled in the 2.5% @ 55 and 2.0% @ 60 retirement formulas. Members enrolled in the 2.0% @ 62 formula are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of CalPERS service credit. The death benefits are based on the members' eligibility to retire and consist of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit and the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law.

See Note 11 to 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 notes 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 assume the investment return for Fiscal Year 2019-20 would be 7.0 percent. To the extent the actual investment return for Fiscal Year 2019-20 differs from 7.0 percent, the actual contribution requirements for Fiscal Year 2022-23 will 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</i> ⁽¹⁾	<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 6/30/2017 ⁽¹⁾	\$ 787,529,110	\$ 557,322,464	\$ 230,206,646
Changes Recognized for the Measurement Period:			
Service Cost	16,022,730	-	16,022,730
Interest on Total Pension Liability	54,939,649	-	54,939,649
Changes of Assumptions	(8,125,682)	-	(8,125,682)
Difference between Expected and Actual Experience	(1,354,497)	-	(1,354,497)
Plan to Plan Resource Movement	-	(1,380)	1,380
Contribution from Employer	-	20,101,080	20,101,080
Contribution from Employees	-	7,030,182	(7,030,182)
Net Investment Income	-	47,227,283	(47,227,283)
Benefit Payments, including Refunds of Employee Contribution	(35,347,202)	(35,347,202)	-
Administrative Expense	-	(868,462)	868,462
Other Miscellaneous Income/Expenses	-	(1,649,224)	1,649,224
Net Changes During 2017-18	<u>26,134,998</u>	<u>36,492,277</u>	<u>(10,357,279)</u>
Balance at 6/30/2018 ⁽¹⁾	\$ 813,664,108	\$ 593,814,741	\$ 219,849,367

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. 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. For the year ended June 30, 2019, Valley Water recognized pension expense of \$30 million. At June 30, 2019, Valley Water reported deferred outflows and inflows of resources related to pensions from the following sources:

	<i>Deferred Outflow of Resources</i>	<i>Deferred Inflow of Resources</i>
Pension contribution subsequent to measurement date	\$ 25,409,359	-
Change of assumptions	20,979,011	\$ (6,143,808)
Difference between actual and expected experience	-	(3,926,477)
Net differences between projected and actual earnings on plan investments	<u>1,237,798</u>	<u>-</u>
Total	\$ 47,626,168	\$(10,070,285)

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, 2018.

\$25.4 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. This amount reflects what was paid in employer pension contributions to CalPERS in Fiscal Year 2018-19, and accounts for approximately ___% of Valley Water expenses (\$_____) recognized in the same fiscal year. Based on unaudited actual results, Valley Water paid \$_____ in employer pension contributions to CalPERS in Fiscal Year 2019-20 and has budgeted \$_____ 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>
2018-19	\$ 14,375,280
2019-20	7,560,010
2020-21	(7,988,548)
2021-22	<u>(1,800,218)</u>
Total	\$ 12,146,524

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

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 plan amounted to \$10.2 million. This amount reflects what was paid in employer OPEB contributions to the CERBT in Fiscal Year 2018-19, and accounts for approximately ___% of Valley Water expenses (\$ _____) recognized in the same fiscal year. Based on unaudited actual results, Valley Water paid \$ _____ in OPEB contributions to the CERBT in Fiscal Year 2019-20 and has budgeted \$ _____ 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 \$ _____ 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. 18 of the 19 lawsuits are being tried together, and the trial date is currently scheduled for March 21, 2021. No trial date for the remaining case has been scheduled.

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.

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.

The County’s shelter-in-place order was most recently revised on July 2, 2020 to become effective on July 13, 2020, which is, in certain respects, more restrictive than the Governor’s orders as of such date. The County’s revised order allows for additional businesses to reopen with certain social distancing restrictions, including but not limited to, retail, manufacturing, logistics, warehousing, distribution, outdoor recreational sites, and educational and recreational institutions for children.

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" and "—Seismic Considerations."

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, or court decisions may cause interest on the 2020 Bonds and interest with respect to the Certificates to be subject, directly or indirectly, in whole or in part, to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

Failure to Maintain Credit Ratings

Certain rating agencies have assigned ratings to the 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 XIII D. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006 the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. The Court restated the dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing domestic water service through an existing connection were property related fees and charges under Article XIII D.

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

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C does not define the terms “local tax,” “assignment,” “fee” or “charge.” On July 24, 2006, the

Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article 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 XIII B, XIII C and XIII D were adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting 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 Bonds 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 Certificates 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 the 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 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 which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; and (iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), provided that such obligations will be held in trust by a bank or trust company or a national banking association.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WATER UTILITY SYSTEM REVENUES

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

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

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

Revenues received by it will be deposited when and as received in the Water Utility System Revenue Fund. The District will transfer or make payments from the Water Utility System Revenue Fund the amounts set forth below at the following times and in the following order of priority: (a) Such amounts at such times as the District will require to provide for the payment of Maintenance and Operation Costs; (b) To each Trustee to pay Debt Service at the times and in the amounts required by applicable Bonds or Contracts or the resolutions, Trust Agreements, indentures or other instruments securing each Bond or Contract; (c) To each Trustee for deposit in the applicable Bond or Contract or reserve fund with respect to such Bonds or Contracts an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Bond or Contract reserve fund as and to the extent required by the applicable Bond or Contract or the resolutions, Trust Agreements, indentures or other instruments securing each Bond or Contract; (d) On any date prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the Water Utility System; and (e) On the last Business Day of each Fiscal Year, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the District.

SEPARATE UTILITY SYSTEMS

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

COVENANTS OF THE DISTRICT

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

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

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

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

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

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

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

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

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

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

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

MISCELLANEOUS

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

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

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

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

APPENDIX D

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that 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

PRO RATA PASS-THROUGH DISTRIBUTION OF PRINCIPAL TABLE

SANTA CLARA VALLEY WATER DISTRICT

\$ __, __, 000
Revenue Certificates of Participation
(Water Utility System Improvement Projects)
Series 2020C

\$ __, __, 000
Revenue Certificates of Participation
(Water Utility System Improvement Projects)
Taxable Series 2020D

CERTIFICATE PURCHASE CONTRACT

[Pricing Date], 2020

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118-3614

Ladies and Gentlemen:

The undersigned, Siebert Williams Shank & Co., LLC, on its own behalf and as representative (the “*Representative*”) of the underwriters identified herein (collectively, with the Representative, the “*Underwriters*”), offers to enter into this Certificate Purchase Contract (this “*Certificate Purchase Contract*”) with the Santa Clara Valley Water District (“*Valley Water*”), which will be binding upon Valley Water and the Underwriters upon the acceptance hereof by Valley Water by execution and delivery of the executed Certificate Purchase Contract to the Representative on or before 8:00 p.m., California time, on the date hereof. Capitalized terms used in this Certificate Purchase Contract and not otherwise defined shall have the respective meanings given to such terms in the Trust Agreement (as defined herein).

Any authority, discretion, or other power conferred upon the Underwriters by this Certificate Purchase Contract shall be exercised by the Representative alone, except as otherwise expressly provided.

Section 1. Purchase and Delivery. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriters hereby agree to purchase from Valley Water for reoffering to the public, and Valley Water hereby agrees to execute and deliver to the Underwriters for such purpose, all (but not less than all) of: \$ __, __, 000 principal amount of Santa Clara Valley Water District Revenue Certificates of Participation (Water System Utility Improvement Projects), Series 2020C (the “*2020C Certificates*”) and \$ __, __, 000 principal amount of Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Taxable Series 2020D (the “*Taxable 2020D Certificates*” and together with the 2020C Certificates, the “*2020 Certificates*”).

The 2020 Certificates shall be dated the date of delivery thereof, be payable on each June 1 in the years and in the amounts, bear interest at the rates, and be subject to prepayment as set forth in Schedule I. Interest with respect to the 2020 Certificates shall be payable on each June 1 and December 1, commencing December 1, 2020.

The purchase price for the 2020C Certificates shall be \$ _____, which is equal to the principal amount of the 2020C Certificates, [plus / less] a net original issue [premium / discount] of \$ _____, and less an underwriters' discount of \$ _____.

The purchase price for the Taxable 2020D Certificates shall be \$ _____, which is equal to the principal amount of the Taxable 2020D Certificates, [plus / less] a net original issue [premium / discount] of \$ _____, and less an underwriters' discount of \$ _____.

The obligation of the Underwriters to purchase, accept delivery of, and pay for the 2020 Certificates is conditioned on the issuance and delivery by Valley Water of all of the 2020 Certificates to the Underwriters at Closing (as hereinafter defined).

Section 2. Description of the 2020 Certificates. The 2020 Certificates are being executed and delivered pursuant to Resolution No. 16-10 (Water Utility Parity System Master Resolution) adopted by the Board of Directors on February 23, 2016 (the "*Parity Master Resolution*"), Resolution No. 20-__ adopted by the Board of Directors on _____, 2020 (the "*2020 Resolution*" and together with the Parity Master Resolution, the "*Resolution*") and a Trust Agreement, dated as of August 1, 2020 (the "*Trust Agreement*") by and among Valley Water, the Santa Clara Valley Water District Public Financing Corporation (the "*Corporation*"), and U.S. Bank National Association, as trustee (the "*Trustee*"). The 2020 Certificates shall be as described in the Trust Agreement. The 2020 Certificates will be as summarized in the Official Statement relating to the 2020 Certificates (which, together with all exhibits and appendices included therein or attached thereto and such amendments or supplements thereto which shall be approved by the Underwriter, is hereinafter called the "*Official Statement*").

The proceeds of the 2020 Certificates will be used to: (i) finance the acquisition and/or construction of certain water utility system improvements (the "*Project*"); (ii) reimburse Valley Water for previously expended on certain water utility system improvements; and (iii) pay the costs associated with the execution and delivery of the 2020 Certificates.

The 2020 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 by and between Valley Water and the Corporation (the "*Installment Purchase Agreement*"). The Installment Payments under the Installment Purchase Agreements are made solely from Net Water Utility System Revenues as provided in the Parity Master Resolution (as such terms are defined in the Trust Agreement). Pursuant to the terms of the Assignment Agreement made and entered into as of August 1, 2020 (the "*Assignment Agreement*"), the Corporation assigns the Installment Payments to the Trustee for the benefit of the owners of the 2020 Certificates.

In order to enable the Underwriters to comply with Rule 15c2-12 under the Securities Exchange Act of 1934 ("*Rule 15c2-12*"), Valley Water and U.S. Bank National Association, as dissemination agent (the "*Dissemination Agent*"), will execute and deliver a Continuing Disclosure Agreement (the "*Continuing Disclosure Agreement*") concurrently with delivery of the 2020 Certificates.

Section 3. Public Offering. The Underwriters agree to make a bona fide public offering of all the 2020 Certificates initially at the public offering prices (or yields) set forth on Schedule I attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Representative reserves the right to change the public offering prices (or yields) as the Representative deems necessary in connection with the marketing of the 2020 Certificates, provided that the Representative shall not change the interest rates set forth on Schedule I. The 2020 Certificates may be offered and sold to certain dealers at prices lower than such initial public offering prices.

Section 4. Delivery of Official Statement. Valley Water has delivered or caused to be delivered to the Underwriters prior to the execution of this Certificate Purchase Contract, copies of the Preliminary Official Statement in electronic form relating to the 2020 Certificates dated August __, 2020, including the cover pages, the appendices thereto and all information incorporated therein by reference in electronic form (the “*Preliminary Official Statement*”). Such Preliminary Official Statement was deemed final by Valley Water for purposes of Rule 15c2-12 and was approved for use and distribution by the Underwriters by the 2020 Resolution. Valley Water has executed and delivered to the Underwriters a certification to such effect in the form attached hereto as Appendix A.

Within seven (7) business days from the date hereof, or such earlier date identified by the Representative to be necessary to allow the Underwriters to meet their obligations under Rule 15c2-12 and Rule G-32 of the Municipal Securities Rulemaking Board (the “*MSRB*”), Valley Water shall deliver to the Underwriters a final Official Statement in electronic form, executed on behalf of Valley Water by its authorized representative and dated the date hereof, with such other amendments or supplements as shall have been approved by Valley Water and the Representative (the “*Official Statement*”) and which the Underwriters may use to comply with Rule 15c2-12 and to meet potential customer requests for copies of the Official Statement.

The Representative agrees to file the Official Statement in compliance with MSRB Rule G-32. Each Underwriter agrees that it will not confirm the sale of any 2020 Certificates unless the confirmation of sale is accompanied or preceded by the delivery of a copy of the Official Statement.

Section 5. The Closing. At 8:00 a.m., California time, on [September 16], 2020, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by Valley Water and the Representative (the “*Closing Date*”), the Representative will accept delivery of the 2020 Certificates through the facilities of The Depository Trust Company, New York, New York (“*DTC*”), by initial deposit with the Trustee (in care of DTC) through DTC’s Fast Automated Securities Transfer System procedures, and the other documents described herein, duly executed, at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation (“*Special Counsel*”), in Newport Beach, California or another place mutually agreed upon by Valley Water and the Representative. The Representative will accept such delivery and pay the purchase price of the 2020 Certificates as set forth in Section 1 in immediately available funds to the order of the Trustee on behalf of Valley Water. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the “*Closing*.” The 2020 Certificates will be delivered in such denominations and deposited in the account or accounts specified with DTC by the Representative in accordance with the rules and operational arrangements of DTC. The 2020 Certificates will be made available to the Underwriters for inspection and packaging not less than 48 hours prior to the Closing.

It is anticipated that CUSIP identification numbers will be inserted on the 2020 Certificates, but neither the failure to provide such numbers nor any error with respect thereto shall constitute a cause for failure or refusal by the Representative to accept delivery of the 2020 Certificates in accordance with the terms of this Certificate Purchase Contract.

Section 6. Representations, Warranties and Covenants of Valley Water. Valley Water represents, warrants and covenants to the Underwriters that:

(a) Due Organization, Existence and Valley Water. Valley Water is a special district authorized to supply water and provide flood protection services, duly organized and existing under the Constitution and laws of the State of California (the “*State*”) with full right, power and authority to adopt the Resolution and to execute, deliver and perform its obligations under the Trust Agreement, the Installment Purchase Agreement, this Certificate Purchase Contract, and the Continuing Disclosure

Agreement (collectively, the “*Financing Documents*”), and to carry out and consummate the transactions contemplated by the Financing Documents and as described in the Official Statement.

(b) Due Authorization and Approval. The Resolution has been duly and validly adopted by Valley Water, and Valley Water, by all necessary official action, has duly authorized the execution and delivery of the Financing Documents and the Official Statement, and the performance by Valley Water of its obligations contained or described in the Financing Documents and the Official Statement, and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The Resolution constitutes, and when executed and delivered, each of the Financing Documents will constitute, the legally valid and binding obligation of Valley Water enforceable in accordance with its respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws or equitable principles relating to or affecting creditors’ rights generally or by the exercise of judicial discretion in appropriate cases or by limitations on legal remedies against public agencies in the State.

(c) Preliminary Official Statement Accurate and Complete. As of the date thereof and as of the date hereof, the Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading (except no representation is made with respect to information relating to DTC or DTC’s book-entry system).

(d) Official Statement Accurate and Complete. As of the date thereof and at all times subsequent thereto, to and including the date that is 25 days following the “*End of the Underwriting Period*” for the 2020 Certificates, the Official Statement did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except no representation is made with respect to information relating to DTC or DTC’s book-entry system). The Representative acknowledges that the “*End of the Underwriting Period*” will be the date of Closing.

(e) Valley Water Agreement to Amend or Supplement Official Statement. If, between the date of the Official Statement and the date that is 25 days after the End of the Underwriting Period for the 2020 Certificates, an event occurs that would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, Valley Water will notify the Representative and, if, in the reasonable opinion of the Representative or its counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, Valley Water will cooperate in the preparation of an amendment or supplement to the Official Statement in a form and manner approved by the Representative and shall pay all expenses thereby incurred. For the purposes of this subsection, between the date hereof and the date that is 25 days after the End of the Underwriting Period for the 2020 Certificates, Valley Water will furnish such information with respect to itself as the Representative may from time to time reasonably request.

(f) Amended Official Statement. If the information contained in the Official Statement is amended or supplemented pursuant to Section 6(e), at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subsection) at all times subsequent thereto up to and including the date that is 25 days after the End of the Underwriting Period for the 2020 Certificates, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact required to be stated therein or necessary to make such information therein, in the light of the

circumstances under which it was presented, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system).

(g) No Material Change in Finances. Except as otherwise described in the Preliminary Official Statement and the Official Statement, there shall not have been any material adverse changes in the financial condition of Valley Water since June 30, 2019.

(h) No Breach or Default. As of the time of acceptance hereof, (A) Valley Water is not in default, nor has it been in default, as to principal or interest with respect to an obligation issued by or on behalf of Valley Water, and (B) Valley Water is not, in any manner which would materially adversely affect the transactions contemplated by this Certificate Purchase Contract, the Resolution, the other Financing Documents, and the Official Statement, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States of America (the "*United States*"), or any applicable judgment or decree or any trust agreement, indenture, installment purchase agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which Valley Water is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would materially adversely affect the transactions contemplated by this Certificate Purchase Contract, the Resolution, the other Financing Documents and the Official Statement, a default or event of default under any such instrument; and, as of such time, the adoption by Valley Water of the Resolution and the authorization, execution and delivery of this Certificate Purchase Contract and the other Financing Documents, and compliance by Valley Water with the provisions of each of such agreements or instruments do not in any manner which would materially adversely affect the transactions contemplated by this Certificate Purchase Contract, the Resolution, the other Financing Documents and the Official Statement, conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, indenture, installment purchase agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which Valley Water (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Resolution and the Financing Documents.

(i) No Litigation. As of the time of acceptance hereof, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of Valley Water after due investigation, threatened (A) in any way questioning the corporate existence of Valley Water or the titles of the officers of Valley Water to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the adoption of the Resolution or the execution or delivery of the 2020 Certificates, this Certificate Purchase Contract, or the other Financing Documents, or in any way contesting or affecting the validity of the 2020 Certificates or this Certificate Purchase Contract, the Resolution, the other Financing Documents or the consummation of the transactions contemplated thereby, or contesting the powers of Valley Water to adopt the Resolution or to enter into this Certificate Purchase Contract or the other Financing Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of Valley Water or to its ability to pay the principal of and interest with respect to the 2020 Certificates when due; or (D) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no

basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) of this sentence.

(j) Prior Liens on Net Water Utility System Revenues. The Installment Purchase Agreement, when executed and delivered in accordance with the Resolution will be a valid and legally enforceable obligation of Valley Water in accordance with its terms and the terms of the Resolution; and the Resolution will provide, for the benefit of the holders from time to time of the 2020 Certificates and any Bonds and Contracts (as such terms are defined in the Resolution) heretofore or hereafter issued under the Resolution, a legally valid and binding interest in and to the funds pledged under the Resolution as described in the Official Statement; except as described in the Official Statement, upon the issuance of the 2020 Certificates, Valley Water does not and will not have outstanding any obligations which obligations are secured by a lien on the Net Water Utility System Revenues superior to or on a parity with the Installment Purchase Agreement.

(k) Further Cooperation; Blue Sky Laws. Valley Water will furnish such information, execute such instruments and take such other action in cooperation with the Representative as the Representative may reasonably request in order (A) to qualify the 2020 Certificates for offer and sale under the Blue Sky or other bond laws and regulations of such states and other jurisdictions of the United States as the Representative may designate and (B) to determine the eligibility of the 2020 Certificates for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the 2020 Certificates; provided, however, that Valley Water shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(l) Consents and Approvals. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by Valley Water of its obligations in connection with, this Certificate Purchase Contract, the Resolution, and the Financing Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the 2020 Certificates.

(m) No Other Obligations. Except as disclosed in the Official Statement, between the date of this Certificate Purchase Contract and the date of Closing, Valley Water will not, without the prior written consent of the Representative, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, directly or contingently payable from the Net Water Utility System Revenues.

(n) Certificates. Any certificate signed by any official of Valley Water and delivered to the Representative shall be deemed to be a representation and warranty by Valley Water to the Underwriters as to the statements made therein.

(o) Continuing Disclosure Undertakings. Except as otherwise disclosed in the Official Statement, Valley Water has not failed during the previous five years to comply in all material respects with any previous continuing disclosure undertakings that it has entered into pursuant to Rule 15c2-12.

(p) Relationship between the Underwriters and Valley Water. Valley Water acknowledges and agrees that: (i) no Underwriter is acting as a fiduciary or as a “municipal advisor” within the meaning of Section 15B of the Securities Exchange Act of 1934; (ii) the purchase and sale of the 2020 Certificates pursuant to this Certificate Purchase Contract is an arm’s length commercial transaction among Valley

Water and the Underwriters, (iii) in connection with such transaction, each Underwriter is acting solely as a principal and not as an agent or fiduciary of Valley Water; (iv) with respect to the offering of the 2020 Certificates or the process leading thereto (whether or not any Underwriter or any affiliate of such Underwriter, has advised or is currently advising Valley Water on other matters), such Underwriter has not assumed fiduciary responsibilities in favor of Valley Water or any other obligation to Valley Water except as expressly set forth in this Certificate Purchase Contract; (v) Valley Water has consulted its own legal and financial advisors to the extent it deemed appropriate in connection with the offering of the 2020 Certificates; and (vi) each Underwriter has financial interests that differ from those of Valley Water.

Section 7. Closing Conditions. The Representative has entered into this Certificate Purchase Contract in reliance upon the representations and warranties of Valley Water contained herein, and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by Valley Water of its obligations hereunder, both as of the date hereof and as of the Closing. The obligations of the Underwriters under this Certificate Purchase Contract to purchase, accept delivery of and to pay for the 2020 Certificates shall also be subject to the following additional conditions:

(a) Official Statement. The Underwriters have received copies of the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Representative) in such reasonable quantity as the Representative shall have requested.

(b) Bring-Down Representation. The representations, warranties and covenants of Valley Water contained herein shall be true, complete and correct in all material respects as of the date hereof and at the time of the Closing, as if made on the date of the Closing.

(c) Executed Agreements and Performance Thereunder. At the time of the Closing (i) the Resolution will have been duly adopted and the Official Statement will have been duly authorized, executed and delivered by Valley Water; this Certificate Purchase Contract, the Resolution, and the Financing Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Representative, (ii) there shall be in full force and effect such resolutions as, in the opinion of Special Counsel, shall be necessary in connection with the transactions contemplated by the Resolution, the Financing Documents, and the Official Statement, (iii) Valley Water shall perform or have performed its obligations required or specified in this Certificate Purchase Contract, the Resolution, and the Financing Documents to be performed at or prior to Closing, and (iv) the Official Statement shall not have been supplemented or amended, except pursuant to Section 7(e) hereof or as otherwise may have been agreed to in writing by the Representative.

(d) No Default. At the time of the Closing, no default, or any event that with the passage of time would be reasonably likely to result in default, shall have occurred or be existing under the Resolution, or any other agreement or document pursuant to which any of Valley Water's financial obligations was issued, and Valley Water shall not be in default in the payment of principal or interest on any of its financial obligations which default would materially adversely impact the ability of Valley Water to pay the Installment Payments.

(e) Termination Events. The Representative shall have the right to terminate this Certificate Purchase Contract, without liability therefor, by notification to Valley Water upon the occurrence of any of the following events if at any time at or prior to the Closing and, if in the reasonable opinion of the Representative such event has a material and adverse effect on the market price of the 2020 Certificates:

(i) any event occurs on or after the date hereof which either (A) in the reasonable judgement of the Representative, materially adversely affects the market price or marketability or ability to enforce contracts for the sale of any portion of the 2020 Certificates; or (B) makes untrue or incorrect in any material respect, as of the time of such event, any statement or information contained in the Official Statement or which is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained in the Official Statement not misleading in any material respect, notwithstanding the approval by the Representative of any amendment or supplement prior to its distribution.

(ii) an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Certificate Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of Valley Water, or the interest on bonds or notes or obligations of the general character of the 2020 Certificates; or

(iii) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a change to the net capital requirements of, underwriters shall have been established by the New York Stock Exchange, the SEC, or any other federal or State agency or the Congress of the United States, or by Executive Order; or

(iv) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered; or

(v) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, delivery, offering or sale of obligations of the general character of the 2020 Certificates, or the delivery, offering or sale of the 2020 Certificates, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the 2020 Certificates, or the 2020 Certificates, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Trust Agreement needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(vi) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by the New York Stock Exchange or by any other national securities exchange or by any federal or State governmental authority; or

(vii) a general banking moratorium shall have been established by federal or State authorities; or

(viii) any outbreak or escalation of hostilities involving the United States, the declaration by the United States of a national emergency or war, the occurrence of any other local, national, or international calamity or crisis, or any escalation thereof; or

(ix) there shall have occurred or any notice shall have been given of any intended downgrading, suspension, withdrawal or negative change in credit watch status by either of the rating services assigning ratings to the 2020 Certificates; or

(x) the commencement of any action, suit or proceeding described in Section 6(i) hereof; or

(xi) there shall be in force a general suspension of trading on the New York Stock Exchange.

(f) Closing Documents. At or prior to the Closing, the Representative shall receive with respect to the 2020 Certificates (unless the context otherwise indicates) the following documents:

(i) Resolution and Financing Documents. Certified copies of the Resolution and executed copies of the Financing Documents.

(ii) Corporation Resolution and Corporation Documents. A certified copy of the Corporation Resolution and executed copies of the Corporation Documents (as defined herein).

(iii) Preliminary and Final Official Statements. The Preliminary Official Statement and the Official Statement, with the Official Statement executed by duly authorized officers of Valley Water.

(iv) Continuing Disclosure Agreement. The Continuing Disclosure Agreement executed on behalf of Valley Water and the Dissemination Agent by their respective duly authorized officers.

(v) Opinion of Special Counsel. An approving opinion of Special Counsel dated the date of the Closing and substantially in the form appended to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Representative and the Trustee, to the effect that the foregoing opinion addressed to Valley Water may be relied upon by the Underwriters and the Trustee to the same extent as if such opinion were addressed to them.

(vi) Supplemental Opinion. A supplemental opinion or opinions of Special Counsel addressed to the Representative, in form and substance acceptable to the Representative, and dated the date of the Closing substantially to the following effect:

(A) Valley Water has duly and validly executed the Certificate Purchase Contract, and the Certificate Purchase Contract constitutes the legal, valid and binding agreement of Valley Water, subject to bankruptcy, insolvency, reorganization,

moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases;

(B) The statements contained in the Official Statement on the cover page and under the captions “INTRODUCTION,” “THE CERTIFICATES,” “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES,” “TAX MATTERS–TAX EXEMPT OBLIGATIONS,” “TAX MATTERS–TAXABLE OBLIGATIONS,” and in Appendices B, C, F and F thereto, insofar as such statements purport to summarize certain provisions of the 2020 Certificates, the Resolution, the Financing Documents, and the final approving opinions relating to the 2020 Certificates, are accurate in all material respects; and

(C) The 2020 Certificates are exempt from registration under the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended.

(vii) *Opinion of District Counsel.* An opinion of Valley Water’s District Counsel, dated the date of the Closing and addressed to the Representative and the Trustee, in form and substance acceptable to Special Counsel and Underwriters’ Counsel, substantially to the following effect:

(A) Valley Water is a special district, duly created and lawfully existing under the Constitution and laws of the State;

(B) The Resolution has been duly adopted at meetings of the board of directors of Valley Water, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Resolution is in full force and effect and has not been modified, amended or rescinded;

(C) The 2020 Certificates, the Financing Documents, and this Certificate Purchase Contract have been duly authorized, executed and delivered by Valley Water and, assuming the validity thereof against the other parties thereto, constitute the valid, legal and binding agreements of Valley Water enforceable against Valley Water in accordance with their respective terms and Valley Water has full right, power and authority to carry out and consummate all transactions contemplated by the Financing Documents as of the date of the Official Statement and as of the Closing Date;

(D) The adoption of the Resolution and the execution and delivery of the 2020 Certificates, the Financing Documents, and this Certificate Purchase Contract and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not, conflict with, or constitute, or with the giving of notice or the passage of time would constitute, on the part of Valley Water a breach of or default under, any material agreement or other instrument to which Valley Water is a party or by which it is bound (as determined by reference to a certificate of Valley Water identifying material agreements and instruments) or any existing law, administrative rule, regulation, order, decree, judgment, license or permit to which Valley Water is subject (excluding, however, any opinion as to compliance with any applicable federal securities laws); or by which Valley Water or any of its property is bound;

(E) The Official Statement has been prepared by, or on behalf of, Valley Water under the supervision of Valley Water’s Authorized Officer, and executed on its behalf by authorized officers of Valley Water;

(F) The information in the Official Statement relating to Valley Water, the Water Utility System and the operations thereof, and litigation are true and accurate to the best of such counsel's knowledge at and as of the date of the Official Statement and at and as of the date of Closing;

(G) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for Valley Water to adopt the Resolution or to enter into the Financing Documents, or this Certificate Purchase Contract or to perform its obligations thereunder;

(H) Except as described in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to such counsel's best knowledge after due investigation, threatened (A) in any way questioning the corporate existence of Valley Water or the titles of the officers of Valley Water to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the adoption of the Resolution or the execution or delivery of the 2020 Certificates, this Certificate Purchase Contract or the Financing Documents or in any way contesting or affecting the validity of the 2020 Certificates or this Certificate Purchase Contract, the Resolution, or the Financing Documents or the consummation of the transactions contemplated thereby, or contesting the powers of Valley Water to adopt the Resolution or to enter into this Certificate Purchase Contract or the Financing Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of Valley Water or to its ability to pay the principal of and interest on the 2020 Certificates when due; or (D) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) above; and

(I) Based on the information made available to him, and without having undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement (except as set forth in subparagraph (F) above), nothing has come to such counsel's attention which would lead him to believe that the Official Statement as of its date and as of the date of Closing (excluding therefrom the financial and statistical data and forecasts included therein, and the information relating to DTC or DTC's book-entry system, as to which no opinion is expressed) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(viii) *Opinion as Counsel to the Corporation.* An opinion of Valley Water's District Counsel as Counsel to the Corporation, dated the date of the Closing and addressed to the Underwriters and the Trustee, in form and substance acceptable to Special Counsel, substantially to the following effect:

(A) The Corporation is nonprofit public benefit corporation duly organized and validly existing under the laws of the State;

(B) Resolution No. PFFC-20-___ adopted by the board of directors of the Corporation on _____, 2020 (the “*Corporation Resolution*”) approving and authorizing the execution and delivery of the Trust Agreement, the Installment Purchase Agreement, and the Assignment Agreement (collectively, the “*Corporation Documents*”), was duly adopted at a meeting of the board of directors of the Corporation called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Corporation Resolution is in full force and effect and has not been modified, amended or rescinded;

(C) The execution and delivery of the Corporation Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the Corporation a breach of or default under, any agreement or other instrument to which the Corporation is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Corporation is subject;

(D) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the Corporation to enter into the Corporation Documents, or to perform its obligations thereunder;

(ix) *Opinion of Counsel to the Underwriters.* An opinion of Schiff Hardin LLP, (“*Underwriters’ Counsel*”), dated the date of Closing and addressed to the Underwriters to the effect that, based upon the information made available to them in the course of their participation in the preparation of the Official Statement and without passing on and without assuming any responsibility for the accuracy, completeness and fairness of the statements in the Official Statement, and having made no independent investigation or verification thereof, no information has come to the attention of the attorneys rendering legal services in connection with such representation that leads them to believe that, as of the date of Closing, the Official Statement (except for any financial or statistical data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, the appendices (excluding APPENDIX H–“FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE CERTIFICATES”) or any information concerning the DTC or the book-entry only system, included therein, as to which no opinion or view need be expressed) contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; that the 2020 Certificates are exempt from registration under the Securities Act of 1933, as amended; the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and the Continuing Disclosure Agreement provides a suitable basis for the Underwriters, in connection with the Offering (as defined in Rule 15c2-12) of the 2020 Certificates to make a reasonable determination as required by section (b)(5) of such Rule.

(x) *Opinion of Trustee Counsel.* The opinion of counsel to the Trustee, dated the Closing Date, addressed to Valley Water and the Underwriters, to the effect that:

(A) The Trustee is a national banking association duly organized and validly existing and in good standing under the laws of the United States and has full power and

authority to execute and deliver the Trust Agreement and the 2020 Certificates and to perform its respective obligations thereunder;

(B) The Trustee acknowledges and accepts its obligations under the Trust Agreement and that such acceptance is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound;

(C) The Continuing Disclosure Agreement has been duly authorized, executed and delivered by the Trustee and, assuming due authorization, execution and delivery by Valley Water, the Continuing Disclosure Agreement constitutes the valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(D) The Trustee has duly authenticated the 2020 Certificates upon the order of Valley Water;

(E) The Trustee's actions in performing its obligations under the Trust Agreement and in executing and delivering the Continuing Disclosure Agreement is in full compliance with, and does not conflict with any applicable law or governmental regulation and, to the best of such counsel's knowledge, after reasonable inquiry with respect thereto, does not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound; and

(F) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the issuance of the 2020 Certificates or the consummation by the Trustee of its obligations under the Trust Agreement or the Continuing Disclosure Agreement.

(xi) Resolution of the Trustee. Certified copies of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers and employees of the Trustee, which resolution authorizes the execution and delivery of the Financing Documents to which the Trustee is a party.

(xii) Certificate of Valley Water. A certificate of Valley Water, dated the date of the Closing, signed on behalf of Valley Water by the Chief Executive Officer, Assistant Chief Executive Officer, Operations, or other duly authorized officer of Valley Water to the effect that:

(A) The representations, warranties and covenants of Valley Water contained in this Certificate Purchase Contract are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and Valley Water has complied with all of the terms and conditions of this Certificate Purchase Contract required to be complied with by Valley Water at or prior to the date of the Closing;

(B) No event affecting Valley Water has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to

make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect; and

(C) No event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an event of default under the Resolution or the Financing Documents.

(xiii) Certificate of the Corporation. A certificate of the Corporation, dated the date of the Closing, signed on behalf of the Corporation by an authorized officer of the Corporation to the effect that:

(A) The Corporation is a nonprofit public benefit corporation, duly formed on December 21, 1987 and organized and existing under the laws of the State, with full right, power and authority to adopt the Corporation Resolution, to execute, deliver and perform its obligations under the Corporation Documents, and to carry out and consummate the transactions contemplated by the Corporation Resolution, the Corporation Documents and described in the Official Statement;

(B) By all necessary official action, the Corporation duly adopted the Corporation Resolution on _____, 2020 by a majority of the members of the Board of Directors of the Corporation at a meeting duly called, noticed and conducted, at which and has duly authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations contained in, the Official Statement and the Corporation Documents and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered, the Corporation Documents will constitute the legally valid and binding obligations of the Corporation enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting creditors' rights, to the application of equitable principles if equitable principles are sought, and to the exercise of judicial discretion in appropriate cases;

(C) The Corporation is not, in any manner that would materially adversely affect the transactions contemplated by the Corporation Resolution and the Corporation Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, a default or event of default under any such instrument which breach or default would materially adversely affect the security of the 2020 Certificates or the Corporation's performance under the Corporation Documents; and, as of such times, except as disclosed in the Official Statement, the authorization, execution and delivery of the Corporation Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor will any such authorization, execution, delivery or compliance

result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Corporation Documents.

(D) As of the time of acceptance hereof, except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or threatened (i) in any way questioning the corporate existence of the Corporation or the titles of the officers of the Corporation to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the delivery of the Certificates, the payment of the Installment Payments, in any way contesting or affecting the validity of the Certificates, the Corporation Resolution, or the Corporation Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest component of the Installment Payments from gross income for federal income tax purposes or contesting the power of the Corporation to pay the Installment Payments, adopt the Corporation Resolution, or enter into the Corporation Documents; (iii) which may result in any material adverse change relating to the Corporation or relating to the financial condition of the Corporation or the Corporation's ability to make the Installment Payments;

(E) The Corporation will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request to qualify the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate, and to determine the eligibility of the Certificates for investment under the laws of such states and other jurisdictions and will use efforts to continue such qualifications in effect so long as required for distribution for the Certificates; provided, however, that the Corporation shall not be required to execute a general or special consent to service of process or qualify to do business in connection with such qualification in any jurisdiction;

(F) No event affecting the Corporation has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an event of default under the Corporation Documents;

(G) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Corporation of its obligations in connection with, the Corporation Resolution or the Corporation Documents of the acquisition of the Project have been duly obtained or made, except as may be required under the Blue Sky laws of any state in connection with the offering of the Certificates; and

(H) Any certificate signed by any official of the Corporation and delivered to the Underwriters shall be deemed to be a representation and warranty of the Corporation to the Underwriters as to the statements made therein.

(xiv) *Certificate of the Trustee*. A certificate of the Trustee, dated the date of Closing, in form and substance acceptable to the Underwriter, to the following effect:

(A) The Trustee is duly organized and existing as a national banking association under the laws of the United States, having the full corporate power and authority to serve as Trustee under the Trust Agreement and to enter into and perform its duties under the Continuing Disclosure Agreement;

(B) The Trustee has duly executed and delivered the Trust Agreement and the Continuing Disclosure Agreement, and assuming due authorization and execution by the other parties thereto, the Trust Agreement and the Continuing Disclosure Agreement are each legal, valid and binding obligations of the Trustee, and enforceable against the Trustee in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(C) The Trustee has duly authenticated the 2020 Certificates and delivered the 2020 Certificates to or upon the order of the Representative; and

(D) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the authentication and delivery of the 2020 Certificates or the consummation by the Trustee of its obligations under the Resolution, the Trust Agreement, or the Continuing Disclosure Agreement.

(xv) *Tax Certificate*. A tax certificate executed by Valley Water with respect to the 2020C Certificates.

(xvi) *CDIAC Notice and Report*. A copy of the Notice of Proposed Sale and Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission ("CDIAC") pursuant to Section 8855(g) of the California Government Code.

(xvii) *Ratings*. Evidence that the 2020 Certificates have been rated "___" by Fitch Ratings, Inc. and "_____" by Moody's Investors Service, Inc.

(xviii) *Additional Documents*. Such additional legal opinions, certificates, instruments and documents as Special Counsel, the Representative, or Underwriters' Counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the representations and warranties of Valley Water contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by Valley Water, the Trustee on or prior to the Closing Date of all material agreements then to be performed and all conditions then to be satisfied by any of them in connection with the transactions contemplated hereby and by the Resolution and the Financing Documents.

If Valley Water shall be unable to satisfy the conditions contained in this Certificate Purchase Contract, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Certificate Purchase Contract, this Certificate Purchase Contract shall terminate and none of the Underwriters or Valley Water shall be under further obligation hereunder, except as further set forth in Section 9 hereof.

Section 8. Establishment of Issue Price.

(a) The Representative, on behalf of the Underwriters, agrees to assist Valley Water in establishing the issue price of the 2020C Certificates and shall execute and deliver to Valley Water at Closing an “issue price” or similar certificate, [together with the supporting pricing wires or equivalent communications,] substantially in the form attached hereto as [Schedule B to] Appendix B, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Representative, Valley Water and Special Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the 2020C Certificates. All actions to be taken by Valley Water under this Section 8 to establish the issue price of the 2020C Certificates may be taken on behalf of Valley Water by Public Resources Advisory Group, Inc., the municipal advisor to Valley Water (the “*Municipal Advisor*”), and any notice or report to be provided to Valley Water may be provided to the Municipal Advisor.

(b) [Except as otherwise set forth in Appendix B hereto,] Valley Water will treat the first price at which 10% of each maturity of the 2020C Certificates (the “10% test”) is sold to the public on the date of this Certificate Purchase Contract as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Certificate Purchase Contract, the Underwriters shall report to Valley Water the price or prices at which the Underwriters have sold to the public each maturity of 2020C Certificates. [If at that time the 10% test has not been satisfied as to any maturity of the 2020C Certificates, the Representative agrees to promptly report to Valley Water the prices at which 2020C Certificates of that maturity have been sold by the Underwriters to the public. That reporting obligation shall continue, whether or not the Closing has occurred, until the 10% test has been satisfied as to the 2020C Certificates of that maturity or until all 2020C Certificates of that maturity have been sold to the public.]

(c) The Representative confirms that the Underwriters have offered the 2020C Certificates to the public on or before the date of this Certificate Purchase Contract at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Appendix A attached hereto, except as otherwise set forth therein. [Appendix B also sets forth, as of the date of this Certificate Purchase Contract, the maturities, if any, of the 2020C Certificates for which the 10% test has not been satisfied and for which Valley Water and the Underwriters agree that the restrictions set forth in the next sentence shall apply, which will allow Valley Water to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the 2020C Certificates, the Underwriters will neither offer nor sell unsold 2020C Certificates of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (i) the close of the fifth (5th) business day after the sale date; or
- (ii) the date on which the Underwriters have sold at least 10% of that maturity of the 2020C Certificates to the public at a price that is no higher than the initial offering price to the public.

The Representative shall promptly advise Valley Water when the Underwriters have sold 10% of that maturity of the 2020C Certificates to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(d) The Representative confirms that any agreement among Underwriters, any selling group agreement and each third party distribution agreement (to which Representative is a party) relating to the initial sale of the 2020C Certificates to the public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group and each broker-dealer that is a party to such third-party distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold 2020C Certificates of each maturity allotted to it until it is notified by the Underwriters that either the 10% test has been satisfied as to the 2020C Certificates of that maturity or all 2020C Certificates of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Underwriters. Valley Water acknowledges that, in making the representation set forth in this subsection, the Underwriters will rely on (i) the agreement of each Underwriter to comply with the requirements for establishing issue price of the 2020C Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020C Certificates, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the 2020C Certificates to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the 2020C Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020C Certificates, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an Underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the 2020C Certificates to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the 2020C Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020C Certificates, as set forth in the third-party distribution agreement and the related pricing wires. Valley Water further acknowledges that each Underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing the issue price of the 2020C Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020C Certificates, and that no Underwriter shall be liable for the failure of any other Underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement, to comply with its corresponding agreement to comply with the requirements for establishing issue price of the 2020C Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020C Certificates.

(e) The Underwriters acknowledge that sales of any 2020C Certificates to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Section. Further, for purposes of this Section:

(i) “public” means any person other than an underwriter or a related party;

(ii) “underwriter” means (A) any person that agrees pursuant to a written contract with Valley Water (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the 2020C Certificates to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the 2020C Certificates to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the 2020C Certificates to the public);

(iii) a purchaser of any of the 2020C Certificates is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50%

common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(iv) “sale date” means _____, 2020.

Section 9. Expenses.

(a) The Underwriters shall be under no obligation to pay and Valley Water shall pay or cause to be paid the expenses incident to the performance of the obligations of Valley Water or the Corporation hereunder including but not limited to (i) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Resolution and the Financing Documents, and the Corporation and the cost of preparing, printing, issuing and delivering the definitive 2020 Certificates, (ii) the fees and disbursements of the Municipal Advisor, any counsel, accountants, or other experts or consultants retained by Valley Water or the Corporation, (iii) the fees and disbursements of Special Counsel, (iv) the fees of the Trustee; (v) the cost of, printing and distributing the Preliminary Official Statement and any supplements and amendments thereto and the cost of printing and distributing the Official Statement and any supplements and amendments thereto, including the requisite number of copies thereof for distribution by the Underwriters, (vi) charges of rating agencies for the rating of the 2020 Certificates; and (vii) expenses (included in the expense component of the Underwriters’ spread) incurred on behalf of Valley Water’s officers or employees which are incidental to implementing this Certificate Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees.

(b) The Underwriters shall pay all expenses incurred by them in connection with the public offering and distribution of the 2020 Certificates including, but not limited to: (i) all advertising expenses in connection with the offering of the 2020 Certificates; (ii) the fees and expenses of Underwriters’ Counsel, (iii) the costs of preparing and printing the Blue Sky memorandum, and (iv) all out-of-pocket disbursements and expenses incurred by the Underwriters in connection with the offering and distribution of the 2020 Certificates (including other expenses, CUSIP Service Bureau fees, fees of the CDIAC and any other fees and expenses), except as provided in Section 9(a) or as otherwise agreed to by the Representative and Valley Water.

Section 10. Notices. Any notice or other communication to be given to Valley Water under this Certificate Purchase Contract may be given by delivering the same in writing to such entity at the address set forth above. Any notice or other communication to be given to the Underwriters under this Certificate Purchase Contract may be given by delivering the same in writing to the Representative, Siebert Williams Shank & Co., LLC, 660 South Figueroa Street, Suite 1720, Los Angeles, California 90017, Attention: Grace Yuen, Senior Vice President.

Section 11. Entire Agreement. This Certificate Purchase Contract, when accepted by Valley Water, shall constitute the entire agreement among Valley Water and the Underwriters and is made solely for the benefit of Valley Water and the Underwriters (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All the representations, warranties and agreements of Valley Water contained in this Certificate Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriters, until the earlier of (a) delivery of and payment for the 2020 Certificates hereunder, and (b) any termination of this Certificate Purchase Contract.

Section 12. Counterparts. This Certificate Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. The counterparts of this Certificate Purchase Contract may be executed and delivered by facsimile or other electronic signature (including PDF) by the parties and the receiving party may rely on the receipt of such document so executed and delivered electronically or by facsimile as if the original had been received.

Section 13. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 14. Governing Law; Venue. This Certificate Purchase Contract shall be governed and interpreted exclusively by and construed in accordance with the laws of the State applicable to contracts made and to be performed in the State. Any and all disputes or legal actions or proceedings arising out of this Certificate Purchase Contract or any document related hereto shall be filed and maintained in a court of competent jurisdiction in the County of Santa Clara; provided that Valley Water may waive the requirement of venue. By execution of and delivery of this Certificate Purchase Contract, the parties hereto accept and consent to the aforesaid jurisdiction.

Section 15. Prior Agreements. The parties agree that the terms and conditions of this Certificate Purchase Contract supersede those of all previous agreements between the parties, and that this Certificate Purchase Contract contains the entire agreement between the parties hereto. In the event of a dispute between the parties under this Certificate Purchase Contract, the losing party in such dispute shall pay all reasonable costs and expenses incurred by the prevailing party in connection therewith, including but not limited to attorneys' fees.

Section 16. Headings. The headings of the Sections of this Certificate Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

Section 17. No Assignment. The rights and obligations created by this Certificate Purchase Contract shall not be subject to assignment by the Representative or Valley Water without the prior written consent of the other party hereto.

SIEBERT WILLIAMS SHANK & CO., LLC
ALAMO CAPITAL
PIPER SANDLER & CO.

By: SIEBERT WILLIAMS SHANK & CO., LLC,
as Representative of the Underwriters

By: _____
Authorized Representative

Agreed to and Accepted by:

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Representative

Time: _____ [A.M.] / [P.M.]

Date: _____, 2020

SCHEDULE I

**SERIES 2020C CERTIFICATES
MATURITIES, AMOUNTS, RATES, YIELDS AND PRICES**

Payment Date (June 1)	Principal Amount	Interest Rate	Yield	Price	10% Test Satisfied [†]	10% Test Not Satisfied	Subject to Hold- The- Offering- Price Rule
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SERIES 2020C CERTIFICATES PREPAYMENT PROVISIONS

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 by lot 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.

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 Certificate Purchase Contract, 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.

**TAXABLE 2020D CERTIFICATES
MATURITIES, AMOUNTS, RATES, YIELDS AND PRICES**

<u>Payment Date (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>10% Test Satisfied[†]</u>	<u>10% Test Not Satisfied</u>	<u>Subject to Hold- The- Offering- Price Rule</u>
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TAXABLE 2020D CERTIFICATES PREPAYMENT PROVISIONS

Optional Prepayment

Taxable 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 hereinafter provided, as a whole or in part by lot 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 of Taxable 2020D Certificates With Make-Whole Payment

The Taxable 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 Taxable 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 Taxable 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 Series Taxable 2020D Certificates are to be prepaid, discounted to the date on which the Taxable 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 Taxable 2020D Certificates to be prepaid on the Prepayment Date.

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

Extraordinary Prepayment From Insurance or Condemnation Proceeds

The Taxable 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 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 Taxable 2020D Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

APPENDIX A

SANTA CLARA VALLEY WATER DISTRICT

\$ __, __, 000
Water System Refunding Revenue
Bonds, Series 2020A

\$ __, __, 000
Water System Refunding Revenue Bonds,
Series 2020B

\$ __, __, 000
Revenue Certificates of Participation
(Water Utility System Improvement Projects),
Series 2020C

\$ __, __, 000
Revenue Certificates of Participation
(Water Utility System Improvement Projects),
Taxable Series 2020D

FORM OF THE CERTIFICATE REGARDING THE PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby certifies to Siebert Williams Shank & Co., LLC on its own behalf and as representative (the "Representative") of Alamo Capital and Piper Sandler (collectively with the Representative, the "Underwriters") that I am an authorized representative of the Santa Clara Valley Water District ("Valley Water") and as such, I am authorized to execute and deliver this certificate and further hereby certify and reconfirm on behalf of Valley Water to the Underwriters as follows:

(1) This certificate is delivered to enable the Underwriters to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the above-captioned securities (collectively, the "Bonds").

(2) There has been delivered to the Underwriters a Preliminary Official Statement dated August __, 2020 (collectively, with the cover page and all appendices thereto, in electronic form, the "Preliminary Official Statement"), which Valley Water deems final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings, and other terms of the 2020 Securities depending on such matters permitted to be omitted therefrom by Rule 15c2-12 (collectively, the Permitted Omissions").

(3) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule.

(4) Valley Water hereby approves the use and distribution by the Underwriters of the Preliminary Official Statement.

Dated: August __, 2020

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Representative

APPENDIX B

ISSUE PRICE CERTIFICATE

\$ __, __, 000

Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2020C

Siebert Williams Shank & Co., LLC, on its own behalf and as the representative (the “Representative”) of the underwriters named in the Certificate Purchase Contract dated [Pricing Date], 2020 relating to the above-referenced securities (collectively with the Representative, the “Underwriters”), based on information available to it, hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “2020C Certificates”).

1. ***Sale of the General Rule Maturities Certificates.*** As of the date of this certificate, for each Maturity of the General Rule Maturities Certificates, the first price at which at least 10% of such Maturity was sold to the Public is the price listed on the inside cover of the Official Statement published in connection with the issuance of the 2020C Certificates.

2. ***Initial Offering Price of the Hold-the-Offering-Price Maturities.***

(a) The Underwriters offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. If there is a Hold-the-Offering Price Maturity, a copy of the pricing wire or equivalent communication for the 2020C Certificates is attached to this certificate as Schedule B.

(b) As set forth in the Bond Purchase Contract, the Representative has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, the syndicate would neither offer nor sell any of the unsold Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any third-party distribution agreement shall contain the agreement of each broker-dealer who is a party to the third-party distribution agreement, to comply with the hold-the-offering-price rule. No information has come to the attention of the Representative that any underwriter has offered or sold any unsold 2020C Certificates of any Maturity of the 2020C Certificates at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.

3. ***Defined Terms.***

“*General Rule Maturities*” means those Maturities of the 2020C Certificates that are not “Hold-the-Offering-Price Maturities.”

“*Hold-the-Offering-Price Maturities*” means those Maturities of the 2020C Certificates listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

“*Holding Period*” means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the Underwriter has sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at one or more prices, each of which is no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

“*Issuer*” means Santa Clara Valley Water District.

“*Maturity*” means 2020C Certificates with the same credit and payment terms. 2020C Certificates with different maturity dates, or 2020C Certificates with the same maturity date but different stated interest rates, are treated as separate Maturities.

“*Public*” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.

“*Sale Date*” means the first day on which there is a binding contract in writing for the sale of a Maturity of the 2020C Certificates. The Sale Date of each maturity of the 2020C Certificates is _____, 2020.

“*Underwriter*” means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the 2020C Certificates to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this section to participate in the initial sale of the 2020C Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the 2020C Certificates to the Public).

Notwithstanding anything set forth herein, neither Representative is engaged in the practice of law. The representations set forth in this certificate are limited to factual matters only. Accordingly, neither the Representative makes any representation as to the legal sufficiency of the factual matters set forth herein. Nothing in this certificate represents the interpretation of either Representative of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the 2020C Certificates, and by Stradling Yocca Carlson & Rauth, a Professional Corporation in connection with rendering its opinion that the interest on the 2020C Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038, and other federal income tax advice that it may give to the Issuer from time to time relating to the 2020C Certificates. Except as expressly set forth above, the certifications set forth herein may not be relied upon or used by any third party or for any other purpose.

Dated: [Closing Date]

By: SIEBERT WILLIAMS SHANK & CO., LLC,
as Representative, on behalf of the
Underwriters, including itself

By: _____
Authorized Representative

SCHEDULE A to APPENDIX B

INITIAL OFFERING PRICES OF THE 2020C CERTIFICATES

(Attached)

SCHEDULE B to APPENDIX B
PRICING WIRE OR EQUIVALENT COMMUNICATION

(Attached)

SANTA CLARA VALLEY WATER DISTRICT

\$ __, __, 000
Water System Refunding Revenue Bonds,
Series 2020A

\$ __, __, 000
Water System Refunding Revenue Bonds,
Series 2020B

BOND PURCHASE CONTRACT

[Pricing Date], 2020

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118-3614

Ladies and Gentlemen:

The undersigned, Siebert Williams Shank & Co., LLC, on its own behalf and as representative (the “*Representative*”) of the underwriters identified herein (collectively with the Representative, the “*Underwriters*”), offers to enter into this Bond Purchase Contract (this “*Bond Purchase Contract*”) with the Santa Clara Valley Water District (“*Valley Water*”), which will be binding upon Valley Water and the Underwriters upon the acceptance hereof by Valley Water by execution and delivery of the executed Bond Purchase Contract to the Representative on or before 8:00 p.m., California time, on the date hereof. Capitalized terms used in this Bond Purchase Contract and not otherwise defined shall have the respective meanings given to such terms in the Indenture (as defined herein).

Any authority, discretion, or other power conferred upon the Underwriters by this Bond Purchase Contract shall be exercised by the Representative alone, except as otherwise expressly provided.

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriters hereby agree to purchase from Valley Water for reoffering to the public, and Valley Water hereby agrees to sell to the Underwriters for such purpose, all (but not less than all) of Valley Water’s: (i) \$ __, __, 000 principal amount of Water System Refunding Revenue Bonds, Series 2020A (the “*2020A Bonds*”) and \$ __, __, 000 principal amount of Water System Refunding Revenue Bonds, Taxable Series 2020B (the “*Taxable 2020B Bonds*” and together with the 2020A Bonds, the “*2020 Bonds*”).

The 2020 Bonds shall be dated the date of delivery thereof and shall be payable on each June 1 in the years and in the amounts, bear interest at the rates, and be subject to redemption as set forth in Schedule I hereto. Interest on the 2020 Bonds shall be payable on June 1 and December 1 of each year, commencing _____ 1, 20__.

The purchase price for the 2020A Bonds shall be \$ _____, which is equal to the principal amount of the 2020A Bonds, [plus / less] a net original issue [premium / discount] of \$ _____, and less an underwriters’ discount of \$ _____.

The purchase price for the Taxable 2020B Bonds shall be \$ _____, which is equal to the principal amount of the Taxable 2020B Bonds, [plus / less] a net original issue [premium / discount] of \$ _____, and less an underwriters' discount of \$ _____.

The obligation of the Underwriters to purchase, accept delivery of, and pay for the 2020 Bonds is conditioned on the issuance and delivery by Valley Water of all of the 2020 Bonds to the Underwriters at Closing (as hereinafter defined).

Section 2. Description of the 2020 Bonds. The 2020B Bonds are being issued and delivered pursuant to Resolution No. 16-10 (Water Utility Parity System Master Resolution) adopted by the Board of Directors on February 23, 2016 (the "*Parity Master Resolution*"), Resolution No. 20-__ adopted by the Board of Directors on _____, 2020 (the "*2020 Resolution*" and together with the Parity Master Resolution, the "*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 (the "*Trustee*"). The 2020 Bonds shall be as described in the Indenture. The 2020 Bonds will be as summarized in the Official Statement relating to the 2020 Bonds (which, together with all exhibits and appendices included therein or attached thereto and such amendments or supplements thereto which shall be approved by the Underwriter, is hereinafter called the "*Official Statement*").

The proceeds of the 2020 Bonds will be used to: (i) pay the principal portion of the currently outstanding Santa Clara Valley Water District 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

The 2020 Bonds are a special obligation of Valley Water secured by a pledge of Water Utility System Revenues and payable solely from and Net Water Utility System Revenues of the Water Utility System (as such terms are defined in the Parity Master Resolution) and amounts on deposit in certain funds and accounts established under the Indenture. The obligation of Valley Water to pay debt service on the 2020 Bonds from Net Water Utility System Revenues is subordinate to the obligation of Valley Water to pay debt service on \$17,340,000 aggregate principal amount of Senior Obligations (as defined in the Senior Master Resolution) and on a parity with \$440,700,000 aggregate principal amount of Parity Obligations (as defined in the Parity Master Resolution).

A portion of the proceeds from the sale of the 2020 Bonds will be deposited with U.S. Bank National Association as the Issuing and Paying Agent under the Restated Issuing and Paying Agent Agreement, dated as of January 1, 2017 pursuant to which the Commercial Paper Certificates were issued to pay, together with certain amounts transferred by Valley Water, the Commercial Paper Certificates to be refunded.

In order to enable the Underwriters to comply with Rule 15c2-12 under the Securities Exchange Act of 1934 ("*Rule 15c2-12*"), Valley Water and U.S. Bank National Association, as dissemination agent (the "*Dissemination Agent*"), will execute and deliver a Continuing Disclosure Agreement (the "*Continuing Disclosure Agreement*") concurrently with delivery of the 2020 Bonds.

Section 3. Public Offering. The Underwriters agree to make a bona fide public offering of all the 2020 Bonds initially at the public offering prices (or yields) set forth on Schedule I attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Representative reserves the right to change the public offering prices (or yields) as the Representative deems necessary in connection with the marketing of the 2020 Bonds, provided that the Representative shall not change the interest rates set forth on Schedule I. The 2020 Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices.

Section 4. Delivery of Official Statement. Valley Water has delivered or caused to be delivered to the Underwriters prior to the execution of this Bond Purchase Contract, copies of the Preliminary Official Statement in electronic form relating to the 2020 Bonds dated August __, 2020, including the cover pages, the appendices thereto and all information incorporated therein by reference in electronic form (the “*Preliminary Official Statement*”). Such Preliminary Official Statement was deemed final by Valley Water for purposes of Rule 15c2-12 and was approved for use and distribution by the Underwriters by the 2020 Resolution. Valley Water has executed and delivered to the Underwriters a certification to such effect in the form attached hereto as Appendix A.

Within seven (7) business days from the date hereof, or such earlier date identified by the Representative to be necessary to allow the Underwriters to meet their obligations under Rule 15c2-12 and Rule G-32 of the Municipal Securities Rulemaking Board (the “*MSRB*”), Valley Water shall deliver to the Underwriters a final Official Statement in electronic form, executed on behalf of Valley Water by its authorized representative and dated the date hereof, with such other amendments or supplements as shall have been approved by Valley Water and the Representative (the “*Official Statement*”) and which the Underwriters may use to comply with Rule 15c2-12 and to meet potential customer requests for copies of the Official Statement.

The Representative agrees to file the Official Statement in compliance with MSRB Rule G-32. Each Underwriter agrees that it will not confirm the sale of any 2020 Bonds unless the confirmation of sale is accompanied or preceded by the delivery of a copy of the Official Statement.

Section 5. The Closing. At 8:00 a.m., California time, on [September 16], 2020, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by Valley Water and the Representative (the “*Closing Date*”), the Representative will accept delivery of the 2020 Bonds through the facilities of The Depository Trust Company, New York, New York (“*DTC*”), by initial deposit with the Trustee (in care of DTC) through DTC’s Fast Automated Securities Transfer System procedures, and the other documents described herein, duly executed, at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation (“*Bond Counsel*”), in Newport Beach, California or another place mutually agreed upon by Valley Water and the Representative. The Representative will accept such delivery and pay the purchase price of the 2020 Bonds as set forth in Section 1 in immediately available funds to the order of the Trustee on behalf of Valley Water. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the “*Closing*.” The 2020 Bonds will be delivered in such denominations and deposited in the account or accounts specified with DTC by the Representative in accordance with the rules and operational arrangements of DTC. The 2020 Bonds will be made available to the Underwriters for inspection and packaging not less than 48 hours prior to the Closing.

It is anticipated that CUSIP identification numbers will be inserted on the 2020 Bonds, but neither the failure to provide such numbers nor any error with respect thereto shall constitute a cause for failure or refusal by the Representative to accept delivery of the 2020 Bonds in accordance with the terms of this Bond Purchase Contract.

Section 6. Representations, Warranties and Covenants of Valley Water. Valley Water represents, warrants and covenants to the Underwriters that:

(a) Due Organization, Existence and District. Valley Water is a special district authorized to supply water and provide flood protection services, duly organized and existing under the Constitution and laws of the State of California (the “*State*”) with full right, power and authority to adopt the Resolution and to execute, deliver and perform its obligations under the Indenture, the 2020 Bonds, this Bond Purchase Contract, and the Continuing Disclosure Agreement (collectively, the “*Financing*”

Documents”), and to carry out and consummate the transactions contemplated by the Financing Documents and as described in the Official Statement.

(b) Due Authorization and Approval. The Resolution has been duly and validly adopted by Valley Water, and Valley Water, by all necessary official action, has duly authorized the execution and delivery of the Financing Documents and the Official Statement, and the performance by Valley Water of its obligations contained or described in the Financing Documents and the Official Statement, and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The Resolution constitutes, and when executed and delivered, each of the Financing Documents will constitute, the legally valid and binding obligation of Valley Water enforceable in accordance with its respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws or equitable principles relating to or affecting creditors’ rights generally or by the exercise of judicial discretion in appropriate cases or by limitations on legal remedies against public agencies in the State.

(c) Preliminary Official Statement Accurate and Complete. As of the date thereof and as of the date hereof, the Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading (except no representation is made with respect to information relating to DTC or DTC’s book-entry system).

(d) Official Statement Accurate and Complete. As of the date thereof and at all times subsequent thereto, to and including the date that is 25 days following the “*End of the Underwriting Period*” for the 2020 Bonds, the Official Statement did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except no representation is made with respect to information relating to DTC or DTC’s book-entry system). The Representative acknowledges that the “*End of the Underwriting Period*” will be the date of Closing.

(e) Valley Water Agreement to Amend or Supplement Official Statement. If, between the date of the Official Statement and the date that is 25 days after the End of the Underwriting Period for the 2020 Bonds, an event occurs that would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, Valley Water will notify the Representative and, if, in the reasonable opinion of the Representative or its counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, Valley Water will cooperate in the preparation of an amendment or supplement to the Official Statement in a form and manner approved by the Representative and shall pay all expenses thereby incurred. For the purposes of this subsection, between the date hereof and the date that is 25 days after the End of the Underwriting Period for the 2020 Bonds, Valley Water will furnish such information with respect to itself as the Representative may from time to time reasonably request.

(f) Amended Official Statement. If the information contained in the Official Statement is amended or supplemented pursuant to Section 6(e), at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subsection) at all times subsequent thereto up to and including the date that is 25 days after the End of the Underwriting Period for the 2020 Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact required to be stated therein or necessary to make such information therein, in the light of the

circumstances under which it was presented, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system).

(g) No Material Change in Finances. Except as otherwise described in the Preliminary Official Statement and the Official Statement, there shall not have been any material adverse changes in the financial condition of Valley Water since June 30, 2019.

(h) No Breach or Default. As of the time of acceptance hereof, (A) Valley Water is not in default, nor has it been in default, as to principal or interest with respect to an obligation issued by or on behalf of Valley Water, and (B) Valley Water is not, in any manner which would materially adversely affect the transactions contemplated by this Bond Purchase Contract, the Resolution, the other Financing Documents, and the Official Statement, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State of California or the United States of America, or any applicable judgment or decree or any trust agreement, indenture, installment purchase agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which Valley Water is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would materially adversely affect the transactions contemplated by this Bond Purchase Contract, the Resolution, the other Financing Documents and the Official Statement, a default or event of default under any such instrument; and, as of such time, the adoption by Valley Water of the Resolution and the authorization, execution and delivery of this Bond Purchase Contract and the other Financing Documents, and compliance by Valley Water with the provisions of each of such agreements or instruments do not in any manner which would materially adversely affect the transactions contemplated by this Bond Purchase Contract, the Resolution, the other Financing Documents and the Official Statement, conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State of California or the United States of America, or any applicable judgment, decree, license, permit, trust agreement, indenture, installment purchase agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which Valley Water (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Resolution and the Financing Documents.

(i) No Litigation. As of the time of acceptance hereof, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of Valley Water after due investigation, threatened (A) in any way questioning the corporate existence of Valley Water or the titles of the officers of Valley Water to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the adoption of the Resolution or the execution or delivery of the 2020 Bonds, this Bond Purchase Contract, or the other Financing Documents, or in any way contesting or affecting the validity of the 2020 Bonds or this Bond Purchase Contract, the Resolution, the other Financing Documents or the consummation of the transactions contemplated thereby, or contesting the powers of Valley Water to adopt the Resolution or to enter into this Bond Purchase Contract or the other Financing Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of Valley Water or to its ability to pay the principal of and interest with respect to the 2020 Bonds when due; or (D) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under

which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) of this sentence.

(j) Prior Liens on Net Water Utility System Revenues. The 2020 Bonds, when issued, authenticated and delivered in accordance with the Resolution and the Indenture will be valid and legally enforceable obligations of Valley Water in accordance with their terms and the terms of the Resolution; and the Resolution will provide, for the benefit of the holders from time to time of the 2020 Bonds and any Bonds and Contracts (as such terms are defined in the Resolution) heretofore or hereafter issued under the Resolution, a legally valid and binding interest in and to the funds pledged under the Resolution as described in the Official Statement; except as described in the Official Statement, upon the issuance of the 2020 Bonds, Valley Water does not and will not have outstanding any obligations which obligations are secured by a lien on the Net Water Utility System Revenues superior to or on a parity with the 2020 Bonds.

(k) Further Cooperation; Blue Sky Laws. Valley Water will furnish such information, execute such instruments and take such other action in cooperation with the Representative as the Representative may reasonably request in order (A) to qualify the 2020 Bonds for offer and sale under the Blue Sky or other bond laws and regulations of such states and other jurisdictions of the United States of America as the Representative may designate and (B) to determine the eligibility of the 2020 Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the 2020 Bonds; provided, however, that Valley Water shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(l) Consents and Approvals. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by Valley Water of its obligations in connection with, this Bond Purchase Contract, the Resolution, and the Financing Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the 2020 Bonds.

(m) No Other Obligations. Except as disclosed in the Official Statement, between the date of this Bond Purchase Contract and the date of Closing, Valley Water will not, without the prior written consent of the Representative, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, directly or contingently payable from the Net Water Utility System Revenues.

(n) Certificates. Any certificate signed by any official of Valley Water and delivered to the Representative shall be deemed to be a representation and warranty by Valley Water to the Underwriters as to the statements made therein.

(o) Continuing Disclosure Undertakings. Except as otherwise disclosed in the Official Statement, Valley Water has not failed during the previous five years to comply in all material respects with any previous continuing disclosure undertakings that it has entered into pursuant to Rule 15c2-12.

(p) Relationship between the Underwriters and Valley Water. Valley Water acknowledges and agrees that: (i) no Underwriter is acting as a fiduciary or as a “municipal advisor” within the meaning of Section 15B of the Securities Exchange Act of 1934; (ii) the purchase and sale of the 2020 Bonds pursuant to this Bond Purchase Contract is an arm’s length commercial transaction among Valley Water

and the Underwriters, (iii) in connection with such transaction, each Underwriter is acting solely as a principal and not as an agent or fiduciary of Valley Water; (iv) with respect to the offering of the 2020 Bonds or the process leading thereto (whether or not any Underwriter or any affiliate of such Underwriter, has advised or is currently advising Valley Water on other matters), such Underwriter has not assumed fiduciary responsibilities in favor of Valley Water or any other obligation to Valley Water except as expressly set forth in this Bond Purchase Contract; (v) Valley Water has consulted its own legal and financial advisors to the extent it deemed appropriate in connection with the offering of the 2020 Bonds; and (vi) each Underwriter has financial interests that differ from those of Valley Water.

Section 7. Closing Conditions. The Representative has entered into this Bond Purchase Contract in reliance upon the representations and warranties of Valley Water contained herein, and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by Valley Water of its obligations hereunder, both as of the date hereof and as of the Closing. The obligations of the Underwriters under this Bond Purchase Contract to purchase, accept delivery of and to pay for the 2020 Bonds shall also be subject to the following additional conditions:

(a) Official Statement. The Underwriters have received copies of the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Representative) in such reasonable quantity as the Representative shall have requested.

(b) Bring-Down Representation. The representations, warranties and covenants of Valley Water contained herein shall be true, complete and correct in all material respects as of the date hereof and at the time of the Closing, as if made on the date of the Closing.

(c) Executed Agreements and Performance Thereunder. At the time of the Closing (i) the Resolution will have been duly adopted and the Official Statement will have been duly authorized, executed and delivered by Valley Water; this Bond Purchase Contract, the Resolution, and the Financing Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Representative, (ii) there shall be in full force and effect such resolutions as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated by the Resolution, the Financing Documents, and the Official Statement, (iii) Valley Water shall perform or have performed its obligations required or specified in this Bond Purchase Contract, the Resolution, and the Financing Documents to be performed at or prior to Closing, and (iv) the Official Statement shall not have been supplemented or amended, except pursuant to Section 7(e) hereof or as otherwise may have been agreed to in writing by the Representative.

(d) No Default. At the time of the Closing, no default, or any event that with the passage of time would be reasonably likely to result in default, shall have occurred or be existing under the Resolution, or any other agreement or document pursuant to which any of Valley Water's financial obligations was issued, and Valley Water shall not be in default in the payment of principal or interest on any of its financial obligations which default would materially adversely impact the ability of Valley Water to pay the principal of and interest on the 2020 Bonds.

(e) Termination Events. The Representative shall have the right to terminate this Bond Purchase Contract, without liability therefor, by notification to Valley Water upon the occurrence of any of the following events if at any time at or prior to the Closing and, if in the reasonable opinion of the Representative such event has a material and adverse effect on the market price of the 2020 Bonds:

(i) any event occurs on or after the date hereof which either (A) in the reasonable judgement of the Representative, materially adversely affects the market price or marketability or ability to enforce contracts for the sale of any portion of the 2020 Bonds; or (B) makes untrue or incorrect in any material respect, as of the time of such event, any statement or information contained in the Official Statement or which is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained in the Official Statement not misleading in any material respect, notwithstanding the approval by the Representative of any amendment or supplement prior to its distribution.

(ii) an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Bond Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of Valley Water, or the interest on bonds or notes or obligations of the general character of the 2020A Bonds; or

(iii) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a change to the net capital requirements of, underwriters shall have been established by the New York Stock Exchange, the SEC, or any other federal or State agency or the Congress of the United States, or by Executive Order; or

(iv) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered; or

(v) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, delivery, offering or sale of obligations of the general character of the 2020 Bonds, or the delivery, offering or sale of the 2020 Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the 2020 Bonds, or the 2020 Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(vi) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by the New York Stock Exchange or by any other national securities exchange or by any federal or State governmental authority; or

(vii) a general banking moratorium shall have been established by federal or State authorities; or

(viii) any outbreak or escalation of hostilities involving the United States, the declaration by the United States of a national emergency or war, the occurrence of any other local, national, or international calamity or crisis, or any escalation thereof; or

(ix) there shall have occurred or any notice shall have been given of any intended downgrading, suspension, withdrawal or negative change in credit watch status by either of the rating services assigning ratings to the 2020 Bonds; or

(x) the commencement of any action, suit or proceeding described in Section 6(i) hereof; or

(xi) there shall be in force a general suspension of trading on the New York Stock Exchange.

(f) Closing Documents. At or prior to the Closing, the Representative shall receive with respect to the 2020 Bonds (unless the context otherwise indicates) the following documents:

(i) Resolution and Financing Documents. Certified copies of the Resolution and executed copies of the Financing Documents.

(ii) Preliminary and Final Official Statements. The Preliminary Official Statement and the Official Statement, with the Official Statement executed by duly authorized officers of Valley Water.

(iii) Continuing Disclosure Agreement. The Continuing Disclosure Agreement executed on behalf of Valley Water and the Dissemination Agent by their respective duly authorized officers.

(iv) Opinion of Bond Counsel. An approving opinion of Bond Counsel dated the date of the Closing and substantially in the form appended to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Representative and the Trustee, to the effect that the foregoing opinion addressed to Valley Water may be relied upon by the Underwriters and the Trustee to the same extent as if such opinion were addressed to them.

(v) Supplemental Opinion. A supplemental opinion or opinions of Bond Counsel addressed to the Representative, in form and substance acceptable to the Representative, and dated the date of the Closing substantially to the following effect:

(A) Valley Water has duly and validly executed the Bond Purchase Contract, and the Bond Purchase Contract constitutes the legal, valid and binding agreement of Valley Water, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases;

(B) The statements contained in the Official Statement on the cover page and under the captions “INTRODUCTION,” “THE 2020 BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES,” “TAX MATTERS–TAX EXEMPT OBLIGATIONS,” “TAX MATTERS–TAXABLE OBLIGATIONS and in Appendices B, C, E, and I thereto, insofar as such statements purport to summarize certain provisions of the 2020 Bonds, the Resolution, the Financing Documents, and the final approving opinion relating to the 2020 Bonds, are accurate in all material respects; and

(C) The 2020 Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

(vi) *Defeasance Opinion of Bond Counsel.* An opinion of Bond Counsel, dated the Closing Date, and addressed to the Trustee and the Underwriters, in form and substance satisfactory to the Trustee and the Representative, to the effect that the Commercial Paper Certificates have been [paid] / [defeased] and such certificates are no longer deemed outstanding pursuant to instruments pursuant to which the Commercial Paper Certificates were executed and delivered.

(vii) *Opinion of District Counsel.* An opinion of District Counsel, dated the date of the Closing and addressed to the Representative and the Trustee, in form and substance acceptable to Bond Counsel and Underwriters’ Counsel, substantially to the following effect:

(A) Valley Water is a special district, duly created and lawfully existing under the Constitution and laws of the State of California;

(B) The Resolution has been duly adopted at meetings of the board of directors of Valley Water, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Resolution is in full force and effect and has not been modified, amended or rescinded;

(C) The 2020 Bonds, the Financing Documents, and this Bond Purchase Contract have been duly authorized, executed and delivered by Valley Water and, assuming the validity thereof against the other parties thereto, constitute the valid, legal and binding agreements of Valley Water enforceable against Valley Water in accordance with their respective terms and Valley Water has full right, power and authority to carry out and consummate all transactions contemplated by the Financing Documents as of the date of the Official Statement and as of the Closing Date;

(D) The adoption of the Resolution and the execution and delivery of the 2020 Bonds, the Financing Documents, and this Bond Purchase Contract and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not, conflict with, or constitute, or with the giving of notice or the passage of time would constitute, on the part of Valley Water a breach of or default under, any material agreement or other instrument to which Valley Water is a party or by which it is bound (as determined by reference to a certificate of Valley Water identifying material agreements and instruments) or any existing law, administrative rule, regulation, order, decree, judgment, license or permit to which Valley Water is subject (excluding, however, any opinion as to compliance with any applicable federal securities laws); or by which Valley Water or any of its property is bound;

(E) The Official Statement has been prepared by, or on behalf of, Valley Water under the supervision of Valley Water's Authorized Officer, and executed on its behalf by authorized officers of Valley Water;

(F) The information in the Official Statement relating to Valley Water, the Water Utility System and the operations thereof and Litigation are true and accurate to the best of such counsel's knowledge at and as of the date of the Official Statement and at and as of the date of Closing;

(G) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for Valley Water to adopt the Resolution or to enter into the Financing Documents or this Bond Purchase Contract or to perform its obligations thereunder;

(H) Except as described in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to such counsel's best knowledge after due investigation, threatened (A) in any way questioning the corporate existence of Valley Water or the titles of the officers of Valley Water to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the adoption of the Resolution or the execution or delivery of the 2020 Bonds, this Bond Purchase Contract or the Financing Documents or in any way contesting or affecting the validity of the 2020 Bonds or this Bond Purchase Contract, the Resolution, or the Financing Documents or the consummation of the transactions contemplated thereby, or contesting the powers of Valley Water to adopt the Resolution or to enter into this Bond Purchase Contract or the Financing Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of Valley Water or to its ability to pay the principal of and interest on the 2020 Bonds when due; or (D) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) above; and

(I) Based on the information made available to him, and without having undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement (except as set forth in paragraph (F) above), nothing has come to such counsel's attention which would lead him to believe that the Official Statement as of its date and as of the date of Closing (excluding therefrom the financial and statistical data and forecasts included therein, and the information relating to DTC or DTC's book-entry system, as to which no opinion is expressed) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(viii) *Opinion of Counsel to the Underwriters.* An opinion of Schiff Hardin LLP, ("*Underwriters' Counsel*"), dated the date of Closing and addressed to the Underwriters to the effect that, based upon the information made available to them in the course of their participation

in the preparation of the Official Statement and without passing on and without assuming any responsibility for the accuracy, completeness and fairness of the statements in the Official Statement, and having made no independent investigation or verification thereof, no information has come to the attention of the attorneys rendering legal services in connection with such representation that leads them to believe that, as of the date of Closing, the Official Statement (except for any financial or statistical data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, the appendices (excluding APPENDIX H–“FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2020 BONDS”) or any information concerning the DTC or the book-entry only system, included therein, as to which no opinion or view need be expressed) contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; that the 2020 Bonds are exempt from registration under the Securities Act of 1933, as amended; the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and the Continuing Disclosure Agreement provides a suitable basis for the Underwriters, in connection with the Offering (as defined in Rule 15c2-12) of the 2020 Bonds to make a reasonable determination as required by section (b)(5) of such Rule.

(ix) *Opinion of Trustee Counsel.* The opinion of counsel to the Trustee, dated the Closing Date, addressed to Valley Water and the Underwriters, to the effect that:

(A) The Trustee is a national banking association duly organized and validly existing and in good standing under the laws of the United States of America and has full power and authority to execute and deliver the Indenture and the 2020 Bonds and to perform its respective obligations thereunder;

(B) The Trustee acknowledges and accepts its obligations under the Indenture and that such acceptance is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound;

(C) The Continuing Disclosure Agreement has been duly authorized, executed and delivered by the Trustee and, assuming due authorization, execution and delivery by Valley Water, the Continuing Disclosure Agreement constitutes the valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors’ rights generally and by the application of equitable principles, if equitable remedies are sought;

(D) The Trustee has duly authenticated the 2020 Bonds upon the order of Valley Water;

(E) The Trustee’s actions in performing its obligations under the Indenture and in executing and delivering the Continuing Disclosure Agreement is in full compliance with, and does not conflict with any applicable law or governmental regulation and, to the best of such counsel’s knowledge, after reasonable inquiry with respect thereto, does not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound; and

(F) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the issuance of the 2020 Bonds or the consummation by the Trustee of its obligations under the Indenture or the Continuing Disclosure Agreement.

(x) Resolution of the Trustee. A certified copy of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers and employees of the Trustee, which resolution authorizes the execution and delivery of the Financing Documents to which the Trustee is a party.

(xi) Certificate of Valley Water. A certificate of Valley Water, dated the date of the Closing, signed on behalf of Valley Water by the Chief Executive Officer, Assistant Chief Executive Officer, Operations, or other duly authorized officer of Valley Water to the effect that:

(A) The representations, warranties and covenants of Valley Water contained in this Bond Purchase Contract are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and Valley Water has complied with all of the terms and conditions of this Bond Purchase Contract required to be complied with by Valley Water at or prior to the date of the Closing;

(B) No event affecting Valley Water has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect; and

(C) No event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an event of default under the Resolution or the Financing Documents.

(xii) Certificate of the Trustee. A certificate of the Trustee, dated the date of Closing, in form and substance acceptable to the Underwriter, to the following effect:

(A) The Trustee is duly organized and existing as a national banking association under the laws of the United States of America, having the full corporate power and authority to serve as Trustee under the Indenture and to enter into and perform its duties under the Continuing Disclosure Agreement;

(B) The Trustee has duly executed and delivered the Indenture and the Continuing Disclosure Agreement, and assuming due authorization and execution by the other parties thereto, the Indenture and the Continuing Disclosure Agreement are each legal, valid and binding obligations of the Trustee, and enforceable against the Trustee in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(C) The Trustee has duly authenticated the 2020 Bonds and delivered the 2020 Bonds to or upon the order of the Representative; and

(D) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the authentication and delivery of the 2020 Bonds or the consummation by the Trustee of its obligations under the Resolution, the Indenture, or the Continuing Disclosure Agreement.

(xiii) Tax Certificate. A tax certificate executed by Valley Water with respect to the 2020A Bonds.

(xiv) CDIAC Notice and Report. A copy of the Notice of Proposed Sale and Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission (“CDIAC”) pursuant to Section 8855(g) of the California Government Code.

(xv) Ratings. Evidence that the 2020 Bonds have been rated “___” by Fitch Ratings, Inc. and “_____” by Moody’s Investors Service, Inc.

(xvi) Additional Documents. Such additional legal opinions, certificates, instruments and documents as Bond Counsel, the Representative, or Underwriters’ Counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the representations and warranties of Valley Water contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by Valley Water and the Trustee on or prior to the Closing Date of all material agreements then to be performed and all conditions then to be satisfied by any of them in connection with the transactions contemplated hereby and by the Resolution and the Financing Documents.

If Valley Water shall be unable to satisfy the conditions contained in this Bond Purchase Contract, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Bond Purchase Contract, this Bond Purchase Contract shall terminate and none of the Underwriters or Valley Water shall be under further obligation hereunder, except as further set forth in Section 9 hereof.

Section 8. Establishment of Issue Price.

(a) The Representative, on behalf of the Underwriters, agrees to assist Valley Water in establishing the issue price of the 2020A Bonds and shall execute and deliver to Valley Water at Closing an “issue price” or similar certificate, [together with the supporting pricing wires or equivalent communications,] substantially in the form attached hereto as [Schedule B to] Appendix B, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Representative, Valley Water and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the 2020A Bonds. All actions to be taken by Valley Water under this Section 8 to establish the issue price of the 2020A Bonds may be taken on behalf of Valley Water by Public Resources Advisory Group, Inc., the municipal advisor to Valley Water (the “*Municipal Advisor*”), and any notice or report to be provided to Valley Water may be provided to the Municipal Advisor.

(b) [Except as otherwise set forth in Appendix B hereto,] Valley Water will treat the first price at which 10% of each maturity of the 2020A Bonds (the “10% test”) is sold to the public on the date of this Bond Purchase Contract as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Bond Purchase Contract, the Underwriters shall report to Valley Water the price or prices at which the Underwriters have sold to the public each maturity of 2020A Bonds. [If at that time the 10% test has not been satisfied as to any maturity of the 2020A Bonds, the

Representative agrees to promptly report to Valley Water the prices at which 2020A Bonds of that maturity have been sold by the Underwriters to the public. That reporting obligation shall continue, whether or not the Closing has occurred, until the 10% test has been satisfied as to the 2020A Bonds of that maturity or until all 2020A Bonds of that maturity have been sold to the public.]

(c) The Representative confirms that the Underwriters have offered the 2020A Bonds to the public on or before the date of this Bond Purchase Contract at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Appendix A attached hereto, except as otherwise set forth therein. [Appendix B also sets forth, as of the date of this Bond Purchase Contract, the maturities, if any, of the 2020A Bonds for which the 10% test has not been satisfied and for which Valley Water and the Underwriters agree that the restrictions set forth in the next sentence shall apply, which will allow Valley Water to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the 2020A Bonds, the Underwriters will neither offer nor sell unsold 2020A Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (i) the close of the fifth (5th) business day after the sale date; or
- (ii) the date on which the Underwriters have sold at least 10% of that maturity of the 2020A Bonds to the public at a price that is no higher than the initial offering price to the public.

The Representative shall promptly advise Valley Water when the Underwriters have sold 10% of that maturity of the 2020A Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(d) The Representative confirms that any agreement among Underwriters, any selling group agreement and each third party distribution agreement (to which Representative is a party) relating to the initial sale of the 2020A Bonds to the public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group and each broker-dealer that is a party to such third-party distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold 2020A Bonds of each maturity allotted to it until it is notified by the Underwriters that either the 10% test has been satisfied as to the 2020A Bonds of that maturity or all 2020A Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Underwriters. Valley Water acknowledges that, in making the representation set forth in this subsection, the Underwriters will rely on (i) the agreement of each Underwriter to comply with the requirements for establishing issue price of the 2020A Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020A Bonds, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the 2020A Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the 2020A Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020A Bonds, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an Underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the 2020A Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the 2020A Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020A Bonds, as set forth in the third-party distribution agreement and the related pricing wires. Valley Water further acknowledges that each Underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements

for establishing the issue price of the 2020A Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020A Bonds, and that no Underwriter shall be liable for the failure of any other Underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement, to comply with its corresponding agreement to comply with the requirements for establishing issue price of the 2020A Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the 2020A Bonds.

(e) The Underwriters acknowledge that sales of any 2020A Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Section. Further, for purposes of this Section:

(i) “public” means any person other than an underwriter or a related party;

(ii) “underwriter” means (A) any person that agrees pursuant to a written contract with Valley Water (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the 2020A Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the 2020A Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the 2020A Bonds to the public);

(iii) a purchaser of any of the 2020A Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(iv) “sale date” means _____, 2020.

Section 9. Expenses.

(a) The Underwriters shall be under no obligation to pay and Valley Water shall pay or cause to be paid the expenses incident to the performance of the obligations of Valley Water hereunder including but not limited to (i) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Resolution and the Financing Documents and the cost of preparing, printing, issuing and delivering the definitive 2020 Bonds, (ii) the fees and disbursements of the Municipal Advisor, any counsel, accountants, or other experts or consultants retained by Valley Water, (iii) the fees and disbursements of Bond Counsel, (iv) the fees of the Trustee; (v) the cost of, printing and distributing the Preliminary Official Statement and any supplements and amendments thereto and the cost of printing and distributing the Official Statement and any supplements and amendments thereto, including the requisite number of copies thereof for distribution by the Underwriters, (vi) charges of rating agencies for the rating of the 2020 Bonds; and (vii) expenses (included in the expense component of the Underwriters’ spread) incurred on behalf of Valley Water’s officers or employees which are incidental to implementing this Bond Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees.

(b) The Underwriters shall pay all expenses incurred by them in connection with the public offering and distribution of the 2020 Bonds including, but not limited to: (i) all advertising expenses in connection with the offering of the 2020 Bonds; (ii) the fees and expenses of Underwriters' Counsel, (iii) the costs of preparing and printing the Blue Sky memorandum, and (iv) all out-of-pocket disbursements and expenses incurred by the Underwriters in connection with the offering and distribution of the 2020A Bonds (including other expenses, CUSIP Service Bureau fees, fees of the CDIAAC and any other fees and expenses), except as provided in Section 9(a) or as otherwise agreed to by the Representative and Valley Water.

Section 10. Notices. Any notice or other communication to be given to Valley Water under this Bond Purchase Contract may be given by delivering the same in writing to such entity at the address set forth above. Any notice or other communication to be given to the Underwriters under this Bond Purchase Contract may be given by delivering the same in writing to the Representative, Siebert Williams Shank & Co., LLC, 660 South Figueroa Street, Suite 1720, Los Angeles, California 90017, Attention: Grace Yuen, Senior Vice President.

Section 11. Entire Agreement. This Bond Purchase Contract, when accepted by Valley Water, shall constitute the entire agreement among Valley Water and the Underwriters and is made solely for the benefit of Valley Water and the Underwriters (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All the representations, warranties and agreements of Valley Water contained in this Bond Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriters, until the earlier of (a) delivery of and payment for the 2020 Bonds hereunder, and (b) any termination of this Bond Purchase Contract.

Section 12. Counterparts. This Bond Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. The counterparts of this Bond Purchase Contract may be executed and delivered by facsimile or other electronic signature (including PDF) by the parties and the receiving party may rely on the receipt of such document so executed and delivered electronically or by facsimile as if the original had been received.

Section 13. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 14. Governing Law; Venue. This Bond Purchase Contract shall be governed and interpreted exclusively by and construed in accordance with the laws of the State applicable to contracts made and to be performed in the State. Any and all disputes or legal actions or proceedings arising out of this Bond Purchase Contract or any document related hereto shall be filed and maintained in a court of competent jurisdiction in the County of Santa Clara; provided that Valley Water may waive the requirement of venue. By execution of and delivery of this Bond Purchase Contract, the parties hereto accept and consent to the aforesaid jurisdiction.

Section 15. Prior Agreements. The parties agree that the terms and conditions of this Bond Purchase Contract supersede those of all previous agreements between the parties, and that this Bond Purchase Contract contains the entire agreement between the parties hereto. In the event of a dispute between the parties under this Bond Purchase Contract, the losing party in such dispute shall pay all reasonable costs and expenses incurred by the prevailing party in connection therewith, including but not limited to attorneys' fees.

Section 16. Headings. The headings of the Sections of this Bond Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

Section 17. No Assignment. The rights and obligations created by this Bond Purchase Contract shall not be subject to assignment by the Representative or Valley Water without the prior written consent of the other party hereto.

SIEBERT WILLIAMS SHANK & CO., LLC
ALAMO CAPITAL
PIPER SANDLER & CO.

By: SIEBERT WILLIAMS SHANK & CO., LLC,
as Representative of the Underwriters

By: _____
Authorized Representative

Agreed to and Accepted by:

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Representative

Time: _____ [A.M.] / [P.M.]

Date: _____, 2020

SCHEDULE I

**2020A BONDS
MATURITIES, AMOUNTS, RATES, YIELDS AND PRICES**

<u>Payment Date (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>10% Test Satisfied[†]</u>	<u>10% Test Not Satisfied</u>	<u>Subject to Hold- The- Offering- Price Rule</u>
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2020A BONDS REDEMPTION PROVISIONS

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:

Redemption Date (June 1)	Principal Amount
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*

* Final Maturity.

Redemption Date (June 1)	Principal Amount
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*

* Final Maturity.

Redemption from Insurance or Eminent Domain Proceeds

The 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.

**TAXABLE 2020B BONDS
MATURITIES, AMOUNTS, RATES, YIELDS AND PRICES**

<u>Payment Date (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>10% Test Satisfied[†]</u>	<u>10% Test Not Satisfied</u>	<u>Subject to Hold- The- Offering- Price Rule</u>
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TAXABLE 2020B BONDS REDEMPTION PROVISIONS

Optional Redemption

The Taxable 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 Taxable 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 Taxable 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 Taxable 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 Taxable 2020B Bonds are to be redeemed, discounted to the date on which the Taxable 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 Taxable 2020B Bonds to be redeemed on the date of redemption.

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

Mandatory Sinking Fund Redemption

The Taxable 2020B 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:

Redemption Date (June 1)	Principal Amount
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*

* Final Maturity.

Redemption Date (June 1)	Principal Amount
-----------------------------	---------------------

*

* Final Maturity.

Redemption from Insurance or Eminent Domain Proceeds

The Taxable 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 and within maturities 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 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 date fixed for redemption, without premium.

APPENDIX A

SANTA CLARA VALLEY WATER DISTRICT

\$ __, __, 000
Water System Refunding Revenue Bonds,
Series 2020A

\$ __, __, 000
Water System Refunding Revenue Bonds,
Taxable Series 2020B

\$ __, __, 000
Revenue Certificates of Participation
(Water Utility System Improvement Projects),
Series 2020C

\$ __, __, 000
Revenue Certificates of Participation
(Water Utility System Improvement Projects),
Taxable Series 2020D

FORM OF THE CERTIFICATE REGARDING THE PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby certifies to Siebert Williams Shank & Co., LLC on its own behalf and as representative (the "Representative") of Alamo Capital and Piper Sandler (collectively with the Representative, the "Underwriters") that I am an authorized representative of the Santa Clara Valley Water District ("Valley Water") and as such, I am authorized to execute and deliver this certificate and further hereby certify and reconfirm on behalf of Valley Water to the Underwriters as follows:

(1) This certificate is delivered to enable the Underwriters to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the above-captioned securities (collectively, the "Bonds").

(2) There has been delivered to the Underwriters a Preliminary Official Statement dated August __, 2020 (collectively, with the cover page and all appendices thereto, in electronic form, the "Preliminary Official Statement"), which Valley Water deems final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings, and other terms of the 2020 Securities depending on such matters permitted to be omitted therefrom by Rule 15c2-12 (collectively, the Permitted Omissions").

(3) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule.

(4) Valley Water hereby approves the use and distribution by the Underwriters of the Preliminary Official Statement.

Dated: August __, 2020

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Representative

APPENDIX B

ISSUE PRICE CERTIFICATE

\$ __, __, 000

Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2020A

Siebert Williams Shank & Co., LLC, on its own behalf and as the representative (the “Representative”) of the underwriters named in the Bond Purchase Contract dated [Pricing Date], 2020 relating to the above-referenced securities (collectively with the Representative, the “Underwriters”), based on information available to it, hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “2020A Bonds”).

1. ***Sale of the General Rule Maturities Bonds.*** As of the date of this certificate, for each Maturity of the General Rule Maturities 2020A Bonds, the first price at which at least 10% of such Maturity was sold to the Public is the price listed on the inside cover of the Official Statement published in connection with the issuance of the 2020A Bonds.

2. ***Initial Offering Price of the Hold-the-Offering-Price Maturities.***

(a) The Underwriters offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. If there is a Hold-the-Offering Price Maturity, a copy of the pricing wire or equivalent communication for the 2020A Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Bond Purchase Contract, the Representative has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, the syndicate would neither offer nor sell any of the unsold Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any third-party distribution agreement shall contain the agreement of each broker-dealer who is a party to the third-party distribution agreement, to comply with the hold-the-offering-price rule. No information has come to the attention of the Representative that any underwriter has offered or sold any unsold 2020A Bonds of any Maturity of the 2020A Bonds at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.

3. ***Defined Terms.***

“*General Rule Maturities*” means those Maturities of the 2020A Bonds that are not “Hold-the-Offering-Price Maturities.”

“*Hold-the-Offering-Price Maturities*” means those Maturities of the 2020A Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

“*Holding Period*” means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the Underwriter has sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at one or more prices, each of which is no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

“*Issuer*” means Santa Clara Valley Water District.

“*Maturity*” means 2020A Bonds with the same credit and payment terms. 2020A Bonds with different maturity dates, or 2020A Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

“*Public*” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.

“*Sale Date*” means the first day on which there is a binding contract in writing for the sale of a Maturity of the 2020A Bonds. The Sale Date of each maturity of the 2020A Bonds is _____, 2020.

“*Underwriter*” means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the 2020A Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this section to participate in the initial sale of the 2020A Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the 2020A Bonds to the Public).

Notwithstanding anything set forth herein, neither Representative is engaged in the practice of law. The representations set forth in this certificate are limited to factual matters only. Accordingly, neither the Representative makes any representation as to the legal sufficiency of the factual matters set forth herein. Nothing in this certificate represents the interpretation of either Representative of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the 2020A Bonds, and by Stradling Yocca Carlson & Rauth, a Professional Corporation in connection with rendering its opinion that the interest on the 2020A Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038, and other federal income tax advice that it may give to the Issuer from time to time relating to the 2020A Bonds. Except as expressly set forth above, the certifications set forth herein may not be relied upon or used by any third party or for any other purpose.

Dated: [Closing Date]

By: SIEBERT WILLIAMS SHANK & CO., LLC,
as Representative, on behalf of the
Underwriters, including itself

By: _____
Authorized Representative

SCHEDULE A to APPENDIX B
INITIAL OFFERING PRICES OF THE REFUNDING BONDS
(Attached)

SCHEDULE B to APPENDIX B
PRICING WIRE OR EQUIVALENT COMMUNICATION

(Attached)

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT dated August __, 2020 (the “Disclosure Agreement”) is executed and delivered by the Santa Clara Valley Water District (“Valley Water”) and U.S. Bank National Association, as dissemination agent (the “Dissemination Agent”), in connection with the issuance of the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2020A and Taxable Series 2020B (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 20-__ adopted by the Board of Directors of Valley Water on August 25, 2020 (the “Resolution”) and an Indenture of Trust, dated as of August 1, 2020, by and between Valley Water and U.S. Bank National Association, as trustee (the “Indenture”). Valley Water and Dissemination Agent, covenant as follows:

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

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

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

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

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

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

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

“Official Statement” shall mean the Official Statement relating to the Bonds dated August __, 2020.

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

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

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

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) Valley Water shall, or shall cause the Dissemination Agent to, not later than each April 1, commencing with the report due on April 1, 2021, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of Valley Water may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

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

(c) The Dissemination Agent shall:

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

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

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

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

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

(i) DEBT STRUCTURE OF THE DISTRICT — Schedule of Long-Term Indebtedness;

(ii) WATER UTILITY SYSTEM — Historical Water Rates (Dollars (\$) per Acre-Foot);

(iii) WATER UTILITY SYSTEM — Historical Sales Revenues; and

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

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

SECTION 5. Reporting of Significant Events.

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

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

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

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

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond holders;
3. optional, unscheduled or contingent Bond redemptions;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving Valley Water or the sale of all or substantially all of the assets of Valley Water, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
7. appointment of a successor or additional trustee or the change of the name of a trustee; and
8. incurrence of a financial obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect Bond holders.

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

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

enhancement and the market was generally aware of the change in the rating of such liquidity or credit enhancer or (iii) the rating agency filed a notice of such rating change with the Repository.

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

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

SECTION 7. Dissemination Agent. Valley Water may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by Valley Water pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days’ written notice to Valley Water; provided, however, that such resignation will not become effective until Valley Water has secured a successor Dissemination Agent in accordance with the terms of this Disclosure Agreement.

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

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

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

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

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

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

Date: August __, 2020

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: SANTA CLARA VALLEY WATER DISTRICT
Name of Obligations: SANTA CLARA VALLEY WATER DISTRICT WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2020A AND TAXABLE SERIES 2020B
Date of Issuance: August __, 2020

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

Dated: _____

SANTA CLARA VALLEY WATER DISTRICT

By: [no signature required; form only]

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT dated August __, 2020 (the “Disclosure Agreement”) is executed and delivered by the Santa Clara Valley Water District (“Valley Water”) and U.S. Bank National Association, as dissemination agent (the “Dissemination Agent”), in connection with the execution and delivery of the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2020C (the “Series 2020C Certificates”) and Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Taxable Series 2020D (the “Series 2020D Certificates” and together with the Series 2020C Certificates, the “Certificates”). The Certificates are being executed and delivered pursuant to Resolution No. PFFC-_____ adopted on August 19, 2020 (the “Resolution”) by the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”) and a Trust Agreement, dated as of August 1, 2020, by and among Valley Water, the Corporation and U.S. Bank National Association, as trustee (the “Trust Agreement”). Valley Water and Dissemination Agent, covenant as follows:

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

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

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

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

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

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

“Installment Purchase Agreement” shall mean the Installment Purchase Agreement, dated as of August 1, 2020, by and between Valley Water and the Corporation.

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

“Official Statement” shall mean the Official Statement relating to the Water System Refunding Revenue Bonds Series 2020A and Taxable Series 2020B and the Certificates dated September __, 2020.

“Participating Underwriter” shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

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

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

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) Valley Water shall, or shall cause the Dissemination Agent to, not later than each April 1, commencing with the report due on April 1, 2021, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of Valley Water may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

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

(c) The Dissemination Agent shall:

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

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

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

(a) The audited financial statements of Valley Water for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If Valley Water’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format

similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

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

- (i) DEBT STRUCTURE OF THE DISTRICT — Schedule of Long-Term Indebtedness;
- (ii) WATER UTILITY SYSTEM — Historical Water Rates (Dollars (\$) per Acre-Foot);
- (iii) WATER UTILITY SYSTEM — Historical Sales Revenues; and
- (iv) FINANCIAL INFORMATION OF THE DISTRICT — Santa Clara Valley Water District Historical Operating Results & Debt Service Coverage; provided however if such operating results and debt service coverage can be derived from the audited financial statements required to be filed in section 4(a) above, failure to file a separate table under this Section 4(b) shall not constitute a default hereunder.

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

SECTION 5. Reporting of Significant Events.

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

- 1. principal and interest payment delinquencies;
- 2. unscheduled draws on debt service reserves reflecting financial difficulties;
- 3. unscheduled draws on credit enhancements reflecting financial difficulties;
- 4. substitution of credit or liquidity providers, or their failure to perform;
- 5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
- 6. tender offers;
- 7. defeasances;

8. ratings changes;
9. bankruptcy, insolvency, receivership or similar proceedings; and
10. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation, any of which reflect financial difficulties.

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

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

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other events affecting the tax status of the Certificates;
2. modifications to the rights of Certificate holders;
3. optional, unscheduled or contingent Certificate prepayments;
4. release, substitution or sale of property securing repayment of the Certificates;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving Valley Water or the sale of all or substantially all of the assets of Valley Water, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
7. appointment of a successor or additional trustee or the change of the name of a trustee; and
8. incurrence of a financial obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect Certificate holders.

(c) If Valley Water determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, Valley Water

shall file, or cause to be filed, a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

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

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

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

SECTION 7. Dissemination Agent. Valley Water may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by Valley Water pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days’ written notice to Valley Water; provided, however, that such resignation will not become effective until Valley Water has secured a successor Dissemination Agent in accordance with the terms of this Disclosure Agreement.

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

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

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

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

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

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

Date: September __, 2020

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: SANTA CLARA VALLEY WATER DISTRICT
Name of Obligations: SANTA CLARA VALLEY WATER DISTRICT REVENUE
CERTIFICATES OF PARTICIPATION (WATER UTILITY
SYSTEM IMPROVEMENT PROJECTS) SERIES 2020C
AND TAXABLE SERIES 2020D
Date of Execution and Delivery: August __, 2020

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

Dated: _____

SANTA CLARA VALLEY WATER DISTRICT

By: [no signature required; form only] _____

INDENTURE OF TRUST

Dated as of August 1, 2020

By and between

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

and the

SANTA CLARA VALLEY WATER DISTRICT

Relating to

**\$ _____
SANTA CLARA VALLEY WATER DISTRICT
WATER SYSTEM REFUNDING REVENUE BONDS,
SERIES 2020A**

And

**\$ _____
SANTA CLARA VALLEY WATER DISTRICT
WATER SYSTEM REFUNDING REVENUE BONDS,
TAXABLE SERIES 2020B**

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST, made and entered into and dated as of August 1, 2020 (the “Indenture”), by and between SANTA CLARA VALLEY WATER DISTRICT, an agency duly organized and existing under and by virtue of the laws of the State of California (“Valley Water”), and U.S. BANK NATIONAL ASSOCIATION, duly organized and existing under the laws of the United States of America, as trustee hereunder (the “Trustee”);

WITNESSETH:

WHEREAS, Valley Water has previously financed the acquisition and/or construction of certain capital improvements to the water utility system equipment and facilities of Valley Water by causing the issuance of the Commercial Paper Certificates, Series A (Tax-Exempt) and the Commercial Paper Certificates, Series B (Taxable) (together, the “Outstanding CP”); and

WHEREAS, Valley Water has determined to pay, prepay and defease the Outstanding CP (the “Refunded Obligations”); and

WHEREAS, Valley Water is authorized under the Santa Clara Valley Water District Act, Chapter 1405 of Statutes of 1951 of the State of California, as amended, and by Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including all laws amendatory thereof or supplemental thereto, to refinance the Refunded Obligations with proceeds of the 2020 Bonds (as defined below); and

WHEREAS, in order to provide for the authentication and delivery of refunding revenue bonds (the “2020 Bonds”), to establish and declare the terms and conditions upon which such 2020 Bonds are to be issued and secured and to secure the payment of the principal thereof and interest and premium, if any, thereon, Valley Water has authorized the execution and delivery of this Indenture; and

WHEREAS, Valley Water has determined that all acts and proceedings required by law necessary to make the 2020 Bonds, when executed by Valley Water, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal special obligations of Valley Water, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, THE INDENTURE WITNESSETH:

GRANTING CLAUSES

Valley Water, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the mutual covenants herein contained and of the purchase and acceptance of the 2020 Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of and the interest and premium (if any) on all 2020 Bonds at any time issued and Outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, does hereby assign and pledge unto, and grant a security interest in, the following (the “Trust Estate”) to the Trustee, and its successors in trust and assigns

forever, for the securing of the performance of the obligations of Valley Water to the 2020 Bond Owners hereinafter set forth:

GRANTING CLAUSE FIRST

All right, title and interest of Valley Water in and to the Water Utility System Revenues (as defined in the Water Utility Parity System Master Resolution), including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and receipt for any Water Utility System Revenues payable to or receivable by Valley Water under the Constitution of the State, the Government Code of the State of California, the Water Utility Parity System Master Resolution and this Indenture and any other applicable laws of the State or otherwise, to bring actions and proceedings thereunder for the enforcement thereof, and to do any and all things which Valley Water is or may become entitled to do thereunder, subject to the terms hereof and of the Water Utility Parity System Master Resolution.

GRANTING CLAUSE SECOND

All moneys and securities held in funds and accounts of this Indenture and of the Water Utility Parity System Master Resolution, except amounts held in the Rebate Fund, and all other rights of every name and nature from time to time herein or therein or hereafter by delivery or by writing of any kind pledged, assigned or transferred as and for additional security hereunder or thereunder to the Trustee by Valley Water or by anyone on its behalf, or with its written consent, and to hold and apply the same, subject to the terms hereof and of the Water Utility Parity System Master Resolution.

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors in trust and assigns forever for the benefit of the Owners and such pledge shall constitute a lien on and security interest in such Trust Estate;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the 2020 Bonds issued under and secured by this Indenture and the Water Utility Parity System Master Resolution without privilege, priority or distinction as to the lien or otherwise of any of the 2020 Bonds over any of the other 2020 Bonds;

PROVIDED, HOWEVER, that if Valley Water, its successors or assigns shall well and truly pay, or cause to be paid, the principal of and interest and any redemption premium on the 2020 Bonds due or to become due thereon, at the times and in the manner provided in the 2020 Bonds according to the true intent and meaning thereof, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments or deposits as herein provided, this Indenture and the rights hereby granted shall cease, terminate and be void; otherwise this Indenture shall remain in full force and effect.

THE INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all 2020 Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all sold property, rights and interests, including, without limitation, the Water Utility System Revenues, hereby assigned and pledged under the Water Utility Parity System Master Resolution, are to be dealt

with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and Valley Water has agreed and covenanted and does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the 2020 Bonds, as follows:

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 and in the Water Utility Parity System Master Resolution, shall for all purposes of this Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, or as specified in the Water Utility Parity System Master Resolution, in each case to be equally applicable to both the singular and plural forms of any of the terms defined.

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

Authorized Representative. The term “Authorized Representative” means the Chief Executive Officer of Valley Water, any acting or interim Chief Executive Officer or, if there is no officer such designated as the Chief Executive Officer, the highest ranking officer of Valley Water (excluding members of the Board of Directors of Valley Water), the Assistant Chief Executive Officer, Operations, the Chief Financial Officer, or the Treasury & Debt Officer.

Bond Counsel. The term “Bond Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bond Year. The term “Bond Year” will have the meaning set forth in the Tax Certificate.

Business Day. The term “Business Day” means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms “Certificate,” “Direction,” “Request,” and “Requisition” of Valley Water mean a written certificate, direction, request or requisition signed in the name of Valley Water by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

Closing Date. The term “Closing Date” means the date on which the 2020 Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Comparable Treasury Issue. The term “Comparable Treasury Issue” means, with respect to any applicable optional Redemption Date for a particular 2020B Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the particular 2020 Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the particular 2020B Bond to be redeemed.

Comparable Treasury Price. The term “Comparable Treasury Price” means, with respect to any applicable optional Redemption Date for a particular 2020B Bond, the average of four Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

Continuing Disclosure Agreement. The term “Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated the Closing Date, by and between Valley Water and U.S. Bank National Association, as dissemination agent, relating to the 2020 Bonds, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Corporation. The term “Corporation” means the Santa Clara Valley Water District Public Facilities Financing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Costs of Issuance. The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to Valley Water and related to the authorization, issuance, sale and delivery of the 2020 Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, Rating Agency fees, title insurance premiums, letter of credit fees and bond insurance premiums (if any), fees and charges for preparation, execution and safekeeping of the 2020 Bonds and any other cost, charge or fee in connection with the original issuance of the 2020 Bonds.

Costs of Issuance Fund. The term “Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03.

Defeasance Securities. The term “Defeasance Securities” means: (1) Federal Securities, (2) evidences of ownership of proportionate interests in future interest and principal payments on Federal Securities held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Federal Securities are not available to any person claiming through the custodian or to whom the custodian may be obligated, or (3) pre-refunded municipal obligations rated not lower than the rating on securities described in clause (1) above.

Depository; DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as Securities Depository for the 2020 Bonds.

Designated Investment Banker. The term “Designated Investment Banker” means one of the Reference Treasury Dealers appointed by Valley Water.

Event of Default. The term “Event of Default” means any of the events specified in Section 7.01.

Federal Securities. The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fitch. The term “Fitch” means Fitch Ratings, Inc., or any successor thereto.

Indenture. The term “Indenture” means this Indenture of Trust, dated as of August 1, 2020, by and between Valley Water and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by Valley Water, each of whom is independent of Valley Water pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by Valley Water, and who, or each of whom:

- (1) is in fact independent and not under domination of Valley Water;
- (2) does not have any substantial interest, direct or indirect, with Valley Water; and
- (3) is not connected with Valley Water as an officer or employee of Valley Water, but who may be regularly retained to make reports to Valley Water.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as Valley Water may specify in a certificate to the Trustee or as the Trustee may select.

Interest Account. The term “Interest Account” means the account by that name in the Payment Fund established pursuant to Section 5.02.

Interest Payment Date. The term “Interest Payment Date” means each June 1 and December 1, commencing December 1, 2020.

Investment Agreement. The term “Investment Agreement” means an investment agreement supported by appropriate opinions of counsel; provided the provider thereof or the guarantor thereof is rated, at the time of execution, equal to at least the Minimum Rating by two of three Rating Agencies.

Issuing and Paying Agent Agreement. The term “Issuing and Paying Agent Agreement” means the Restated Issuing and Paying Agent Agreement, dated as of January 1, 2017, by and among Valley Water, the Corporation and U.S. Bank National Association relating to the Tax-Exempt Commercial Paper Certificates and the Taxable Commercial Paper Certificates.

Issuing and Paying Agent. The term “Issuing and Paying Agent” means U.S. Bank National Association as Issuing and Paying Agent under the Restated Issuing and Paying Agent Agreement, or its successor Issuing and Paying Agent thereunder as provided therein.

Law. The term “Law” means the Santa Clara Valley Water District Act, Chapter 1405 of Statutes of 1951 of the State of California, as amended and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including all laws amendatory thereof or supplemental thereto.

Letter of Representations. The term “Letter of Representations” means the letter of Valley Water delivered to and accepted by the Depository on or prior to delivery of the 2020 Bonds as book entry bonds setting forth the basis on which the Depository serves as depository for such book entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from Valley Water delivered to and accepted by the Depository.

Manager. The term “Manager” means the Chief Executive Officer of Valley Water (or any acting or interim officer holding such position) or, if there is no officer designated as the Chief Executive Officer, the highest ranking officer of Valley Water (excluding members of the Board of Directors of Valley Water), the Assistant Chief Executive Officer, Operations, or the Chief Financial Officer.

Minimum Rating. The term “Minimum Rating” means “A+”, “A1,” or A+” by S&P, Moody’s or Fitch, respectively.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

Net Proceeds. The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.08 hereof.

Office of the Trustee. The term “Office of the Trustee” means the principal corporate trust office of the Trustee in San Francisco, California, provided that for purposes of payment, redemption, exchange, transfer, surrender and cancellation of 2020 Bonds, such term means the principal corporate trust office of the Trustee in St. Paul, Minnesota, or such other office as the Trustee may from time to time designate in writing to Valley Water and the Owners.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to Valley Water) selected by Valley Water. If and to the extent

required by the provisions of Section 1.02, each Opinion of Counsel shall include the statements provided for in Section 1.02.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2020 Bonds, means (subject to the provisions of Section 11.09) all 2020 Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (i) 2020 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2020 Bonds with respect to which all liability of Valley Water shall have been discharged in accordance with Section 10.02, including 2020 Bonds (or portions thereof) described in Section 11.09; and (iii) 2020 Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2020 Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

Owner; 2020 Bond Owner. The term “Owner” or “2020 Bond Owner,” whenever used herein with respect to a 2020 Bond, means the person in whose name the ownership of such 2020 Bond is registered on the Registration Books.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as Securities Depository.

Payment Fund. The term “Payment Fund” means the fund by that name established pursuant to Section 5.02.

Permitted Investments. The term “Permitted Investments” means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by Valley Water.

The following obligations may be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow agreements.

- (a) Cash insured at all times by the Federal Deposit Insurance Corporation; and
- (b) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including: U.S. treasury obligations; all direct or fully guaranteed obligations; Farmers Home Administration; General Services Administration; Guaranteed Title XI financing; Government National Mortgage Association (GNMA); and State and Local Government Series.

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

The following obligations may be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

- (c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank; Rural Economic Community Development Administration; Federal Farm Credit Bureau; U.S. Maritime Administration; Small Business Administration; U.S.

Department of Housing & Urban Development (PHAs); and Federal Housing Administration and Federal Financing Bank;

- (d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); obligations of the Resolution Funding Corporation (REFCORP); senior debt obligations of the Federal Home Loan Bank System; and senior debt obligations of other Government Sponsored Agencies;
- (e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's, "A-1" by S&P and "F1" by Fitch and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (f) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's, "A-1" by S&P or "F1" by Fitch and which matures not more than 270 calendar days after the date of purchase;
- (g) Investments in a money market fund rated "AAm", "AAAm" or "AAAm-G" or better by any of S&P, Fitch or Moody's, including such funds for which the Trustee or an affiliate provides investment advice for other services;
- (h) Pre-refunded Municipal Obligations defined as follows: 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 which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice:
 - (1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), at equivalent ratings as Federal Securities rated by Moody's, S&P or Fitch, or any successors thereto; or
 - (2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow may be applied only to the payment of such principal and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (i) The following municipal obligations: (1) revenue obligations of states or any department, board, agency or authority thereof rated "A1" or better by Moody's, "A+" or better by S&P or "A+" or better by Fitch; (2) general obligations of states

rated “A3” or better by Moody’s, “A-” or better by S&P or A-” or better by Fitch; (3) adjustable rate revenue obligations of states or any department, board, agency or authority thereof rated “P-1” or better by Moody’s, “A-1+” or better by S&P or “F-1”+ or better by Fitch; (4) fixed rate revenue obligations of any political subdivision of the State or entity owned, operated or controlled by such a political subdivision rated “A1” or better by Moody’s, “A+” or better by S&P or “A+” or better by Fitch; or (5) adjustable rate revenue obligations of any political subdivision of the State or entity owned, operated or controlled by such a political subdivision rated “P-1” or better by Moody’s, “A-1+” or better by S&P or “F-1+” by Fitch;

- (j) Investment Agreements;
- (k) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent that the Trustee is authorized to register such investment in its name;
- (l) Local Government Investment Pools (LGIP). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code § 6509.7. To be eligible for purchase, the pool must meet the requirements of Government Code § 53601(p);
- (m) Certificates of deposit insured by the Federal Deposit Insurance Corporation; and
- (n) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision shall be rated “AA” or better by S&P and Fitch or “Aa2” or better by Moody’s.

The value of the above investments shall be determined as provide in the definition of “Value.”

Principal Account. The term “Principal Account” means the account by that name in the Payment Fund established pursuant to Section 5.02.

Rating. The term “Rating” means any currently effective rating on the 2020 Bonds issued by a Rating Agency.

Rating Agency; Rating Agencies. The term “Rating Agency” means any of S&P, Fitch or Moody’s. The term “Rating Agencies” means collectively, S&P, Fitch and Moody’s.

Rebate Fund. The term “Rebate Fund” means the fund by that name established for the Series 2020A Bonds pursuant to Section 5.07.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for redemption prior to maturity of the 2020 Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to Section 5.05.

Redemption Price. The term “Redemption Price” means, with respect to any 2020 Bond (or portion thereof), the principal amount of such 2020 Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2020 Bond and this Indenture.

Reference Treasury Dealer. The term “Reference Treasury Dealer” means a primary dealer of United States Government securities in the United States appointed by Valley Water.

Reference Treasury Dealer Quotations. The term “Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any applicable optional Redemption Date for a particular 2020 Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time at least three Business Days but no more than 30 Business Days preceding such Redemption Date.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2020 Bonds pursuant to Section 2.05.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, with responsibility for the administration of this Indenture.

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as Valley Water may designate in a Written Request of Valley Water deliver to the Trustee.

Series 2020A Bonds. The term “Series 2020A Bonds” means the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2020A issued pursuant to the Water Utility Parity System Master Resolution and this Indenture.

Series 2020B Bonds. The term “Series 2020B Bonds” means the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2020B issued pursuant to the Water Utility Parity System Master Resolution and this Indenture.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture hereafter duly authorized and entered into between Valley Water and the Trustee, supplementing, modifying or

amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the Series 2020A Bonds, executed and delivered by Valley Water on the date of issuance of the Series 2020A Bonds, including any and all exhibits attached thereto.

Taxable Commercial Paper Certificates. The term “Taxable Commercial Paper Certificates” means the outstanding Santa Clara Valley Water District Commercial Paper Certificates, Series B (Taxable) executed and delivered pursuant to Resolution No. PFFC-12-001 of the Corporation, adopted May 10, 2012, as amended by Resolution No. 16-005 of the Corporation, adopted November 10, 2016, as such resolution may be further amended from time-to-time, and the Issuing and Paying Agent Agreement.

Tax-Exempt Commercial Paper Certificates. The term “Tax-Exempt Commercial Paper Certificates” means the outstanding Santa Clara Valley Water District Commercial Paper Certificates, Series A (Tax-Exempt) executed and delivered pursuant to Resolution No. PFFC-12-001 of the Corporation, adopted May 10, 2012, as amended by Resolution No. 16-005 of the Corporation, adopted November 10, 2016, as such resolution may be further amended from time-to-time, and the Issuing and Paying Agent Agreement.

Treasury Rate. The term “Treasury Rate” means, with respect to any applicable optional Redemption Date for a particular 2020B Bond, the yield derived from the most recently published release designated “H.15 Selected Interest Rates” by the Board of Governors of the Federal Reserve System or any successor publication selected by the Designated Investment Banker that reports yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining average life of the 2020B Bond being redeemed. The Treasury Rate will be determined at least three Business Days but no more than 30 Business Days preceding the Redemption Date and will be calculated by interpolation on a straight-line basis, between the yields on the United States Treasury securities that have a constant maturity (a) closest to and less than the remaining average life of the 2020B Bond being redeemed and (b) closest to and more than the remaining average life of the 2020B Bond being redeemed. The Treasury Rate will be rounded to the nearest 1/100th of 1%.

If, and only if, for more than five consecutive previous Business Days, H.15 Selected Interest Rates or any successor publication, are not available, then the Treasury Rate will be the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the Redemption Date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Trustee. The term “Trustee” means U.S. Bank National Association, a national banking association having a corporate trust office in San Francisco, California, duly organized and existing under the laws of the United States of America, or its successor as Trustee hereunder as provided in Section 8.01.

2020 Bonds. The term “2020 Bonds” means the Series 2020A Bonds and the Series 2020B Bonds issued pursuant to this Indenture.

Valley Water. The term “Valley Water” means Santa Clara Valley Water District, an agency duly organized and existing under and by virtue of the laws of the State of California, including the Law.

Value. The term “Value,” which shall be determined as of the end of each month, means that the value of any investments, which shall be the face amount thereof, plus accrued interest.

Water Utility Parity System Master Resolution. “Water Utility Parity System Master Resolution” means the Water Utility Parity System Master Resolution, Resolution No. 16-10 adopted by the Board of Directors of Valley Water on February 23, 2016, as amended by Resolution No. 16-82 adopted by the Board of Directors of Valley Water on December 13, 2016, as such resolution may be further supplemented and amended from time-to-time.

Written Consent of Valley Water; Written Order of Valley Water; Written Request of Valley Water; Written Requisition of Valley Water. The terms “Written Consent of Valley Water,” “Written Order of Valley Water,” “Written Request of Valley Water,” and “Written Requisition of Valley Water” mean, respectively, a written consent, order, request or requisition signed by or on behalf of Valley Water by the Chair of its Board of Directors or its Manager or by the Clerk of its Board of Directors or by any other person (whether or not officers of the Board of Directors of Valley Water) who is specifically authorized by resolution of Valley Water to sign or execute such a document on its behalf.

Section 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in this Indenture except the certificate of destruction provided for in Section 11.05 hereof, with respect to compliance with any provision hereof shall include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Section 1.03. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE 2020 BONDS

Section 2.01. Authorization of 2020 Bonds. Valley Water hereby authorizes the issuance hereunder from time to time of the 2020 Bonds, which shall constitute special obligations of Valley Water, for the purpose of (i) paying and/or prepaying the Outstanding CP constituting Tax-Exempt Commercial Paper Certificates and the Taxable Commercial Paper Certificates and (ii) paying the Costs of Issuance. The Series 2020A Bonds are hereby designated the “Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2020A” in the aggregate principal amount of \$_____. The Series 2020B Bonds are hereby designated the “Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2020B” in the aggregate principal amount of \$_____. The Indenture constitutes a continuing agreement with the Owners from time to time of the 2020 Bonds to secure the full payment of the principal of and interest and premium (if any) on all the 2020 Bonds, subject to the covenants, provisions and conditions herein contained.

Section 2.02. Terms of the 2020 Bonds. The 2020 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

(a) The Series 2020A Bonds shall mature on June 1 in each of the years and in the amounts set forth below and shall bear interest at the rates set forth below:

<i>Maturity Date</i> <i>(June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
	\$	%

(b) The Series 2020B Bonds shall mature on June 1 in each of the years and in the amounts set forth below and shall bear interest at the rates set forth below:

<i>Maturity Date</i> <i>(June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
	\$	%

(c) Interest on the 2020 Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Owner's option, be made 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 Record Date). Principal of and premium (if any) on any 2020 Bond shall be paid by check of the Trustee upon presentation and surrender thereof at maturity or upon the prior redemption thereof, at the Office of the Trustee. Both the principal of and interest and premium (if any) on the 2020 Bonds shall be payable in lawful money of the United States of America.

Each 2020 Bond shall be dated the date of initial delivery, and shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before November 15, 2020 in which event it shall bear interest from the date of initial delivery; provided, however, that if, as of the date of authentication of any 2020 Bond, interest thereon is in default, such 2020 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the 2020 Bonds shall be calculated on the basis of a 360 day year composed of twelve 30 day months.

Section 2.03. Transfer of 2020 Bonds. 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 his or her duly authorized attorney, upon surrender of such 2020 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee shall not be required to register the transfer of any 2020 Bond during the period in which the Trustee is selecting 2020 Bonds for redemption and any 2020 Bond that has been selected for redemption.

Whenever any 2020 Bond or 2020 Bonds shall be surrendered for transfer, Valley Water shall execute and the Trustee shall authenticate and shall deliver a new 2020 Bond or 2020 Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee shall require the 2020 Bond Owner requesting such transfer to pay 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.

Section 2.04. Exchange of 2020 Bonds. 2020 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee shall not be required to exchange any 2020 Bond during the period in which the Trustee is selecting 2020 Bonds for redemption and any 2020 Bond that has been selected for redemption. The Trustee shall require the 2020 Bond Owner requesting such exchange to pay 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.

Section 2.05. Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2020 Bonds, which shall upon reasonable notice and at reasonable times be open to inspection during regular business hours by Valley Water and the Owners; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2020 Bonds as hereinbefore provided.

The person in whose name any 2020 Bond shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest on and principal and Redemption Price of by such 2020 Bonds shall be made only to or upon the order in writing of such registered Owner, which payments shall be valid and effectual to satisfy and discharge liability upon such 2020 Bond to the extent of the sum or sums so paid.

Section 2.06. Form and Execution of 2020 Bonds. The 2020 Bonds shall be in substantially the form set forth in Exhibit A hereto. The 2020 Bonds shall be executed in the name and on behalf of Valley Water with the manual or facsimile signature of its Chair of the Board of Directors. The 2020 Bonds may carry a seal, and such seal may be in the form of a facsimile of Valley Water's seal and may be reproduced, imprinted or impressed on the 2020 Bonds. The 2020 Bonds shall then be delivered to the Trustee for authentication by it. In case any of the officers who shall have signed any of the 2020 Bonds shall cease to be such officer or officers of Valley Water before the 2020 Bonds so signed shall have been authenticated or delivered by the Trustee, or issued by Valley Water, such 2020 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon Valley Water as though those who signed the same had continued to be such officers of Valley Water, and also any 2020 Bonds may be signed on behalf of Valley Water by such persons as at the actual date of execution of such

2020 Bonds shall be the proper officers of Valley Water although at the nominal date of such 2020 Bonds any such person shall not have been such officer of Valley Water.

Only such of the 2020 Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in Exhibit A hereto, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the 2020 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.07. 2020 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2020 Bond shall become mutilated, Valley Water, at the expense of the Owner of said 2020 Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2020 Bond of like tenor, series and authorized denomination in exchange and substitution for the 2020 Bonds so mutilated, but only upon surrender to the Trustee of the 2020 Bond so mutilated. Every mutilated 2020 Bond so surrendered to the Trustee shall be canceled by it. If any 2020 Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, Valley Water, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2020 Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2020 Bond so lost, destroyed or stolen (or if any such 2020 Bond shall have matured or shall be about to mature, instead of issuing a substitute 2020 Bond, the Trustee may pay the same without surrender thereof). Valley Water may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2020 Bond issued under this Section and of the expenses which may be incurred by Valley Water and the Trustee in connection therewith. Any 2020 Bond issued under the provisions of this Section in lieu of any 2020 Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of Valley Water whether or not the 2020 Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other 2020 Bonds secured by this Indenture. Notwithstanding any other provision of this Section, in lieu of delivering a new 2020 Bond for a 2020 Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such 2020 Bond upon receipt of indemnity satisfactory to the Trustee.

Section 2.08. Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2020 Bonds, Valley Water may provide that such 2020 Bonds shall be initially issued as book entry 2020 Bonds. If Valley Water shall elect to deliver any 2020 Bonds in book entry form, then Valley Water shall cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2020 Bonds in an authorized denomination corresponding to that total principal amount of the 2020 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2020 Bond shall be registered in the 2020 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2020 Bonds, or any portion thereof may not thereafter be transferred except as provided in Section 2.08(e).

With respect to book entry 2020 Bonds, Valley Water and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2020 Bonds. Without limiting the immediately preceding

sentence, Valley Water and the Trustee shall have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2020 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2020 Bond Registration Books, of any notice with respect to book entry 2020 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2020 Bonds to be redeemed in the event Valley Water redeems the 2020 Bonds in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest on book entry 2020 Bonds. Valley Water and the Trustee may treat and consider the person in whose name each book entry 2020 Bond is registered in the 2020 Bond Registration Books as the absolute Owner of such book entry 2020 Bond for the purpose of payment of principal of, premium and interest on such 2020 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2020 Bond, for the purpose of registering transfers with respect to such 2020 Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest on the 2020 Bonds only to or upon the order of the respective Owner, as shown in the 2020 Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge Valley Water's obligations with respect to payment of principal of, premium, if any, and interest on the 2020 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2020 Bond Registration Books, shall receive a 2020 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2020 Bonds. Upon delivery by the Depository to Valley Water and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Indenture shall refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2020 Bonds for the Depository's book entry system, Valley Water shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon Valley Water or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2020 Bonds other than the Owners, as shown on the 2020 Bond Registration Books. By executing a Letter of Representations, Valley Water shall agree to take all action necessary at all times so that Valley Water will be in compliance with all representations of Valley Water in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, Valley Water and the Trustee shall take such other actions, not inconsistent with this Indenture, as are reasonably necessary to qualify book entry 2020 Bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as Securities Depository for book entry 2020 Bonds; or (ii) Valley Water determines that continuation of the book entry system is not in the best interest of the beneficial owners of the 2020 Bonds or Valley Water, then Valley Water will discontinue the book entry system with the Depository. If Valley Water determines to replace the Depository with another qualified Securities Depository, Valley Water shall prepare or direct the preparation of a new single, separate, fully registered 2020 Bond for each of the maturity dates of such book entry 2020 Bonds, registered in the name of such successor or substitute qualified Securities Depository or its Nominee as provided in subsection (e) hereof. If Valley Water fails to identify another qualified Securities Depository to replace the Depository, then the 2020 Bonds shall no longer be restricted to being registered in such 2020 Bond Registration Books in the name of the Nominee, but shall be registered

in whatever name or names the Owners transferring or exchanging such 2020 Bonds shall designate, in accordance with the provisions of Sections 2.03 and 2.04 hereof.

(d) Payments To Depository. Notwithstanding any other provision of this Indenture to the contrary, so long as all Outstanding 2020 Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2020 Bond and all notices with respect to such 2020 Bond shall be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions herein.

(e) Transfer of 2020 Bonds to Substitute Depository.

(i) The 2020 Bonds shall be initially issued as provided in Section 2.01 hereof. Registered ownership of such 2020 Bonds, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this Section 2.08(e) (“Substitute Depository”); provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by Valley Water that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by Valley Water that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2020 Bonds by the Trustee, together with a Written Request of Valley Water to the Trustee designating the Substitute Depository, a single new 2020 Bond, which Valley Water shall prepare or cause to be prepared, shall be issued for each maturity of 2020 Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such Written Request of Valley Water. In the case of any transfer pursuant to clause (C) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2020 Bonds by the Trustee, together with a Written Request of Valley Water to the Trustee, new 2020 Bonds, which Valley Water shall prepare or cause to be prepared, shall be issued in such denominations and registered in the names of such persons as are requested in such Written Request of Valley Water, subject to the limitations of Section 2.01 hereof, provided that the Trustee shall not be required to deliver such new 2020 Bonds within a period of less than sixty (60) days from the date of receipt of such Written Request of Valley Water.

(iii) In the case of a partial redemption or an advance refunding of any 2020 Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such 2020

Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee shall not be liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2020 Bonds shall be controlling.

(iv) Valley Water and the Trustee shall be entitled to treat the person in whose name any 2020 Bond is registered as the Owner thereof for all purposes of this Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or Valley Water; and Valley Water and the Trustee shall have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2020 Bonds. Neither Valley Water nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2020 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2020 Bonds.

ARTICLE III

ISSUANCE OF 2020 BONDS; APPLICATION OF PROCEEDS

Section 3.01. Issuance of the 2020 Bonds. At any time after the execution of this Indenture, Valley Water may execute and the Trustee shall authenticate and, upon Written Request of Valley Water, deliver the Series 2020 Bonds in the aggregate principal amounts set forth in Section 2.01 hereof.

Section 3.02. Application of Proceeds of the 2020 Bonds and Certain Other Moneys. The proceeds received from the sale of the 2020 Bonds shall be deposited with the Trustee, who shall: (a) transfer \$_____ to the Issuing and Paying Agent to pay the Outstanding CP constituting Taxable Commercial Paper Certificates, (b) transfer \$_____ to the Issuing and Paying Agent to pay the Outstanding CP constituting Tax-Exempt Commercial Paper Certificates, and (c) deposit \$_____ in the Costs of Issuance Fund. The Trustee may establish temporary funds or accounts in its records to record and facilitate such deposits and transfer.

Section 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Requisitions of Valley Water stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is proper charge against said fund and that payment for such charge has not previously been made. On the six month anniversary of the issuance of the 2020 Bonds, or upon the earlier Written Request of Valley Water, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Interest Account and the Costs of Issuance Fund shall be closed. Investment earnings on amounts on deposit in the Costs of Issuance Fund shall be retained in the Cost of Issuance Fund until the Costs of Issuance Fund is closed and thereafter shall be transferred by the Trustee to the Interest Account.

Section 3.04. Validity of 2020 Bonds. The validity of the authorization and issuance of the 2020 Bonds is not dependent on and shall not be affected in any way by any proceedings taken by Valley Water or the Trustee with respect to any other agreement. The recital contained in the 2020 Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive

evidence of the validity and of compliance with the provisions of law in connection with their issuance.

ARTICLE IV

REDEMPTION OF 2020 BONDS

Section 4.01. Terms of Redemption.

(a) The 2020 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 in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in the Water Utility Parity System Master Resolution, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

(b) The Series 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.

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

(d) The Series 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 Redemption Date, 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 Amount</i>
	\$

*

* Final Maturity.

In the event of a redemption pursuant to Section 4.01(a) or (b) Valley Water shall provide the Trustee with a revised sinking fund schedule giving effect to the redemption so completed.

(e) The Series 2020B 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 Redemption Date, without premium, in accordance with the following schedules:

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

*

* Final Maturity.

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

*

* Final Maturity.

In the event of a redemption pursuant to Section 4.01(a), (c) or (f) Valley Water shall provide the Trustee with a revised sinking fund schedule giving effect to the redemption so completed.

(f) The Series 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 in a Written Request of Valley Water provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date at the “Make-Whole Redemption Price.” The “Make-Whole Redemption Price,” as determined by Valley Water, is the greater of (1) 100% of the principal amount of the Series 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 Series 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 Series 2020B Bonds are to be redeemed, discounted to the date on which the Series 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, in each case plus accrued and unpaid interest on the Series 2020B Bonds to be redeemed on the Redemption Date.

Section 4.02. Selection of 2020 Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the Series 2020A Bonds, other than sinking fund redemption, the Trustee shall select such Series 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 Section 4.01 hereof. The Trustee will promptly notify Valley Water in writing of the numbers of such Series 2020A Bonds or portions thereof so selected for redemption.

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

Section 4.03. Notice of Redemption. Notice of redemption shall 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 shall 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 shall cease to accrue, and shall 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 shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the Redemption Date 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 shall be of no force and effect and the Trustee shall 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 shall 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.

Section 4.04. Partial Redemption of 2020 Bonds. Upon surrender of any 2020 Bond redeemed in part only, Valley Water shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of Valley Water, a new 2020 Bond or 2020 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2020 Bonds surrendered and of the same series, interest rate and maturity.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the Redemption Date on, the 2020 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2020 Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the 2020 Bonds so called for redemption shall cease to accrue, said 2020 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said 2020 Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price thereof. The Trustee shall, upon surrender for payment of any of the 2020 Bonds to be redeemed on their Redemption Dates, pay such 2020 Bonds at the Redemption Price.

All 2020 Bonds redeemed pursuant to the provisions of this Article shall be canceled upon surrender thereof.

ARTICLE V

WATER UTILITY SYSTEM REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01. Pledge and Assignment; Revenue Fund.

(a) The 2020 Bonds are intended to be “Bonds” under the Water Utility Parity System Master Resolution and shall be secured by the pledge and liens created in the Water Utility Parity System Master Resolution on a parity with the Bonds and Contracts secured thereby.

(b) In order to carry out and effectuate the pledge and lien contained in the Water Utility Parity System Master Resolution for the 2020 Bonds, not later than three (3) Business Days prior to each Interest Payment Date, Valley Water shall transfer Net Water Utility System Revenues from the Water Utility System Revenue Fund held by Valley Water under the Water Utility Parity System Master Resolution to the Trustee the amount, if any, necessary for the payments of interest and principal on the 2020 Bonds due and payable on such Interest Payment Date.

Section 5.02. Application of Payment Fund. There is hereby established with the Trustee the Payment Fund, which the Trustee covenants to maintain and hold in trust separate and apart from

other funds held by it so long as any principal of and interest on the 2020 Bonds remain unpaid. Except as directed herein, all payments of interest and principal on the 2020 Bonds transferred by Valley Water from the Water Utility System Revenue Fund to the Payment Fund pursuant to Section 5.01(b) shall be promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required hereunder to be deposited in the Redemption Fund shall be promptly deposited therein. All payments of interest and principal on the 2020 Bonds deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture. The Trustee shall also establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee shall transfer from the Payment Fund and deposit into the following respective accounts the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Water Utility System Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee shall deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all 2020 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there shall be in such fund moneys sufficient to pay the interest becoming due and payable on such Interest Payment Date on all 2020 Bonds then Outstanding.

(b) Not later than the Business Day preceding each date on which the principal of the 2020 Bonds shall become due and payable hereunder, the Trustee shall deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2020 Bonds coming due and payable on such date. No deposit need be made into the Principal Account so long as there shall be in such fund moneys sufficient to pay the principal becoming due and payable on such date on all 2020 Bonds then Outstanding.

Section 5.03. Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2020 Bonds as it shall become due and payable (including accrued interest on any 2020 Bonds purchased or accelerated prior to maturity pursuant to this Indenture).

Section 5.04. Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the 2020 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2020 Bonds, upon Written Request of Valley Water, the Trustee shall apply such amounts to the purchase of 2020 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of Valley Water, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2020 Bonds.

Section 5.05. Application of Redemption Fund. There is hereby established with the Trustee a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund

shall be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2020 Bonds to be redeemed on any Redemption Date pursuant to Section 4.01; provided, however, that at any time prior to selection for redemption of any such 2020 Bonds, upon Written Request of Valley Water, the Trustee shall apply such amounts to the purchase of 2020 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of Valley Water, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2020 Bonds.

Section 5.06. Investments. All moneys in any of the funds or accounts established with Valley Water or the Trustee pursuant to this Indenture shall be invested by Valley Water or the Trustee, as the case may be, solely in Permitted Investments, which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement. Any investments by the Trustee shall be directed by Valley Water pursuant to a Written Request of Valley Water filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions shall be promptly confirmed to the Trustee in writing). In the absence of any such directions from Valley Water, the Trustee shall invest any such moneys in Permitted Investments described in clause (g) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Written Request of Valley Water specifying a specific money market fund and, if no such Written Request of Valley Water is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Interest Account unless otherwise provided in this Indenture. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section 5.06.

Valley Water acknowledges that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant Valley Water the right to receive brokerage confirmations of security transactions as they occur, Valley Water specifically waives receipt of such confirmations to the extent permitted by law. The Trustee shall furnish Valley Water periodic cash transaction statements which shall include detail for all investment transactions effected by the Trustee and brokers selected by Valley Water. Upon Valley Water's election, such statements will be delivered via the Trustee's online service and upon electing such service; paper statements will be provided only upon request. Valley Water waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. Valley Water further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or an affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under this Indenture.

Valley Water shall invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate.

For investment purposes, the Trustee may commingle the funds and accounts established hereunder (other than the Rebate Fund), but shall account for each separately. In making any valuations of investments hereunder, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee accounting system.

Section 5.07. Rebate Fund.

(a) Establishment. The Trustee shall establish for the Series 2020A Bonds a fund designated the “Rebate Fund.” Except as may otherwise be approved by an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Series 2020A Bonds will not be adversely affected, Valley Water shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the Series 2020A Bonds shall be governed by this Section and the Tax Certificate, unless and to the extent that Valley Water delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Series 2020A Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained herein or in the Tax Certificate, the Trustee: (i) shall be deemed conclusively to have complied with the provisions hereof and thereof if it follows all Written Requests of Valley Water; and (ii) shall have no liability or responsibility to enforce compliance by Valley Water with the terms of this Section and the Tax Certificate; and (iii) may rely conclusively on Valley Water’s calculations and determinations and certifications relating to rebate matters; and (iv) shall have no responsibility to independently make any calculations or determinations or to review Valley Water’s calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), Valley Water shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in this Section or the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). Valley Water shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Request of Valley Water an amount shall be deposited to the Rebate Fund by the Trustee from any Net Water Utility System Revenues legally available for such purpose (as specified by Valley Water in the aforesaid Written Request of Valley Water), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with clause (i) of this subsection (a). In the event that immediately following the transfer

required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of Valley Water the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Payment Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed by Written Request of Valley Water, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebateable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the Series 2020A Bonds, an amount equal to 100% of the Rebateable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebateable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, Valley Water shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subsection (a) shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T (prepared by Valley Water), or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the Series 2020A Bonds and the payments described in clause (iii) of subsection (a) above being made may be withdrawn by Valley Water and utilized in any manner by Valley Water.

(c) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance or payment in full of the Series 2020A Bonds.

Section 5.08. Application of Funds and Accounts When No 2020 Bonds are Outstanding. On the date on which all 2020 Bonds shall be retired hereunder or provision made therefor pursuant to Article X and after payment of all amounts due the Trustee hereunder, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to this Indenture shall be withdrawn by the Trustee and paid to Valley Water for use by Valley Water at any time for any purpose permitted by law.

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. Compliance with Indenture and Water Utility Parity System Master Resolution. The Trustee will not authenticate or deliver any 2020 Bond in any manner other than in accordance with the provisions of this Indenture and the Water Utility Parity System Master

Resolution, and Valley Water will not suffer or permit any default by it to occur under this Indenture or the Water Utility Parity System Master Resolution, but will faithfully observe and perform all the covenants, conditions and requirements hereof and thereof.

Section 6.02. Continuing Disclosure. Valley Water hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Indenture, failure of Valley Water to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause Valley Water to comply with its obligations under this Section, all in accordance with the terms and limitations set forth in the Continuing Disclosure Agreement. For purposes of this Section, “Beneficial Owner” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2020 Bond (including persons holding 2020 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2020 Bond for federal income tax purposes.

Section 6.03. Punctual Payment. Valley Water shall pay and cause the Trustee to pay the principal and interest to become due in respect of all of the 2020 Bonds, in strict conformity with the terms of the 2020 Bonds and of this Indenture, according to the true intent and meaning thereof, but only as provided in this Indenture and in the Water Utility Parity System Master Resolution.

Section 6.04. Extension of Payment of 2020 Bonds. Valley Water shall not directly or indirectly extend or assent to the extension of the maturity of any of the 2020 Bonds or the time of payment of any claims for interest by the purchase of such 2020 Bonds or by any other arrangement, and in case the maturity of any of the 2020 Bonds or the time of payment of any such claims for interest shall be extended, such 2020 Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the 2020 Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended.

Section 6.05. Power to Issue 2020 Bonds and Make Pledge and Assignment. Valley Water is duly authorized pursuant to law to issue the 2020 Bonds, to enter into this Indenture and to pledge and assign the Water Utility System Revenues and other assets purported to be pledged and assigned under the Water Utility Parity System Master Resolution and this Indenture in the manner and to the extent provided in the Water Utility Parity System Master Resolution and this Indenture. The 2020 Bonds and the provisions of the Water Utility Parity System Master Resolution and this Indenture are and will be the legal, valid and binding special obligations of Valley Water in accordance with their terms, and Valley Water and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Water Utility System Revenues and other assets and all the rights of the 2020 Bond Owners under this Indenture against all claims and demands of all persons whomsoever.

Section 6.06. Tax Covenants. Notwithstanding any other provision of this Indenture, and except as may otherwise be approved by an opinion of Bond Counsel that the exclusion from gross income of interest on the Series 2020A Bonds will not be adversely affected for federal income tax purposes, Valley Water covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the Series 2020A Bonds and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. Valley Water will take no action or refrain from taking any action or make any use of the proceeds of the Series 2020A Bonds or of any other moneys or property which would cause the Series 2020A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. Valley Water will make no use of the proceeds of the Series 2020A Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Series 2020A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. Valley Water will make no use of the proceeds of the Series 2020A Bonds or take or omit to take any action that would cause the Series 2020A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. Valley Water will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the Series 2020A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. Valley Water will make no use of the proceeds of the Series 2020A Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Series 2020A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless Valley Water takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Series 2020 Bonds for federal income tax purposes; and

(f) Miscellaneous. Valley Water will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed by Valley Water in connection with the issuance of the Series 2020A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein.

Section 6.07. Waiver of Laws. Valley Water shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the 2020 Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by Valley Water to the extent permitted by law.

Section 6.08. Further Assurances. Valley Water will adopt, make, execute and deliver any and all such further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the 2020 Bonds of the rights and benefits provided in this Indenture.

Section 6.09. Prosecution and Defense of Suits. Valley Water shall promptly, upon request of the Trustee or any 2020 Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water Utility System or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee (including all of its employees, officers and directors) and every 2020 Bond Owner harmless from all

loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Valley Water shall defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2020 Bond Owner upon any claim by a 2020 Bond Owner or a third party arising out of the receipt, application or disbursement of any of the payments of principal of or interest on the 2020 Bonds or involving the rights of the Trustee or any 2020 Bond Owner under this Indenture; provided that the Trustee or any 2020 Bond Owner at such party's election may appear in and defend any such suit, action or proceeding. Valley Water shall indemnify and hold harmless the Trustee and the 2020 Bond Owners against any and all liability claimed or asserted by any such person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the 2020 Bond Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation (including pre-litigation activities) to which any of them may become a party by reason of ownership of 2020 Bonds. Valley Water shall promptly reimburse any 2020 Bond Owner in the full amount of any attorneys' fees or other expenses which such Owner may incur in litigation or otherwise in order to enforce such party's rights under this Indenture or the 2020 Bonds, provided that such litigation shall be concluded favorably to such party's contentions therein.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF 2020 BOND OWNERS

Section 7.01. Events of Default. The following events shall be Events of Default:

(a) default by Valley Water in the due and punctual payment of the principal of or interest on any 2020 Bonds when and as the same shall become due and payable;

(b) default by Valley Water in the observance of any of the other agreements or covenants required herein to be performed by it, and such default shall have continued for a period of thirty (30) days after Valley Water shall have been given notice in writing of such default or, if such default is not reasonably susceptible to cure within thirty (30) days after notice thereof, such default shall have continued for a period of sixty (60) days;

(c) Valley Water shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of Valley Water seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of Valley Water or of the whole or any substantial part of its property; or

(d) declaration of an "event of default" under any Contract or Bond as provided by the terms of such Contract or Bond.

Section 7.02. Remedies Upon Event of Default. If any Event of Default specified in Section 7.01 shall occur and be continuing, any Owner shall have the following rights, for the equal benefit and protection of all Owners similarly situated:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against Valley Water or any member of Valley Water's Board of Directors, officer or employee thereof, and to compel Valley Water or any such member of Valley Water's Board of Directors, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained herein;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Owners; or

(c) by suit in equity upon the happening of an Event of Default to require Valley Water and any member of Valley Water's Board of Directors, officers and employees to account as the trustee of an express trust.

Section 7.03. Application of Water Utility System Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Water Utility System Revenues thereafter received by Valley Water and amounts on deposit in the funds and accounts held under the Water Utility Parity System Master Resolution (other than amounts held in the Rebate Fund) shall be applied in the following order:

(i) to the payment, without preference or priority, and in the event of any insufficiency ratably without any discrimination or preference, of the fees, costs and expenses, if any of the Trustee, including reasonable compensation to their respective accountants and counsel;

(ii) to the payment of Operation and Maintenance Costs;

(iii) to the payment of Senior Obligations in accordance with the terms thereof; and

(iv) to the payment of the entire principal amount of the unpaid 2020 Bonds and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the 2020 Bonds and such Bonds and Contracts if paid in accordance with their respective terms.

Section 7.04. Trustee to Represent 2020 Bond Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the 2020 Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2020 Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2020 Bonds or this Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2020 Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2020 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the 2020 Bonds or this Indenture or any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a

receiver of the Water Utility System Revenues and other assets pledged under this Indenture, pending such proceedings. All rights of action under this Indenture or the 2020 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2020 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such 2020 Bonds, subject to the provisions of this Indenture.

Section 7.05. 2020 Bond Owners' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2020 Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conduct in all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to 2020 Bond Owners not parties to such direction.

Section 7.06. Suit by Owners. No Owner of any 2020 Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture with respect to such 2020 Bonds, unless: (a) such Owners shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than fifty percent (50%) in aggregate principal amount of the 2020 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the 2020 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of 2020 Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of 2020 Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of 2020 Bonds, or to enforce any right under the 2020 Bonds, this Indenture, or applicable law with respect to the 2020 Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding 2020 Bonds, subject to the provisions of this Indenture.

Section 7.07. Absolute Obligation of Valley Water. Nothing in this Section 7.07 or in any other provision of this Indenture or in the 2020 Bonds shall affect or impair the obligation of Valley Water, which is absolute and unconditional, to pay the principal of and interest on the 2020 Bonds to the respective Owners of the 2020 Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Water Utility System Revenues and other assets pledged and assigned herein and in the Water Utility Parity System Master Resolution therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2020 Bonds.

Section 7.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the 2020 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2020 Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in this Indenture, and no implied covenants or duties shall be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) Valley Water may remove the Trustee at any time, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2020 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon Valley Water shall promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to Valley Water and by giving the 2020 Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, Valley Water shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within ninety (90) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2020 Bond Owner (on behalf of himself and all other 2020 Bond Owners) may petition any court of competent jurisdiction at the expense of Valley Water for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance

of such appointment by executing and delivering to Valley Water and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of Valley Water or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, Valley Water shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, Valley Water shall mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each Rating Agency which is then rating the 2020 Bonds and to the 2020 Bond Owners at the addresses shown on the Registration Books. If Valley Water fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of Valley Water.

(e) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such trust company, banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Section 8.02. Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, banking association or bank shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03. Liability of Trustee.

(a) The recitals of facts herein and in the 2020 Bonds shall be taken as statements of Valley Water, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture or the 2020 Bonds, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations herein or in the 2020 Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its

certificate of authentication on the 2020 Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2020 Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2020 Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the 2020 Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for herein) in aggregate principal amount of the 2020 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be deemed to have knowledge of any default or Event of Default hereunder or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until a Responsible Officer of the Trustee shall have actual knowledge of such event or the Trustee shall have been notified in writing, in accordance with Section 11.07, of such event by Valley Water or the Owners of not less than fifty percent (50%) of the 2020 Bonds then Outstanding. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by Valley Water of any of the terms, conditions, covenants or agreements herein of any of the documents executed in connection with the 2020 Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of any of its rights or powers.

(g) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of Owners pursuant to this Indenture, unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy and the Trustee shall not be answerable for other than its negligence or willful misconduct.

(h) Whether or not herein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article VIII.

(i) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2020 Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of this Indenture and perform any of its duties through attorneys, agents and receivers and shall not be answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, which affect the Trustee's ability to perform its obligations hereunder, including, but not limited to, acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Water Utility System Revenues, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by secured e-mail, facsimile transmission or other similar secured electronic methods, provided, however, that, for purposes of this Indenture, an e-mail does not constitute a notice, request, or other communication hereunder but rather, the portable document format or similar attachment attached to such e-mail shall constitute a notice, request, or other communication hereunder and provided further that the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If Valley Water elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding the fact that such instructions conflict or are inconsistent with a subsequent written instruction. Valley Water agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

Section 8.04. Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to Valley Water, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2020 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2020 Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of Valley Water and such Certificate, Request or Requisition shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its respective possession and shall be subject at all reasonable times to the inspection of Valley Water, and any 2020 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Section 8.06. Compensation and Indemnification. Valley Water shall pay to the Trustee from time to time all reasonable compensation for all services rendered under this Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Indenture.

Valley Water shall indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred to a 2020 Bond Owner or a third party without negligence or bad faith on its part, arising out of or in connection with the execution of this Indenture, acceptance or administration of this trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. The rights of the Trustee and the indemnification obligations of Valley Water shall survive removal or resignation of the Trustee hereunder or the discharge of the 2020 Bonds and this Indenture.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE/WATER UTILITY PARITY SYSTEM MASTER RESOLUTION

Section 9.01. Amendments to Indenture Permitted.

(a) The Indenture and the rights and obligations of Valley Water, the Owners of the 2020 Bonds, and the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, subject to subsections (b) – (d) of this Section. No such modification or amendment shall: (1) extend the fixed maturity of any 2020 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2020 Bond so affected; (2) reduce the percentage of Owners required to provide consent or direction under this Indenture or (3) reduce the percentage of owners of any Bonds or Contracts required to provide consent to amendments or modifications of the Water Utility Parity System Master Resolution as set forth in Section 9.05(a) below. Promptly after the execution by Valley Water and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2020 Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of Valley Water, the Trustee and the Owners of the 2020 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture if the Trustee shall receive an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Outstanding 2020 Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of Valley Water contained in this Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2020 Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon Valley Water;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as Valley Water may deem necessary or desirable;

(3) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereunder in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(4) to modify, amend or supplement this Indenture in such manner as to cause interest on the Series 2020A Bonds to remain excludable from gross income under the Code; and

(5) to make such other amendments or modifications as may be in the best interests of the Owners of the 2020 Bonds.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture hereunder, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of this Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the Series 2020A Bonds from federal income taxation and the 2020 Bonds from state income taxation.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of Valley Water, the Trustee and all Owners of 2020 Bonds Outstanding shall thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.03. Endorsement of 2020 Bonds; Preparation of New 2020 Bonds. 2020 Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by Valley Water and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2020 Bonds Outstanding at the time of such execution and presentation of his or her 2020 Bonds for such purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for such purpose, a suitable notation shall be made on such 2020 Bonds. If the Supplemental Indenture shall so provide, new 2020 Bonds so modified as to conform, in the opinion of Valley Water and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by Valley Water and authenticated by the Trustee, and upon demand on the Owners of any 2020 Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any 2020 Bond Owner, for 2020 Bonds then Outstanding, upon surrender for cancellation of such 2020 Bonds, in equal aggregate principal amount of the same maturity.

Section 9.04. Amendment of Particular 2020 Bonds. The provisions of this Article shall not prevent any 2020 Bond Owner from accepting any amendment as to the particular 2020 Bonds held by such 2020 Bond Owner.

Section 9.05. Amendment to Water Utility Parity System Master Resolution. The Water Utility Parity System Master Resolution may be amended or modified by Valley Water by a supplemental resolution thereto with the consent of a majority of the owners of outstanding Bonds and Contracts; provided, however, that Valley Water may modify or amend the Water Utility Parity System Master Resolution at any time without the consent of owners of outstanding Bonds and Contracts by a supplemental resolution thereto to: (i) add to the agreements and covenants of Valley Water other agreements and covenants to be observed, or to surrender any right or power therein reserved to Valley Water, or (ii) cure, correct or supplement any ambiguous or defective provision

contained therein, or (iii) resolve questions arising thereunder as Valley Water may deem necessary or desirable, and which do not materially adversely affect the interests of the owners of outstanding Bonds and Contracts. Such amendment or modification shall be filed by Valley Water with the applicable Trustee for such outstanding Bonds or Contracts. Valley Water shall give notice of any such amendment or supplement to each Rating Agency then rating the 2020 Bonds.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. The 2020 Bonds may be paid by Valley Water in any of the following ways, provided that Valley Water also pays or causes to be paid any other sums payable hereunder by Valley Water:

- (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on such 2020 Bonds, as and when the same become due and payable;
- (b) by the deposit with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem all 2020 Bonds then Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, all of the 2020 Bonds then Outstanding.

If Valley Water shall also pay or cause to be paid all other sums payable hereunder by Valley Water, then and in that case, at the election of Valley Water (as evidenced by a certificate of Valley Water filed with the Trustee, signifying the intention of Valley Water to discharge all such indebtedness and this Indenture), and notwithstanding that any such 2020 Bonds shall not have been surrendered for payment, all covenants, agreements and other obligations of Valley Water under this Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of Valley Water, the Trustee shall execute and deliver to Valley Water all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment or redemption of such 2020 Bonds not theretofore surrendered for such payment or redemption to Valley Water.

Section 10.02. Discharge of Liability on 2020 Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding 2020 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2020 Bonds), provided that, if such Outstanding 2020 Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provisions satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of Valley Water in respect of such 2020 Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of Section 10.04.

Valley Water may at any time surrender to the Trustee for cancellation by it any 2020 Bonds previously issued and delivered, which Valley Water may have acquired in any manner whatsoever, and such 2020 Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2020 Bonds, the money or securities so to be deposited shall be held by the Trustee in the funds and accounts established pursuant to this Indenture. Defeasance may be accomplished by depositing with the Trustee:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2020 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2020 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provisions satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such 2020 Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or

(b) Defeasance Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant or Independent Financial Consultant filed with Valley Water and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the Redemption Date (with premium, if any), as the case may be, on the 2020 Bonds to be paid or redeemed as directed by Valley Water as such principal, interest and premium, if any, become due, provided that in the case of 2020 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that: (i) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of Valley Water) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2020 Bonds as directed by Valley Water; and (ii) Valley Water shall have delivered to the Trustee an opinion of Bond Counsel addressed to Valley Water and the Trustee to the effect that such 2020 Bonds have been discharged in accordance with this Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above). The opinion of Bond Counsel and Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above shall be acceptable in form and substance, and addressed, to Valley Water and the Trustee.

The 2020 Bonds shall be deemed Outstanding under this Indenture unless and until they are in fact paid and retired or the above criteria are met.

Section 10.04. Payment of 2020 Bonds After Discharge of Indenture. Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2020 Bonds and remaining unclaimed for two (2) years after the principal of all of the 2020 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2020 Bonds became due and payable, shall be transferred to the State and become subject to the escheat laws of

the State free from the trusts created by this Indenture upon receipt of an indemnification agreement acceptable to Valley Water and the Trustee indemnifying the Trustee with respect to claims of Owners of 2020 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the transfer of such moneys to the State as aforesaid, the Trustee shall at the Written Request of Valley Water (at the cost of Valley Water), first mail to the Owners of 2020 Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2020 Bonds so payable and not presented and with respect to the provisions relating to the transfer to the State of the moneys relating for the payment thereof.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Liability Limited. Notwithstanding anything contained herein or in the Water Utility Parity System Master Resolution, Valley Water shall not be required to advance any moneys derived from any source of income other than the Net Water Utility System Revenues and the other funds provided herein for the payment of principal of and interest on the 2020 Bonds or for the performance of any agreements or covenants required to be performed by it contained herein. Valley Water may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by Valley Water for such purpose.

The obligation of Valley Water to pay the principal of and interest on the 2020 Bonds is a special obligation of Valley Water payable solely from such Net Water Utility System Revenues and other funds described herein and in the Water Utility Parity System Master Resolution, and 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.

Section 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either Valley Water or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of Valley Water or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.03. Limitation of Rights to Parties and 2020 Bond Owners. Nothing expressed or implied in this Indenture or in the 2020 Bonds is intended or shall be construed to give to any person other than Valley Water, the Trustee and the Owners of the 2020 Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of Valley Water, the Trustee and the Owners of the 2020 Bonds.

Section 11.04. Waiver of Notice; Requirement of Mailed Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in this Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Section 11.05. Destruction of 2020 Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to Valley Water of any 2020 Bonds, the Trustee shall destroy such 2020 Bonds as may be allowed by law, and deliver a certificate of such destruction to Valley Water.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the 2020 Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. Valley Water hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the 2020 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices. Any notice to or demand upon Valley Water or the Trustee shall be deemed to have been sufficiently given or served for all purposes by being sent by facsimile or email or by being deposited, first class mail, postage prepaid, in a post office letter box, addressed, as the case may be, to Valley Water at Santa Clara Valley Water District, 5750 Almaden Expressway, San Jose, California 95118, Attention: Treasury/Debt Officer (or such other address as may have been filed in writing by Valley Water with the Trustee) or to the Trustee at U.S. Bank National Association, One California Street, Suite 1000, San Francisco, California; Attention: Global Corporate Trust Services, Reference: Santa Clara Valley Water District, Series 2020A/B; Facsimile: (415) 273-4591. Notwithstanding the foregoing provisions of this Section 11.07, the Trustee shall not be deemed to have received, and shall not be liable for failing to act upon the contents of, any notice unless and until the Trustee actually receives such notice.

Section 11.08. Evidence of Rights of 2020 Bond Owners. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by 2020 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such 2020 Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2020 Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and Valley Water if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of 2020 Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any 2020 Bond shall bind every future Owner of the same 2020 Bond and the Owner of every 2020 Bond issued in

exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or Valley Water in accordance therewith or reliance thereon.

Section 11.09. Disqualified 2020 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2020 Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, 2020 Bonds which are known by the Trustee to be owned or held by or for the account of Valley Water, or by any other obligor on the 2020 Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, Valley Water or any other obligor on the 2020 Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2020 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such 2020 Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, Valley Water or any other obligor on the 2020 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request, Valley Water shall certify to the Trustee those 2020 Bonds that are disqualified pursuant to this Section 11.09 and the Trustee may conclusively rely on such certificate.

Section 11.10. Money Held for Particular 2020 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2020 Bonds (or portions of 2020 Bonds in the case of registered 2020 Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the 2020 Bonds entitled thereto, subject, however, to the provisions of Section 10.04 hereof but without any liability for interest thereon.

Section 11.11. Funds and Accounts. Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with corporate trust industry standards to the extent practicable for the protection of the security of the 2020 Bonds and the rights of every Owner thereof.

Section 11.12. Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of Valley Water shall be individually or personally liable for the payment of the principal of or premium or interest on the 2020 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by this Indenture.

Section 11.13. Execution in Several Counterparts. The Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as Valley Water and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.14. CUSIP Numbers. Neither the Trustee nor Valley Water shall be liable for any defect or inaccuracy in the CUSIP number that appears on any 2020 Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect

that the CUSIP numbers on the 2020 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2020 Bond Owners and that neither Valley Water nor the Trustee shall be liable for any inaccuracies in such numbers.

Section 11.15. Choice of Law. THE INDENTURE SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

IN WITNESS WHEREOF, Valley Water has caused this Indenture to be signed in its name by its Authorized Representative, and the Trustee, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officers thereunto duly authorized, all as of the day and year first above written.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Its: Authorized Representative

Attest:

Clerk of the Board of Directors

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

FORM OF 2020 BOND

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. _____

\$ _____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

SANTA CLARA VALLEY WATER DISTRICT
WATER SYSTEM REFUNDING REVENUE BOND,
[SERIES 2020A] [TAXABLE SERIES 2020B]

INTEREST RATE	MATURITY DATE	ORIGINAL ISSUE DATE	CUSIP
_____%	June 1, 20__	September __, 2020	___

REGISTERED OWNER CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The SANTA CLARA VALLEY WATER DISTRICT, an agency duly organized and existing under the laws of the State of California (“Valley Water”), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the “Registered Owner”), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless: (i) this Bond is authenticated after the fifteenth day of the calendar month preceding an interest payment date, whether or not such day is a Business Day, and on or before the following interest payment date, in which event it shall bear interest from such interest payment date; or (ii) this Bond is authenticated on or before November 15, 2020 in which event it shall bear interest from the Original Issue Date identified above; provided, however, that if as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond), at the Interest Rate per annum specified above, payable semiannually on each June 1 and December 1, commencing December 1, 2020, calculated on the basis of a 360 day year composed of twelve 30 day months. Principal hereof and premium, if any, upon early

redemption hereof are payable by check of the Trustee upon presentation and surrender hereof at the Office of the Trustee (as defined in the hereinafter described Indenture) of U.S. Bank National Association, as trustee (the "Trustee"). Interest hereon is payable by check of the Trustee sent by first class mail on the applicable interest payment date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each interest payment date (except that in the case of a registered owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such registered owner's option, be made 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 registered owner prior to the fifteenth (15th) day of the month preceding such interest payment date). Capitalized terms not defined herein shall have the meanings set forth in the Indenture (as defined below) and if not in the Indenture, in the Water Utility Parity System Master Resolution (as defined below).

This Bond is not a debt of the State of California, or any of its political subdivisions (other than Valley Water), and neither the State, nor any of its political subdivisions (other than Valley Water), is liable hereon, nor in any event shall this Bond be payable out of any funds or properties of Valley Water other than the Net Water Utility System Revenues (as such term is defined in the Water Utility Parity System Master Resolution adopted by the Board of Directors of Valley Water on February 23, 2016, as amended (the "Water Utility Parity System Master Resolution") and other moneys pledged and assigned therefor under the Water Utility Parity System Master Resolution and the Indenture of Trust, dated as of August 1, 2020 (the "Indenture"), by and between Valley Water and the Trustee. Such pledge, together with the pledge created by all other Contracts and Bonds (as such terms are defined in the Water Utility Parity System Master Resolution), constitutes a second lien on Water Utility System Revenues and all amounts on deposit in the funds and accounts under the Water Utility Parity System Master Resolution to the extent set forth therein, subordinate to the Senior Obligations, as permitted by the Water Utility Parity System Master Resolution, and is subject to the application of Net Water Utility System Revenues in accordance with the terms of the Water Utility Parity System Master Resolution and the Indenture. The obligation of Valley Water to make payments in accordance with the Water Utility Parity System Master Resolution and the Indenture is a limited obligation of Valley Water as set forth in the Water Utility Parity System Master Resolution and the Indenture and Valley Water shall have no liability or obligation in connection herewith except with respect to such payments to be made pursuant to the Water Utility Parity System Master Resolution and the Indenture. The Bonds do not constitute an indebtedness of Valley Water in contravention of any constitutional or statutory debt limitation or restriction.

This Bond is one of a duly authorized issue of bonds of Valley Water designated as the "Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2020A" (the "2020A Bonds"), and "Taxable Series 2020B" (the "2020B Bonds" and with the 2020A Bonds, the "Bonds") of an aggregate principal amount of _____ (\$_____), all of like tenor and date (except for such variation, if any, as may be required to designate varying series, numbers or interest rates) and all issued pursuant to the provisions of Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, and pursuant to the Water Utility Parity System Master Resolution, the Indenture and the resolution authorizing the issuance of the Bonds. Reference is hereby made to the Water Utility Parity System Master Resolution and the Indenture (copies of which are on file at the office of Valley Water) and all supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Water Utility System Revenues, and the rights thereunder of the Owners of the Bonds and the rights, duties and immunities of the

Trustee and the rights and obligations of Valley Water hereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees. The Bonds have been issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

The Bonds have been issued by Valley Water to refund certain obligations of Valley Water, as more fully described in the Indenture.

This Bond and the interest, premium, if any, hereon and all other Bonds and the interest and premium, if any, thereon (to the extent set forth in the Water Utility Parity System Master Resolution and the Indenture) are special obligations of Valley Water, secured by a pledge and lien on and payable from the Water Utility System Revenues and any other amounts on deposit in certain funds and accounts created under the Water Utility Parity System Master Resolution. As and to the extent set forth in the Water Utility Parity System Master Resolution and the Indenture, all of the Water Utility System Revenues are irrevocably pledged in accordance with the terms hereof and the provisions of the Water Utility Parity System Master Resolution and the Indenture, to the payment of the principal of and interest and premium (if any) on the Bonds.

The Indenture and the rights and obligations of Valley Water and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by a resolution or resolutions or an indenture or indentures supplemental thereto. No such modification or amendment shall: (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected; (ii) reduce the percentage of Owners required to provide consent or direction under the Indenture or (iii) reduce the percentage of owners of any Bonds or Contracts required to provide consent to amendments or modifications of the Water Utility Parity System Master Resolution as set forth in the Indenture. The Indenture and the rights and obligations of Valley Water, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a supplemental indenture if the Trustee shall receive an opinion of Bond Counsel to the effect that the provisions of such supplemental indenture shall not materially adversely affect the interests of the Owners of the Outstanding Bonds.

The Water Utility Parity System Master Resolution may be amended or modified by Valley Water by a supplemental resolution thereto with the consent of a majority of the Owners of outstanding Bonds and Contracts; provided, however, that Valley Water may modify or amend the Water Utility Parity System Master Resolution at any time without the consent of Owners of outstanding Bonds and Contracts by a supplemental resolution thereto to the extent permitted in the Indenture.

The Bonds are 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 Indenture at a redemption price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

The [2020A] [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 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.

The [2020A] [2020B] Bonds with stated maturities on June 1, 20__ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20__, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the Redemption Date, without premium, in accordance with the following schedule:

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

* Final Maturity.

[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 in a Written Request of Valley Water provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date at the “Make-Whole Redemption Price.” The “Make-Whole Redemption Price,” as determined by Valley Water, is the greater of (1) 100% of the principal amount of the 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, 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; (ii) with respect to the 2020B Bonds maturing on June 1, 20__ through June 1, 20__, inclusive, __ basis points; and (iii) with respect to the 2020B Bonds maturing on June 1, 20__, through June 1, 20__, inclusive, ___ basis points.]

As provided in the Indenture, notice of redemption shall be mailed by the Trustee by first class mail at least 20 days but not more than 60 days prior to the Redemption Date to the respective Owners of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither the failure to receive such notice nor any defect in the notice or the mailing thereof shall affect the validity of the proceedings for redemption or the cessation of accrual of interest thereon from and after the Redemption Date.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the Redemption Date.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all of the Bonds and the interest accrued thereon may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his or her duly authorized attorney in writing, at said Office of the Trustee but only in the manner subject to the limitations and upon payment of the taxes and charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds of the same series, of authorized denomination or denominations, for the same aggregate principal amount of the same maturity will be issued to the transferee in exchange therefor.

Bonds may be exchanged at said Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same series and same maturity, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture.

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

Valley Water and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and Valley Water and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Indenture and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of Valley Water, does not exceed any limit under any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, Valley Water has caused this Bond to be executed in its name and on its behalf with the manual or facsimile signature of its Chair as of this ___ day of August, 2020.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Its: Chair of the Board of Directors

Attest:

Clerk of the Board of Directors

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
TO APPEAR ON BONDS]

This is one of the Bonds described in the within-mentioned Indenture.

Dated: August __, 2020

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Its: Authorized Signatory

[FORM OF ASSIGNMENT]

For value received the undersigned hereby sells, assigns and transfers unto

(Name, Address and Tax Identification or
Social Security Number of Assignee)

the within registered Bond and hereby irrevocably constitute(s) and appoint(s) _____
_____ attorney, to transfer the same on the registration books of the Trustee
with full power of substitution in the premises.

Dated: _____

Note: The signature(s) on this Assignment must
correspond with the name(s) as written on the
face of the within Bond in every particular
without alteration or enlargement or any
change whatsoever.

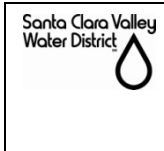
Signature Guaranteed:

Note: Signature guarantee shall be made by
a guarantor institution participating in the
Securities Transfer Agents Medallion Program
or in such other guarantee program acceptable
to the Trustee.

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DEBT MANAGEMENT POLICY

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I. POLICY STATEMENT

The Santa Clara Valley Water District (District) Debt Management Policy sets forth debt management objectives for the District, establishes overall parameters for issuing and administering the debt portfolio, and provides policy guidelines to decision makers.

Implementation of the Debt Management Policy will help to ensure that the District maintains a sound debt position and protects its credit quality, as well as maintain compliance with California Government Code section 8855 (i) which requires any issuer of public debt to certify with the California Debt and Investment Advisory Commission (CDIAC) that the issuer has adopted local debt policies concerning the use of debt and any proposed debt issuance is consistent with those policies as well as file certain annual reports with CDIAC by January 31 of each year (first report due by January 31, 2018).

Furthermore, the Debt Policy complies with District Board Governance Policy - Executive Limitation (EL-4.7) (Revision as of July 29, 2015) which states that the Board Appointed Officer shall:

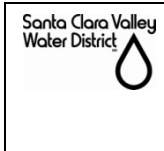
- 4.7 Not indebt the organization, except as provided in the District Act, and in an amount greater than can be repaid by certain, otherwise unencumbered, revenues within 90 days, or prior to the close of the fiscal year.
 - 4.7.1 Not issue debt (long or short-term obligations that are sold within the financial marketplace) that conflicts with the District Act or the legal authority of the District without Board authorization;
 - 4.7.2 Not issue debt without a demonstrated financial need;
 - 4.7.3 Meet debt repayment schedules and covenants of bond documents;
 - 4.7.4 Establish prudent District Debt Policies that are consistent with Board policies and provide guidance to employees in regards to administering the debt programs and agreements, including consideration for the appropriate level of debt for the District to carry and structuring debt repayment to address intergenerational benefits;
 - 4.7.5 Be consistent with the District's Debt Policies and any addendums when issuing debt;
 - 4.7.6 Maintain strong credit ratings and good investor relations.

A. Legal Governing Principles

1. *Governing Law*

i. **The District Act**

The District is a multi-purpose special district duly organized and validly existing under the Constitution and the laws of the State of California. The District Act, which created the District, is consulted when issuing debt for compliance.



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ii. **California Law**

State law dictates certain requirements when issuing debt and certain statutes must be followed for any issuance or refunding.

iii. **Federal Tax law**

The District shall issue and manage debt in accordance with the limitations and constraints imposed by federal tax law to maximize its ability to sell tax-exempt debt. Such constraints include, but are not limited to, private activity tests, review of eligible projects, spend-down tests and arbitrage rebate limitations.

iv. **Governing Legal Documents**

The **Flood Control System Master Resolution** of the District, adopted on June 23, 1994 as Resolution 94-60 and subsequent amendments establishes the basic security structure of flood control related debt issued by the District. Key terms and conditions include, but are not limited to, the definition of pledged revenues, the rate covenant and the additional bonds test.

The **Water Utility System Master Resolution**, adopted June 23, 1994 as Resolution 94-58 and subsequent amendments (Resolution 06-80 adopted November 28, 2006), establishes the **senior lien** security structure for water utility related debt issued by the District.

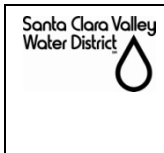
The **Water Utility Parity System Master Resolution**, adopted February 23, 2016 as Resolution 16-10 and subsequent amendments (Resolution 16-82 adopted December 13, 2016), establishes the **parity lien** security structure for water utility related debt issued by the District. The parity lien is **subordinate** to the senior lien per the Water Utility System Master Resolution, adopted June 23, 1994 as Resolution 94-58.

2. Permitted Debt Type

The District may legally issue both short-term and long-term debt, using the debt instruments described below. The Financial Services Division, in consultation with the District Counsel, Bond Counsel and Financial Advisors, shall determine the most appropriate instrument for a proposed bond sale.

i. **General Obligation Bonds**

The District is empowered, under its District Act, to levy taxes on all taxable property within its boundaries for the purpose of paying its voter approved general obligation bonds, subject to certain limitations in the District Act, the California Revenue and Taxation Code and the California Constitution. The District is currently **not** authorized to sell general obligation bonds under Section 14 of the District Act. An amendment to the District Act, Section 17 to allow



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bonds to be paid by proceeds derived from an ad valorem property tax, subject to the approval of the State Legislature and the CA Governor, is required for the District to be able to issue general obligation bonds payable from ad valorem taxes, provided that the District obtains the approval of a two-thirds (2/3) majority of those voters in a local election.

ii. **Certificates of Participation**

Certificates of Participation (COPs) provide debt financing through a lease or installment sale agreement. The District’s issuance of COPs is facilitated by the Santa Clara Valley Water District Public Facilities Financing Corporation, a California nonprofit benefit corporation that was created by the District specifically to serve as party to the installment sale agreements and contracts of indebtedness securing District COPs.

For the Water Utility, because the District cannot issue Revenue Bonds to acquire new facilities or improvements with a net lien pledge, the authority to execute and deliver an Installment Purchase Agreement which will secure the COPs to be executed and delivered by the Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC) is provided in Section 5 of the District Act.

For the Watershed Funds, a two-thirds (2/3) majority vote of the ratepayers is necessary to levy benefit assessments which would secure the COPs.

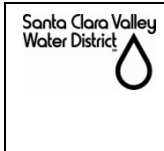
iii. **Commercial Paper**

On December 17, 2002, the Board of Directors passed Resolutions 02-76 and 02-77 which authorized the execution and delivery of a taxable and tax-exempt Tax and Revenue Anticipation Notes (“TRANS”) to support the Commercial Paper Program. Each fiscal year, the Board approves new resolutions for new TRANS to support the Commercial Paper Program. Voter approval is not required to issue commercial paper and the proceeds of commercial paper may be used for District purposes, including, but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District.

Commercial Paper is intended to be utilized as a short-term financing tool for bridge financing. The District will issue Commercial Paper in amounts up to the authorized limit with the intention of paying off the outstanding Commercial Paper debt when a long-bond is issued, or another source of revenue has been identified. Due to the quickness and ease of issuing Commercial Paper, it could be looked upon as “just-in-time” financing.

iv. **Revenue Bonds**

The authority to issue Revenue Refunding Bonds is provided in Section 25.1 of the District Act and Sections 53580-53589.5 of the California Government code.



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In the special election of November 6, 1984, voter approval was granted for revenue bonds only on a gross lien basis and only in accordance with certain limitations set forth in the Revenue Bond Law of 1941. On June 23, 1994, the District resolution 94-58 (Senior Master Resolution) included a variety of provisions intended to govern all future water revenue notes and other obligations, including a net lien requirement, which in effect superseded the 1986 Bond Resolution. Additionally, the pledge of 1% property taxes in the Senior Master Resolution is inconsistent with the Revenue Bond Act of 1941 which expressly prohibits the pledge of proceeds of taxation in Section 54478 of the Government Code. Without an amendment to Section 25.2 (b) of the District Act to allow the District to issue water revenue bonds on a net lien basis and payable from all water utility revenues including the 1% property taxes, the District cannot issue Revenue Bonds without voter approval.

Refunding Revenue Bonds may be issued without voter approval. Staff should consult with Bond Counsel for further directions on this matter.

- v. **Assessment Bonds**
The District is authorized to issue assessment bonds upon majority (>50%) voter approval. Such bonds are typically repaid from assessments collected within an assessment district. Assessments are levies of charges on real property to pay for projects or services that specifically benefit that parcel of property.
- vi. **Refunding Bonds**
Refunding outstanding bonds that will provide a net economic benefit to the District is allowable within the federal tax law constraints.
- vii. **Loans, Letters of Credit, Lines of Credit**
The District may from time to time borrow through a loan with a commercial bank, Letter of Credit, Lines of Credit with a commercial bank, state revolving loan program or other governmental agency. Each loan will have a specific purpose. Voter approval is not required for obtaining a loan if such loan is structured as a COP, TRAN, or other forms and issued in conjunction with the PFFC.

3. *Limitations of Debt Issuance*

- i. **Long Term Borrowing**
Long term borrowing may be used to finance the acquisition or improvement of land, facilities or equipment for which it is appropriate to spread these costs over more than a one year budget. Long term borrowing may also be used to fund capitalized interest, cost of issuance, required reserves, and any other financing related costs which may be legally capitalized. Long-term borrowing shall not be used to fund operating costs. The maximum maturity may not exceed 40 years.



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ii. **Short Term Borrowing**

Short-term borrowing, such as TRANS (tax and revenue anticipation notes), commercial paper and lines of credit, will be considered as an interim source of funding to be utilized when appropriate. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs. TRANS and Commercial Paper may be used to fund operating costs when issued and retired in the same fiscal year.

The short term borrowing authority set in Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act) provides a limit on short term debt (maturity of less than five years) of \$8,000,000 that can be borrowed under authority of that section. The District's commercial paper program, issued in accordance with the Government Code, is not subject to Section 25.6 of the District Act limit as opined by District Counsel and is issued in a transaction with the PFFC and others.

B. Debt Issuance

1. *Debt Capacity*

The District will keep outstanding debt within the practical limits of the District's debt rating, debt service coverage ratio constraints and any other applicable law.

The District shall assess the impact of a new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that the District has limited capacity for debt service in its budget, and that each newly issued financing will obligate the District to a series of payments until the bonds are repaid.

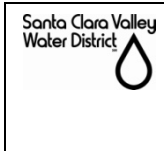
The District must not only evaluate the District as a whole, but specifically analyze debt capacity in relationship to issuances in the Watershed Funds, Water Utility Enterprise Division and the General Fund. Each Division has its own complexities, constraints and regulations; therefore, they must be analyzed separately and then as a whole.

2. *Intergenerational Concerns*

The District will review the issuance in light of utilizing Pay-As-You-Go financing vs. Long-Term debt and impact each financing method has on intergenerational benefits.

3. *Credit Quality*

The District seeks to obtain and maintain the highest possible credit ratings for all categories of short and long-term debt. Except for certain instruments, the District will



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not issue bonds or cause COPs to be executed and delivered that do not carry investment grade ratings (i.e. credit ratings below Baa3/BBB-/BBB- from Moody's Investors Service, S&P Global and Fitch Ratings, respectively). Certain instruments, such as state loans or private placements, may not be rated.

Traditionally, the District has benefited from lower interest costs due to strong ratings and shall take any necessary steps to maintain favorable ratings.

Ratings may be obtained from Moody's, S&P, Fitch, or other nationally recognized rating agencies. The District will always have at least one rating and when beneficial will request additional ratings for long term debt issuances that are publicly sold, whereas private placements may not require ratings.

4. Structural Features

i. Debt Repayment

Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. The District shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

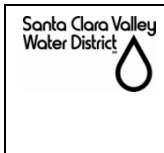
ii. Fixed Rate Debt / Variable Rate Debt

The District may at its discretion issue fixed rate debt or variable rate debt based upon District needs and market conditions. Fixed rate debt means that the coupon of the bond until its maturity remains fixed or the same as when issued. Variable rate debt means that the coupon will fluctuate throughout the life of the debt instrument. The variable rate may be based upon several indexes and which index will be determined at the time of issuance.

iii. Derivatives

A derivative product is a financial instrument which "derives" its own value from the value of another instrument, usually an underlying asset such as a stock, bond or an underlying reference such as an interest rate index. In certain circumstances these products can reduce borrowing costs, assist in managing interest rate risk, provide call flexibility, and smooth debt service expense. However, these products carry with them certain risks not faced in standard debt instruments. The Financial Services Division shall evaluate the use of derivative products on a case by case basis to determine whether the potential benefits are sufficient to offset any potential costs.

Some common forms of derivatives may be used to reduce the cost of borrowing; synthetically convert fixed rate debt to variable rate debt; synthetically convert variable rate debt to fixed rate debt; and provide protection against interest rate fluctuations (see section **1.E. Master Swap Policy** below for more information).



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iv. Professional Assistance

The District shall utilize the services of independent municipal advisors when deemed appropriate by the CEO or his delegates. The District shall utilize the services of bond counsel on all debt financings. The CEO or his delegates shall have the authority to periodically select service providers necessary to meet legal requirements and minimize the District’s debt cost. Such services, depending on the type of financing, may include municipal advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, printer and special tax consulting. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost. Procurement for service providers shall follow Executive Limitations Policy EL-5 Procurement, as amended from time to time. Per EL-5 Procurement (Rev July 29, 2015) the CEO is authorized to execute contracts for consultant services up to \$225,000; contracts exceeding this limit would require Board approval. The District Counsel has sole discretion in entering legal services contracts with no dollar limit.

v. Method of Sale

Except to the extent a competitive process is required by law, the CEO or his delegates shall be responsible for determining the appropriate way to offer any securities to investors. The District has used both competitive bidding and negotiated sales to sell its bonds. Also, available to the District is a private placement method. On a case by case basis the CEO or his delegates will decide as to the most effective method of sale.

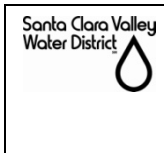
For negotiated sale, any underwriters that are currently suspended by the California State Treasurer’s Office from its negotiated underwriting pool may not participate in the District’s negotiated sale, pending Board approval.

vi. Maturity

The District shall issue debt with an average life less than or equal to the average life of the assets being financed. The final maturity of the debt should be no longer than 40 years. Factors to be considered when determining the final maturity of debt include: the average life of the assets being financed, relative level of interest rates and the year-to-year differential in interest rates.

vii. Maturity Structure

The District’s long-term debt may include serial and term bonds. Serial bonds have various maturity dates scheduled at regular intervals until the entire issue is retired. Term bonds have a long-term maturity date and are outstanding until the debt is retired. Other maturity structures may also be considered which can be demonstrated to be consistent with the objectives of the District’s Debt Policy.



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viii. Credit Enhancement

The District shall procure credit enhancement for a sale of bonds if the Financial Services Division, in consultation with the Municipal Advisor and the Underwriters, determines that it is cost effective to do so. Credit enhancement consists primarily of insuring the bonds over the life of their term.

ix. Senior/Subordinate/Super-subordinate Lien

The District may utilize a senior/subordinate/super-subordinate lien structure. The choice of lien will be determined based on such factors as overall cost of debt, impact on debt service, impact on water rates, marketing consideration and previous issuance bond documents. Senior debt has priority over subordinate debt which in turn has priority over super-subordinate debt. Subordinated or super-subordinate debt is repayable only after other debts with a higher claim have been satisfied (i.e. senior debt, subordinate debt).

x. Redemption Features

To preserve flexibility and refinancing opportunities, the District debt will generally be issued with call provisions which enable the District to retire the debt earlier or enable the refunding of the debt prior to maturity. The District may consider calls that are shorter than traditionally offered in the market and/or non-call debt when warranted by market conditions and opportunities. For each transaction, the District will evaluate the efficiency of call provisions alternatives.

xi. Coupon Structure

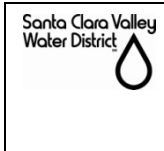
Debt may include par, discount, premium and capital appreciation bonds. Discount, premium, and capital appreciation bonds must be demonstrated to be advantageous relative to par bond structures. Debt issued at par means it is sold at its face value. Debt issued at discount means that the selling price is less than face value, or at a discount. Debt issued at a premium means it is sold at an amount higher than the face value. Capital appreciation bonds increase in value over the life of the bond.

C. Communication and Disclosure

1. *Rating Agencies*

The District shall maintain its strong ratings through prudent fiscal management and consistent communications with the rating analysts. The Financial Services Division shall manage relationships with the rating analysts assigned to the District's credit, using both informal and formal methods to disseminate information. Communication with the rating agencies shall include:

- Full disclosure, on an annual basis, of the financial condition of the District;



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- A formal presentation when requested by the rating agencies, covering economic, financial, operational and other issues that impact the District’s credit;
- Timely disclosure of major financial events that impact the District’s credit;
- Timely dissemination of the Comprehensive Annual Financial Report, following its acceptance by the District’s Board of Directors;
- Full and timely distribution of any documents pertaining to the sale of bonds; and
- Periodic tours of the Water Utility Enterprise and Watershed operations as appropriate.

2. **Bond Insurers**

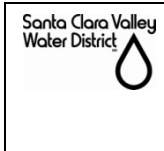
The Financial Services Division shall manage relationships with the analyst at the bond insurers assigned to the District’s credit.

3. **Disclosure Procedures**

The District shall comply with Securities and Exchange Commission (“SEC”) and Municipal Securities Rulemaking Board (“MSRB”) regulations on disclosure, including SEC Rule 15c2-12 (the “Rule”), which require municipal debt issuers to provide specified financial and operating information at the time of new bond issuance (Official Statement) and during the life of the bonds (Continuing Disclosure Annual Report). **Refer to Attachment A-Disclosure Procedures for details.**

Effective February 27, 2019, District Counsel will provide written notice to debt management staff of receipt by the District or the Financing Corporation of any default, event of acceleration, termination event, modification of terms (only if- material or may reflect financial difficulties), or other similar events (collectively, a “Potentially Reportable Event”) under any agreement or obligation to which the District or the Financing Corporation is a party and which may be a “financial obligation” as discussed below. Such written notice should be provided by District Counsel to debt management staff as soon as District Counsel is placed on written notice by District staff, consultants, or external parties of such event or receives written notice of such event so that debt management staff can determine, with the assistance of bond counsel, whether notice of such Potentially Reportable Event is required to be filed on EMMA pursuant to the disclosure requirements of SEC Rule 15c2-12. If filing on EMMA is required, the filing is due within 10 business days of such Potentially Reportable Event to comply with the Continuing Disclosure Agreement for the various debt obligations of the District;

District Counsel or other senior staff (ie. Chief Executive Officer, Chief Operating Officer, Chief Financial Officer or other executive positions within the District), as applicable, will report to debt management staff the execution by the District or the Financing Corporation of any agreement or other obligation which might constitute a



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“financial obligation” for purposes of Rule 15c2-12 and which is entered into after February 27, 2019. Amendments to existing District or Financing Corporation agreements or obligations with “financial obligation” which relate to covenants, events of default, remedies, priority rights, or other similar terms should be reported to the debt management staff as well as soon as District Counsel or such other senior staff is placed on written notice by District staff, consultants, or external parties of such event or receives written a notice of such amendment requests. Notice to debt management staff is necessary so that debt management staff can determine, with the assistance of bond counsel, whether such agreement or other obligation constitutes a material “financial obligation” for purposes of Rule 15c2-12. If such agreement or other obligation is determined to be a material “financial obligation” or a material amendment to a “financial obligation” described above, notice thereof would be required to be filed on EMMA within 10 business days of execution or incurrence. The types of agreements or other obligations which could constitute “financial obligations” and which could need to be reported on EMMA are discussed in the memorandum from bond counsel attached hereto in **Attachment A-Disclosure Procedures** for details.

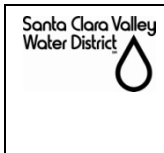
4. Secondary Market Disclosure

On February 7, 2020, the SEC released a staff legal bulletin (the “Bulletin”) concerning secondary market disclosure in the municipal bond market. The Bulletin included SEC staff views on a variety of matters, including but not limited to, the applicability of the federal securities law to public agency websites, reports delivered to governmental and institutional bodies and statements made by public officials including elected board members. Documents, reports and other written statements of the District which contains current financial and operational conditions of the District will be included in a section of the District’s website appropriately identified. The District and its bond counsel have reviewed the Bulletin and have incorporated certain SEC staff recommendations into this Policy as set forth in this section I.C4 and into disclosure training for staff and Board members. The District and its bond counsel will be cognizant of the SEC staff reviews contained in the Bulletin as secondary market disclosures arise.

5. Trustee

The Financial Services Division shall procure the services of a Trustee for the creation and maintenance of District debt funds. Such accounts include, but are not limited to:

- Escrow;
- Rebate;
- Debt Service;
- Cost of Issuance; and
- Reserve.



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D. Debt Administration

1. *Investment of Bond Proceeds*

Investment of bond proceeds shall be consistent with federal tax requirements and with requirements contained in the governing bond documents. Additionally, they will be governed by policies and procedures specified in the District’s Investment Policy as approved by the Board of Directors.

2. *Record Retention and Disbursement of Bond Proceeds*

The IRS guideline for record retention is life of bonds plus 3 years. For refundings, the refunded bonds retention schedule is reset to match the refunding bonds retention schedule of life of refunding bonds plus 3 years. The District’s record retention policy is cancellation, redemption or maturity of the bonds plus 10 years (records series number RS-0538).

Frequency of Reimbursement/Claims preparation

The preparation of reimbursement claims must be coordinated with the Financial Planning unit to determine the allocation of taxable versus tax-exempt bond proceeds and the appropriate level of funding from bond proceeds versus District operating reserves. The review of reimbursement requirements may be performed on a quarterly basis to assess the appropriate amount and timing of reimbursement claims.

Reimbursement Period

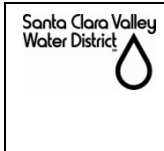
In general, the allocation of tax-exempt bond proceeds to reimburse a capital expenditure paid prior to the issue date of the bonds (provided that the Board has adopted a Resolution of Intention to Issue Tax-Exempt Bonds prior to the issue date of the bonds) must be made **not later** than: (a) 18 months after the later of the date (i) the original expenditure is paid or (ii) the project is placed in service or abandoned; **and** (b) 3 years after the original expenditure is paid.

Special rule for long-term construction projects

For a construction project for which both the issuer and a licensed architect or engineer certify that at least 5 years is necessary to complete construction of the project, the maximum reimbursement period is changed from “3 years” to “5 years”.

Special rule for preliminary expenditures

Preliminary expenditures (e.g., architectural costs, engineering costs, surveying costs, soil testing costs, costs of issuance and similar costs) not exceeding 20% of the issue price of the bonds issued to finance the project may be reimbursed without regard to the official intent requirement and the timing requirements. Preliminary expenditures do not include land acquisition, site preparation, and similar costs related to commencement of construction.



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Refer to Attachment B– Record Retention and Disbursement Guidelines for details.

3. Arbitrage Compliance

The Financial Service Division shall engage a qualified firm to perform Arbitrage Rebate Calculations (“Rebate Service Provider”) for all District bond issuances and prepare reports and filing documents as necessary. Ninety percent (90%) of the Cumulative Rebate Liability (reduced by any applicable computation date credits) is required to be rebated (paid) to the United States Internal Revenue Service (IRS) no later than 60 days after the end of each fifth Bond/COP Year. Additionally, 100% of the Cumulative Rebate Liability (reduced by any applicable computation date credits) required to be paid to the IRS within 60 days of the full defeasance or final maturity of the Bonds/COPs (i.e., in the event of a refunding or refinancing).

4. Debt Service

The District shall fully budget all debt service obligations of the District. Utilizing the services of the Trustee, the District will make all debt service payments per the bond document schedule and shall not in any circumstance make the payment late. The interest and principal for commercial paper may be rolled into a new issue of commercial paper as part of the overall District financing plan. The commercial paper may also be budgeted to be fully paid off over a specified timeframe or it may be paid off with a bond issuance.

E. Master Swap Policy

The District currently has no swap transactions outstanding and has not entered any swap transactions in the last ten fiscal years. Any future swap transaction would require Board approval by resolution, and shall utilize the framework set forth in Attachment C – Swap Policy.

II. PURPOSE

The purpose of this Debt Management Policy is to assist the District in meeting the following objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit ratings;
- Make full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Comply with the District Act; and
- Ensure compliance with applicable State and Federal Laws.



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III. SCOPE, ASSUMPTIONS & EXCEPTIONS

The Debt Management Policy governs debt issuance and administration activities of the District as defined in this policy.

IV. ROLES & RESPONSIBILITIES

The Financial Services Division shall be responsible for managing and coordinating all activities related to the issuance and administration of debt. The Financial Services Division will work in partnership with the Capital Services Division and Watershed and Water Utility Enterprise Divisions to facilitate debt issuance and the management of outstanding debt.

The Investment Advisory Committee (consisting of Chief Operating Officer - Administration, Chief Financial Officer, Treasury/Debt Officer, District Counsel and Accounting Unit Manager) will meet quarterly or as needed to review and approve all staff policy guidelines.

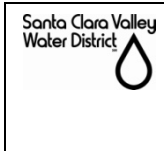
The Board of Directors shall approve and authorize the issuance of debt, including refunding debt.

V. REQUIREMENTS

In the issuance and management of debt, the District shall comply with all legal constraints and conditions imposed by federal, state or local law, including the District Act and any contractual covenants associated with the debt.

The issuance and management of debt is governed by Board Governance Policy No. EL-4.7 as adopted and amended by the Board of Directors of the Santa Clara Valley Water District.

The Investment Policy is included as an attachment to the Resolution Delegating Authority to Deposit and Invest Funds which is adopted by the Board of Directors annually.



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VI. ASSOCIATED FORMS & PROCEDURES

DOCUMENT TITLE/ID #	DOCUMENT LOCATION(S)
None	

VII. DEFINITIONS

None

VIII. CHANGE HISTORY

DATE	REVISION	COMMENTS
3/29/2012	A	Superseded 2008-03 with minor editorial corrections and includes the Addendum to District Debt Policy for the Master Swap Policy.
9/13/2012	B	Updated linkage to Board Governance
03/01/2016	C	Updated the Debt Policy and added additional information in Attachments A and B
01/01/2017	D	Updated the Debt Policy and added reference to California Government Code 8855 (i) and other modifications
03/24/2017	E	Updated the Debt Policy with additional Post Issuance Tax Compliance requirements
01/22/2019	F	Updated the Debt Policy to comply with additional disclosure requirements pursuant to SEC Rule 15c2-12 effective February 27, 2019.
07/01/2020	G	Updated the Debt Policy to include secondary market disclosure requirements.

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Attachment A – Disclosure Procedures

PURPOSE

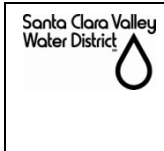
The purpose of these Disclosure Procedures (the “Procedures”) is to memorialize and communicate procedures in connection with obligations, including notes, bonds and certificates of participation, issued by or on behalf of the Santa Clara Valley Water District (the “District”) so as to ensure that the District continues to comply with all applicable disclosure obligations and requirements under the federal securities laws.

BACKGROUND

The District from time to time issues certificates of participation, revenue bonds, notes or other obligations (collectively, “Obligations”) to fund or refund capital investments, other long-term programs and working capital needs. These Obligations may be issued directly by the District, on behalf of the District by the Santa Clara Valley Water District Public Facilities Financing Corporation or through joint powers agencies (collectively, the “Issuer”). In offering Obligations to the public, and at other times when making certain reports, the District and/or the Issuer (if other than the District) must comply with the “anti-fraud rules” of federal securities laws. (“Anti-fraud rules” refers to Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities and Exchange Act of 1934, and regulations adopted by the Securities and Exchange Commission under those Acts, particularly “Rule 10b-5” under the 1934 Act.)

The core requirement of these rules is that potential investors in Obligations must be provided with all “material” information relating to the offered Obligations. The information provided to investors must not contain any material misstatements, and the District and/or the Issuer (if other than the District) must not omit material information which would be necessary to provide to investors a complete and transparent description of the Obligations and the District’s financial condition. In the context of the sale of securities, a fact is considered to be “material” if there is a substantial likelihood that a reasonable investor would consider it to be important in determining whether or not to purchase the securities being offered.

When Obligations are issued, the two central disclosure documents which are prepared are typically a preliminary official statement (“POS”) and a final official statement (“OS”, and collectively with the POS, “Official Statement”). The Official Statement generally consists of (i) the forepart (which describes the specific transaction including maturity dates, interest rates, redemption provisions, the specific type of financing, the leased premises (in certificate of participation financings) and other matters particular to the financing, (ii) a section which provides information on the District, including its financial condition as well as certain operating information of the water division, the watershed division or information with respect to other sources of security as applicable (“District Section”), and (iii) various other appendices, including the District’s audited financial report, form of the proposed legal opinion, and form of continuing disclosure undertaking. Investors use the Official Statement as one of their primary resources for making informed investment decisions regarding the Obligations.



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DISCLOSURE PROCESS

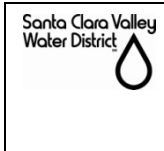
When the District determines to issue Obligations, the District’s Treasury and Debt Officer will coordinate a Disclosure training and request the involved departments to commence preparation of the portions of the Official Statement (including particularly the District Section) for which they are responsible. While the general format and content of the District Section does not normally change substantially from offering to offering, except as necessary to reflect major events, the District’s Treasury and Debt Officer is responsible for reviewing and preparing or updating certain portions of the District Section which are within their particular area of knowledge. Once the Official Statement has been substantially updated, the entire Official Statement is shared with the Chief Executive Officer (CEO) (or Acting CEO/Interim CEO), Chief Financial Officer, Chief Operations Officer (Water Utility or Watershed, depending on the Obligation), and District Counsel for review and input. The officers of the District are requested to inform the financing team of any and all material changes that takes place up to and including the closing date of the transaction. for review and input. Additionally, all participants in the disclosure process are separately responsible for reviewing the entire Official Statement.

Members of the financing team, including the Bond Counsel and the District’s Municipal Advisor with respect to the Obligations, assist staff in determining the materiality of any particular item, and in the development of specific language in the District Section. Members of the financing team also assist the District in the development of a “big picture” overview of the District’s financial condition, included in the District section. This overview highlights particular areas of concern. Bond Counsel has a confidential, attorney-client relationship with officials and staff of the District.

The District’s Treasury and Debt Officer or a member of the financing team at the direction thereof schedules one or more meetings or conference calls of the financing team (which includes District officials, Bond Counsel, the District’s Municipal Advisor, the underwriter of the Obligations, and the underwriter’s counsel), and new drafts of the forepart of the Official Statement and the District Section are circulated and discussed. Such communications may occur via electronic means rather than by meetings or conference calls. During this part of the process, there is substantial contact among District staff and other members of the financing team to discuss issues which may arise, determine the materiality of particular items and ascertain the prominence in which the items should be disclosed.

For negotiated sales, prior to distributing a POS to potential investors, there is typically a formal conference call which includes senior District staff involved in the preparation of the POS, members of the financing team and the underwriters and the underwriter’s counsel, during which the Official Statement is reviewed in its entirety to obtain final comments and to allow the underwriters to ask questions of the District’s senior officials. This is referred to as a “due diligence” meeting.

A substantially final form of the POS is provided to the District Board of Directors in advance of approval to afford the Board of Directors an opportunity to review the POS, ask questions and make comments. The substantially final form of the POS is approved by the Board(s) of Directors which generally authorizes certain senior staff to make additional corrections, changes and updates to the POS in consultation with District Counsel and Bond Counsel.



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At the time the POS is posted for review by potential investors, senior District officials (and under certain circumstances the Issuer) execute certificates deeming certain portions of the POS complete (except for certain pricing terms) as required by SEC Rule 15c2-12.

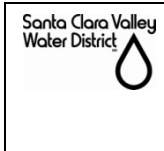
Between the posting of the POS for review by potential investors and delivery of the final OS to the underwriter for redelivery to actual investors in the Obligations, any changes and developments will have been incorporated into the POS, including particularly the District Section, if required. If necessary to reflect developments following publication of the POS or OS, as applicable, supplements will be prepared and published.

In connection with the closing of the transaction, one or more senior District officials (and under certain circumstances the Issuer) execute certificates stating that certain portions of the Official Statement, as of the date of each OS and as of the date of closing, do not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained in the Official Statement in light of the circumstances under which they were made, not misleading. District Counsel also provides an opinion letter (generally addressed to the underwriters) advising that information contained in the section of the Official Statement relating to the District and its operations (or specified portions thereof) as of its date did not, and as of the date of the closing, does not contain any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. District Counsel does not opine to the underwriters to other third parties as to any financial, statistical, economic or demographic data or forecasts, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, and certain other customary matters.

DISTRICT SECTION

The information contained in the District Section is developed by personnel under the direction of the Treasury/Debt Officer. The Treasury and Debt Officer co-ordinates with Water Utility staff in the case of a water system financing or with Watershed staff in the case of a watershed system or Clean, Safe Water financing. The finance team assists as well in certain circumstances, additional officials will be involved, as necessary. The following principles govern the work of the respective staffs that contribute information to the District Section:

- District staff involved in the disclosure process is responsible for being familiar with its responsibilities under federal securities laws as described above.
- District staff involved in the disclosure process should err on the side of raising issues when preparing or reviewing information for disclosure. Officials and staff are encouraged to consult District Counsel, Bond Counsel or members of the financing team if there are questions regarding whether an issue is material or not.
- Care should be taken not to shortcut or eliminate any steps outlined in the Procedures on an ad hoc basis. However, the Procedures are not necessarily intended to be a rigid list of procedural requirements, but instead to provide guidelines for disclosure review. If warranted,



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based on experience during financings or because of additional SEC pronouncements or other reasons, the District should consider revisions to the Procedures.

- The process of updating the District Section from transaction to transaction should not be viewed as being limited to updating tables and numerical information. While it is not anticipated that there will be major changes in the form and content of the District Section at the time of each update, everyone involved in the process should consider the need for revisions in the form, content and tone of the sections for which they are responsible at the time of each update.
- The District must make sure that the staff involved in the disclosure process is of sufficient seniority such that it is reasonable to believe that, collectively, they are in possession of material information relating to the District, its operations and its finances.

TRAINING

Periodic training for the staff involved in the preparation of the Official Statement (including the District Section) is coordinated by the finance team and the Treasury/Debt Officer. These training sessions are provided to assist staff members involved in identifying relevant disclosure information to be included in the District Section. The training sessions also provide an overview of federal laws relating to disclosure, situations in which disclosure rules apply, the purpose of the Official Statement and the District Section, a description of previous SEC enforcement actions and a discussion of recent developments in the area of municipal disclosure. Attendees at the training sessions are provided the opportunity to ask questions of finance team members, including Bond Counsel concerning disclosure obligations and are encouraged to contact members of the finance team at any time if they have questions.

ANNUAL CONTINUING DISCLOSURE REQUIREMENTS

In connection with the issuance of Obligations, the District has entered into several contractual undertakings (“Continuing Disclosure Undertakings”) to provide annual reports related to its financial condition (including its audited financial statements) as well as notice of certain events relating to the Obligations specified in the Continuing Disclosure Undertakings. The District must comply with the specific requirements of each Continuing Disclosure Undertaking. The District’s Continuing Disclosure Undertakings generally require that the annual reports be filed by April 1 following the end of the District’s fiscal year, and event notices are required to be filed within 10 business days of their occurrence. Filing is centralized on the MSRB’s Electronic Municipal Market Access (“EMMA”) web site and portal.

Specific events which require “material event” notices are set forth in each particular Continuing Disclosure Undertaking.

The Treasury and Debt Officer shall be responsible for preparing and filing the annual reports and material event notices required pursuant to the Continuing Disclosure Undertakings. Particular care shall be paid to the timely filing of any changes in credit ratings on Obligations (including changes resulting from changes in the credit ratings of insurers of particular Obligations).



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Memorandum from Stradling Yocca Carlson & Rauth on Financial Obligations (dated 1/18/19)

An amendment to Securities and Exchange Commission (the “SEC”) Rule 15c2-12 (the “Rule”) becomes effective as to underwriters of publicly offered municipal securities on February 27, 2019 (the “Effective Date”). As a result, we would expect that with respect to any debt offered publicly by the District or the Financing Corporation after the Effective Date to which the Rule applies, the District will be required to enter into a continuing disclosure undertaking pursuant to which it will agree to provide notice on the EMMA electronic reporting system (“EMMA”) of the incurrence of any “financial obligation” if material and will be obligated to disclose default on and certain other information with respect to any “financial obligation” regardless of when the financial obligation was incurred.

The Rule provides a general definition of a “financial obligation.” While the impetus for the proposed changes to the Rule was a perception by the SEC and others that municipal issuers were increasingly entering into bank or other private placement debt, the final amendment to the Rule defines “financial obligation” more broadly to include “a debt obligation, derivative instrument ... or a guarantee of either a debt obligation or a derivative instrument.”

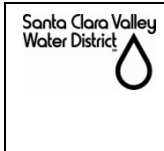
To date the SEC has provided limited guidance on the specific application of the definition of “financial obligation”. The SEC release accompanying the final amendment does suggest a key concept is that a “financial obligation” involves the borrowing of money. In public comments representatives of the SEC have declined to provide a definition of a “guarantee” but did indicate that the SEC will not look to state law definitions of a “guarantee” or “debt”.

The District will need to monitor agreements or other obligations entered into by the District or the Financing Corporation after the Effective Date, and any modifications to such agreements or other obligations, carefully to determine whether they constitute “financial obligations” under the Rule and, if material, would need to be disclosed on EMMA within 10 business days of execution or incurrence.

In addition, if the District or the Financing Corporation receives a notice of default or an event of default or of an acceleration, termination event, modifications of or other similar event on any agreement or other obligation after the Effective Date, the District will need to determine whether such obligation constitutes a financial obligation (regardless of when originally incurred) and whether such default or other event reflects financial difficulty (i.e., reduction in overall liquidity, creditworthiness or debt owner’s rights).

Types of agreement or other obligations which are likely to be “financial obligations” under the Rule include:

- 1 Bank loans or other obligations which are privately placed;
- 2 State or federal loans
- 3 Commercial paper or other short-term indebtedness for which no offering document has been filed on EMMA.



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- 4 Letters of credit, surety policies or other credit enhancement with respect to the District's publicly offered debt;
- 5 Letters of credit, including letters of credit which are provided to third parties to secure the District or Financing Corporation's obligation to pay or perform (an example of this is a standby letter of credit delivered to secure the District's obligations for performance under a mitigation agreement);
- 6 Capital leases for property, facilities, fleet or equipment; and
- 7 Agreements which guarantee the payment or performance obligations of a third party (regardless of whether the agreements constitute guarantees under California law);

Types of agreements which could be a "financial obligation" under the Rule include:

- 1 Payment agreements which obligate the District or the Financing Corporation to pay a share of another public agency's debt service (for example, an agreement with a joint powers agency whereby the District or the Financing Corporation agrees to pay a share of the joint powers agency's bonds, notes or other obligations);
- 2 Service contracts with a public agency or a private party pursuant to which the District or Financing Corporation is obligated to pay a share of such public agency or private party's debt service obligation (for example, certain types of P3 arrangements);
- 3 Water purchase, water banking or other similar agreements pursuant to which the District or the Financing Corporation is obligated to pay amounts expressly tied to the other party's debt service obligations, regardless of whether service is provided or not (for example, the District's SWP contract); and
- 4 Water purchase, water banking or similar agreements which include a rate component that expressly passes through debt service or capital obligation of the other party (for example, the District's CVP water service contact).

Types of agreements which may be a "financial obligation" subject to the Rule include:

- 1 Any agreement the payments under which are not characterized as an operation and maintenance expenses for accounting purposes if such agreement could be characterized as the borrowing of money;

The above list is based on bond counsel advice as of January 18, 2019. Debt management staff will continue to work with District Counsel and bond counsel to refine the definition of financial obligation going forward based on future SEC guidance, if any.



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Attachment B – Post-Issuance Tax Compliance, Record Retention and Disbursement Guidelines

I. General

The District’s Treasury and Debt Officer (the “Tax Compliance Officer”) shall be responsible for overseeing compliance with the provisions of this Policy.

External Advisors / Documentation

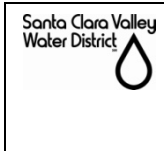
The District shall consult with bond counsel and/or other legal counsel and advisors, as needed, following issuance of bonds or other tax-exempt obligations to ensure that all applicable post-issuance requirements generally set forth in the Tax Certificate for the bonds (the “Tax Certificate”) are met. This shall include, without limitation, consultation in connection with any potential changes in the use of Bond-financed or refinanced Projects (as defined herein).

Unless otherwise provided by the indenture (or similar document) relating to the bonds, unexpended bond proceeds shall be held by a trustee or other financial institution, and the investment of bond proceeds shall be managed by the District. The District shall prepare (or cause the trustee or other financial institution to prepare) regular, periodic statements regarding the investments and transactions involving Bond proceeds.

Arbitrage Rebate and Yield Restrictions

The Tax Compliance Officer shall be responsible for overseeing compliance with arbitrage rebate and yield restriction requirements under federal tax law. Unless otherwise indicated, in writing, in the Tax Certificate or other similar documents that are prepared in connection with the issuance of the Bonds, the District shall:

- Engage the services of a Rebate Service Provider and, prior to each rebate calculation date, cause the trustee or other financial institution investing Bond proceeds to deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider;
- Provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
- Monitor the efforts of the Rebate Service Provider;
- Assure the payment of required arbitrage rebate amounts, if any, no later than the applicable deadline under federal tax law;
- Retain copies of all arbitrage reports and trustee statements as described below under “Record Keeping Requirements;” and



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- Establish procedures to ensure that investments that are acquired with Bond proceeds are so acquired at their fair market value pursuant to federal tax law.

Use of Bond Proceeds and Bond-Financed or Refinanced Projects

The Tax Compliance Officer shall be responsible for:

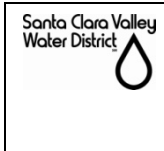
- communicating to appropriate District staff with respect to the use of Bond proceeds (including investment earnings and including reimbursement of expenditures made before Bond issuance) and the use of Bond-financed or refinanced projects, such as facilities, furnishings or equipment (each a “Project” and collectively, “Projects”) throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate relating to the Bonds;
- consulting with bond counsel and other legal counsel and advisers in the review of any change in use, or potential change in use, of Bond-financed or refinanced Projects communicated to the Tax Compliance Officer by appropriate District staff to ensure compliance with all covenants and restrictions set forth in the Tax Certificate relating to the Bonds; and
- to the extent that the District discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced Projects will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified Bonds or take other remedial action, if such counsel advises that a remedial action is necessary.

Education and Training

The Tax Compliance Officer and appropriate staff of the District shall periodically and as necessary obtain education and training on federal tax requirements for post-issuance compliance applicable to the Bonds. The District will enable and encourage relevant personnel to attend and participate in educational and training programs offered by professional organizations and other entities with regard to monitoring compliance with federal tax requirements for the Bonds.

Correcting Non-Compliance

If any non-compliance of applicable federal tax requirements is identified or otherwise brought to the District’s attention, the Tax Compliance Officer shall, in consultation with legal counsel and the appropriate tax compliance personnel of the District cause the District and any other parties involved with the issuance of the Bonds or the use of the proceeds of the Bonds, as required, to take all steps necessary or advisable in order to timely correct or remediate such non-compliance. The Tax Compliance Officer will conduct periodic reviews of compliance with these procedures to determine whether any violations have occurred so that such violations can be remedied through the “remedial action” regulations (Treas. Reg. Section 1.141-12) or the



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Treasury's Tax-Exempt Bonds Voluntary Closing Agreement Program ("TEB VCAP") described in IRS Notice 2008-31 (or successor guidance). If any changes to the terms or provisions of a bond issue are contemplated, the Tax Compliance Officer will consult bond counsel. The District recognizes and acknowledges that such modifications could result in a "reissuance" for federal tax purposes (i.e., a deemed refunding) of the bonds and thereby jeopardize the tax-exempt status of interest on the Bonds after the modifications.

II. Record Retention*

1. Record retention schedule: The IRS guideline is life of bonds plus 3 years. For refundings, the refunded bonds retention schedule is reset to match the refunding bonds retention schedule of life of refunding bonds plus 3 years.† The District's record retention policy is cancellation, redemption or maturity of the bonds plus 10 years (records series number RS-0538).
2. The **District Treasury and Debt Officer** shall be responsible for retaining all documentation relating to the issuance and administration of bonds. Such records shall include, but not limited to the following:
 - a. Federal tax or information returns (e.g. Form 8038 series returns)
 - b. Annual Continuing Disclosure and Compliance Filings per the bond covenants which may contain Audited Financial Statements and other documents as specified
 - c. Bond transcripts, official statements and other offering documents
 - d. Trustee statements for your bond financings
 - e. Correspondence (letters, e-mails, faxes, etc.) for your bond financings
 - f. Reports of any prior IRS examinations of your entity or bond financings
 - g. Maintain records documenting the allocation of bond-financing proceeds to expenditures (e.g., allocation of bond proceeds to expenditures for the construction, renovation, or purchase of facilities you own and use in the performance of your public purpose)
 - h. Maintain records documenting the allocations of bond-financing proceeds to bond issuance costs
 - i. Maintain an asset list or schedule of all bond-financed facilities or equipment
 - j. Maintain depreciation schedules for bond-financed depreciable property?
 - k. Maintain records that track your purchases and sales of bond-financed assets?
 - l. Maintain records of trade or business activities by or with non-governmental entities or persons with respect to your bond-financed facilities?

* Source: IRS Form 14002 Governmental Bond Financings Compliance Check Questionnaire.
<http://www.irs.gov/pub/irs-tege/f14002.pdf>

† Tax Exempt Bond FAQs regarding Record Retention Requirements

<http://www.irs.gov/taxexemptbond/article/0,,id=134435,00.html#6>

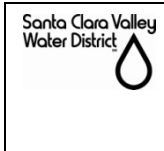


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- m. Maintain copies of the following agreements when entered into with respect to your bond-financed property:
 - i. Management and other service agreements
 - ii. Research contracts
 - iii. Naming rights contracts
 - iv. Ownership documentation (e.g., deeds, mortgages)
 - v. Leases
 - vi. Subleases
 - vii. Leasehold improvement contracts
 - viii. Joint venture arrangements
 - ix. Limited liability corporation arrangements
 - x. Partnership arrangements
 - n. The allocations and earnings and investments related to bond financings
 - o. Maintain records for investments of bond financing proceeds related to:
 - i. Investment contracts (e.g., guaranteed investment contracts)
 - ii. Credit enhancement transactions (e.g., bond insurance contracts)
 - iii. Financial derivatives (swaps, caps, etc.)
 - iv. Bidding of financial products
 - p. Maintain records of the following arbitrage documents related to bond financings:
 - i. Computations of bond yield
 - ii. Computation of rebate and yield reduction payments
 - iii. Form 8038-T, *Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate*
 - iv. Form 8038-R, *Request for Recovery of Overpayments Under Arbitrage Rebate Provisions*
 - v. Draw down schedules and expenditure requirements detailed in applicable tax certificates and schedules regarding yield restriction if applicable
3. The **Grants Administrator** shall be responsible retaining all documentation relating to the disbursement of bond proceeds. Such records shall include, but not limited to the following:
- a. Maintain copies of requisitions, draw schedules, draw requests, invoices, bills and cancelled checks related to bond proceeds spent during the construction period
 - b. Maintain copies of all contracts entered into for the construction, renovation or purchase of bond-financed facilities
 - c. Maintain records of expenditure reimbursements incurred prior to issuing bonds for facilities financed with bond proceeds

III. Bond Reimbursement

1. General Rule for Reimbursement. Tax-exempt bond proceeds may be allocated to reimburse prior expenditures so long as those expenditures were the subject of an appropriate "declaration of official intent" (e.g., a reimbursement resolution), the



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expenditures were paid no more than 60 days prior to the date of adoption such declaration of official intent, the bond-financed project was placed in service within 18 months of the date of reimbursement allocation, the expenditures constitute capital expenditures, and none of the expenditures were paid more than three years prior to the reimbursement allocation (except preliminary expenditures).

2. Frequency of Reimbursement/Claims preparation. The preparation of reimbursement claims must be coordinated with the Financial Planning unit to determine the allocation of taxable versus tax-exempt bond proceeds and the appropriate level of funding from bond proceeds versus District operating reserves. The review of reimbursement requirements should be performed on a quarterly basis to assess the appropriate amount and timing of reimbursement claims.
3. Reimbursement period. In general, the allocation of tax-exempt bond proceeds to reimburse a capital expenditure paid prior to the issue date of the bonds must be made not later than: (a) 18 months after the later of the date (i) the original expenditure is paid or (ii) the project is placed in service or abandoned, and (b) 3 years after the original expenditure is paid.
4. Special rule for long-term construction projects. For a construction project for which both the issuer and a licensed architect or engineer certify that at least 5 years is necessary to complete construction of the project, the maximum reimbursement period is changed from “3 years” to “5 years.”.
5. Special rule for preliminary expenditures. Preliminary expenditures (e.g., architectural costs, engineering costs, surveying costs, soil testing costs, costs of issuance and similar costs) not exceeding 20% of the issue price of the bonds may be reimbursed without regard to the official intent requirement and the timing requirements. Preliminary expenditures do not include land acquisition, site preparation, and similar costs related to commencement of construction.
6. Eligible project costs – In general, under the Internal Revenue Service’s regulations, only “capitalizable” expenditures are eligible for reimbursement from the proceeds of tax-exempt bonds.

Table 1 below illustrates some general categorizations of eligible versus ineligible project costs.

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TABLE 1 General Guidelines for Eligible and Non-Eligible Expenditures of Tax-Exempt Bonds		
Type of Expense	General Guideline	Tax-Exempt Bonds Eligible?
Construction and Design Costs - General	The cost of constructing property must be capitalized. This includes certain ancillary costs which are directly related to the construction of the property, such as: amounts expended for architectural services, design costs, accounting fees related to the construction, direct and indirect compensation costs of employees whose services are used in the construction, construction supervision fees, and overhead directly attributable to the construction.	Yes
Compensation - General	As a general rule, compensation to employees (including fringe benefits) is an operating expense rather than a capital cost. Unless the employee's duties are clearly associated with a capital project, compensation may not be capitalized .	No
Compensation to outside contractors, architects, engineers, etc.	Such costs paid to third parties are treated as a cost of the capital asset and are capitalized.	Yes
Compensation to Employees exclusively involved with capital projects	Compensation (including the cost of fringe benefits) paid to employees (e.g., engineers, architects, project managers, etc.) who are directly involved in the construction and design of the project are treated as a cost of the capital asset and are capitalized.	Yes



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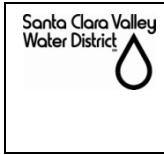
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TABLE 1 General Guidelines for Eligible and Non-Eligible Expenditures of Tax-Exempt Bonds		
Type of Expense	General Guideline	Tax-Exempt Bonds Eligible?
Compensation of management employees who spend a portion of their time providing support services for capital projects	Certain employees (administrative staff, supervisors, attorneys, accountants, finance specialists, etc.) spend time on multiple assignments, including capital projects. Such employees are generally required to keep track of the time spent with respect to each assignment regardless of whether the project is financed by bonds or other funding sources. To the extent that such employees have clear documentation of the time spent on each assignment, compensation (including the cost of fringe benefits) paid to such employees which is attributable to work performed with respect to capital projects may be capitalized.	Yes
Indirect Overhead and Benefits (OMB A-87)	Indirect costs that are allocated as overhead (including cost of fringe benefits) is not eligible .	No
Rent - General	As a general rule, rent for office space is an operating expense rather than a capital cost. Unless the office space is specifically obtained to house only employees whose duties are clearly associated with a specific capital project, rent should not be capitalized . Any allocation of office space rent to capital costs and operating costs would, especially if such allocation has never been required for other business purposes, also be risky. Even if the space is specifically and exclusively associated with a capital project, if the rental is for a very short period of time, (e.g., the rental of a room for a single meeting), such rent should not be capitalized.	No

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TABLE 1 General Guidelines for Eligible and Non-Eligible Expenditures of Tax-Exempt Bonds		
Type of Expense	General Guideline	Tax-Exempt Bonds Eligible?
Longer-term Rent – space leased for a specific capital project	The rental cost of office space leased specifically for a particular capital project, and which will be rented for a substantial period of time (e.g., for the duration of the construction of the project) may be capitalized.	Yes
Purchased Office Equipment	The cost of office equipment with a <u>useful life of more than one year</u> (e.g., computers, copiers, etc.) is capitalizable from a federal tax perspective. To the extent such equipment is related to a specific tax-exempt eligible capital project , these costs may be eligible for reimbursement from tax-exempt proceeds.	Yes
Office Supplies	The cost of office supplies (e.g., stationery, paper, pens and pencils, staples, etc.) is not capitalizable .	No
Training, Professional Development, Licensing	Such costs are not capitalizable even though they may have some future benefit. These costs must be capitalized only in the unusual circumstance where the training is intended primarily to obtain future benefits significantly beyond those traditionally associated with training provided in the ordinary course of the employer’s trade or business (e.g., the costs of training employees to operate a new facility are akin to start-up costs of a new business).	No

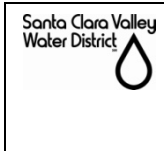


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TABLE 1 General Guidelines for Eligible and Non-Eligible Expenditures of Tax-Exempt Bonds		
Type of Expense	General Guideline	Tax-Exempt Bonds Eligible?
Automobiles	The cost of an automobile with a useful life of more than one year is capitalizable from a federal tax perspective. To the extent such equipment is related to a specific tax—exempt eligible capital project, these costs may be eligible for reimbursement from tax-exempt proceeds.	Yes
Meals and Refreshments	Such costs are not capitalizable , even if they are associated directly with a meeting relating to a capital asset.	No
Travel Costs	Travel costs (fuel, mileage, meals, lodging...etc) are eligible only for travel directly related to a specific tax-exempt eligible capital project	Yes
Repair and Maintenance	As a general rule, repair and maintenance for buildings, equipment and parts replacement is an operating expense and is not eligible for reimbursement from tax-exempt bond proceeds	No



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Attachment C – Master Swap Policy

Board approval of a Master Swap Resolution would authorize Santa Clara Valley Water District (SCVWD) to enter into swap transactions from time to time to better manage assets and liabilities and take advantage of market conditions to lower overall costs and reduce interest rate risk.

The Master Resolution would authorize the execution of swaps related agreements, provides for security and payment provisions, and sets forth certain other provisions related to swap agreements between SCVWD and qualified swap-counterparties. In the event of a conflict between the terms of the Master Resolution and the terms of the Master Swap Policy, the terms and conditions of the Master Resolution shall control.

1. Purpose

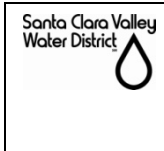
The incurring or carrying of obligations and management of investments SCVWD involves a variety of interest rate payments and other risks that a variety of financial instruments are available to offset, hedge, or reduce. It is the policy of SCVWD to utilize such financial instruments to better manage its assets and liabilities. SCVWD may execute interest rate swaps if the transaction can be expected to result in the following:

- Reduce exposure to changes in interest rates on a particular financial transaction or in the context of the management of interest rate risk derived from SCVWD's overall asset / liability balance.
- Result in a lower net cost of borrowing with respect to SCVWD's debt or achieve a higher net rate of return on investments made in connection with, or incidental to the issuance, incurring, or carrying of SCVWD's obligations or other SCVWD investments.
- Manage variable interest rate exposure consistent with prudent debt practices and guidelines approved by the Board.

SCVWD shall not enter into interest rate swaps for speculative purposes.

2. Form of Swap Agreements

Each interest rate swap executed by SCVWD shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, including any schedules and confirmations that will be included in the District Resolution for the swap. The swap agreements between SCVWD and each qualified swap counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions as the Treasury/Debt Officer, in consultation with the District Counsel, deems necessary or desirable.



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3. Transaction Approval

The approval guidelines for each authorized swap transaction shall be as set forth in the Master Resolution and in this Section 4. The District Board must approve any swap transaction.

4. Qualified Swap Counterparties

SCVWD may enter into interest rate swap transactions only with qualified swap counterparties. Qualified swap counterparties are identified in SCVWD's Board approved investment banking team. The composition of the approved swap counterparties will change from time to time as changes are made to SCVWD's investment banking team. Qualified swap counterparties must be rated at least "A1" or "A+". In addition, the counterparty must have a demonstrated record of successfully executing swap transactions as well as creating and implementing innovative ideas in the swap market. Each counterparty shall have minimum capitalization of at least \$150 million.

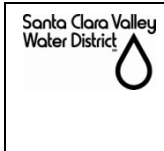
SCVWD may negotiate or competitively bid an interest rate swap transaction based on a review of the market impact to SCVWD of such competitive bid.

5. Termination Provisions

All swap transactions shall contain provisions granting SCVWD the right to optionally terminate a swap agreement at any time over the term of the agreement. In general, exercising the right to optionally terminate an agreement produces a benefit to SCVWD, either through receipt of a payment from a termination, or if a termination payment is made by SCVWD, in conjunction with a conversion to a more beneficial (desirable) debt obligation of SCVWD as determined by SCVWD. The Treasury and Debt Officer or the Ad Hoc Committee (comprised of: Chief Operating Officer-Administration, Chief Financial Officer, Treasury/Debt Officer, Accounting Unit Manager, and District Counsel's Office) as appropriate, in consultation with the Bond Counsel, shall determine if it is financially advantageous for SCVWD to terminate a swap agreement.

Mandatory Termination: A termination payment to or from SCVWD may be required in the event of termination of a swap agreement due to a default or a decrease in credit rating of either SCVWD or the counterparty. It is the intent of SCVWD not to make a termination payment to a counterparty that does not meet its contractual obligations. Prior to making any such termination payment, the Treasury and Debt Officer shall evaluate whether it is financially advantageous for SCVWD to obtain a replacement counterparty to avoid making such termination payment.

In the event of default by a counterparty whereby SCVWD would be required to make a termination payment, SCVWD will proceed as follows:



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- In order to mitigate the financial impact of making such payment at the time such payment is due; SCVWD will seek to replace the terms of the terminated transaction with a replacement counterparty. The new or replacement counterparty will make an upfront payment to SCVWD in an amount that would offset the payment obligation of SCVWD to the original counterparty.
- If a satisfactory agreement with a replacement counterparty is not reached, SCVWD will be required to make a swap termination payment to the original defaulting counterparty. Funds for such payment shall be made from available monies. The Debt/Treasury Officer shall report any such termination payments to the Board at the next Board meeting.

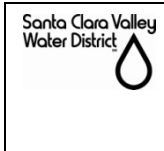
6. *Term and Notional Amount of Swap Agreement*

SCVWD shall determine the appropriate term for an interest rate swap agreement on a case by case basis. The slope of the swap curve, the marginal change in swap rates from year to year along the swap curve, and the impact that the term of the swap has on the overall exposure of SCVWD shall be considered in determining the appropriate term of any swap agreement. In connection with the issuance or carrying of bonds, the term of a swap agreement between SCVWD and a qualified swap counterparty shall not extend beyond the final maturity date of existing debt of SCVWD, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds. At no time shall the total notional amount of all swaps exceed the total amount of outstanding water revenue bonds.

7. *Swap Counterparty Exposure Limits*

In order to diversify SCVWD’s counterparty risk, and to limit SCVWD’s credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing swap transaction. The risk measure will be calculated based upon the mark-to-market sensitivity of each transaction to an assumed shift in interest rates. Assuming a 25 basis point movement in the swap rate, the maximum net exposure (termination payment) per counterparty shall not exceed \$5 million.

The maximum net exposure limitations establish guidelines with respect to whether SCVWD should enter into an additional swap agreement with an existing counterparty. For example, assume SCVWD executed a 30-year \$100 million notional amount swap. If the yield curve moved 25 basis points, SCVWD would likely have market exposure to that swap counterparty (i.e. in order to terminate the swap SCVWD would have to make a payment of possibly \$3.0 million). If such event occurred, the Treasury and Debt Officer would evaluate whether it is prudent and



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advisable to enter into additional swap transactions with such counterparties in order to mitigate the exposure to such counterparty.

The calculation of net interest rate sensitivity per counterparty will take into consideration multiple transactions, some of which may offset market interest rate risk thereby reducing overall exposure to SCVWD. In addition, additional exposure provisions are as follows:

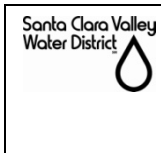
- The sum total notional amount per swap counterparty may not exceed 25 percent of SCVWD's total revenue bond indebtedness.
- The appropriate collateral amount will be determined on a case by case basis, and approved by the Treasury and Debt Officer in consultation with the District Counsel.

If the sensitivity limit is exceeded by a counterparty, SCVWD shall conduct a review of the exposure sensitivity limit calculation of the counterparty. The Treasury and Debt Officer shall evaluate appropriate strategies in consultation with the Office of the District Counsel to mitigate this exposure.

8. Collateral Requirements

As part of any swap agreement, SCVWD shall require collateralization or other credit enhancement to secure any or all swap payment obligations. As appropriate, the Treasury/Debt Officer, in consultation with the District Counsel may require collateral or other credit enhancement to be posted by each swap counterparty under the following circumstances:

- Each counterparty to SCVWD may be required to post collateral if the credit rating of the counterparty or parent falls below the "A1" or "A+" minimum rating. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by each counterparty in accordance with the provisions contained in the collateral support agreement to each swap agreement with SCVWD.
- Collateral shall consist of cash, U.S. Treasury securities and U.S. Agency securities.
- Collateral shall be deposited with a third party trustee, or as mutually agreed upon between SCVWD and each counterparty.
- A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement with each swap counterparty.



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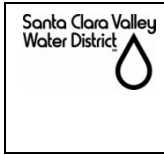
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- The market value of the collateral shall be determined on at least a monthly basis.
- SCVWD will determine reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.
- The Treasury and Debt Officer shall determine on a case by case basis whether other forms of credit enhancement are more beneficial to SCVWD.

9. Reporting Requirements

A written report providing the status of all interest rate swap agreements will be provided to the Board of Directors at least on a quarterly basis and shall include the following information:

- Highlights of all material changes to swap agreements or new swap agreements entered into by SCVWD since the last report.
- Market value of each of SCVWD's interest rate swap agreements.
- The net impact to SCVWD of a 25 basis point movement (up or down) with the appropriate swap index or curve.
- For each counterparty, SCVWD shall provide the total notional amount position, the average life of each swap agreement, the available capacity to enter into a swap transaction, and the remaining term of each swap agreement.
- The credit rating of each swap counterparty and credit enhancer insuring swap payments, if any.
- Actual collateral posting by swap counterparty, if any, per swap agreement and in total by swap counterparty.
- A summary of each swap agreement, including but not limited to the type of swap, the rates paid by SCVWD and received by SCVWD, and other terms.
- Information concerning any default by a swap counterparty to SCVWD, and the results of the default, including but not limited to the financial impact to SCVWD, if any.



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- A summary of any planned swap transactions and the impact of such swap transactions on SCVWD.
- A summary of any swap agreements that were terminated.

Presentation to Santa Clara Valley Water District

Disclosure Responsibilities Under the Federal Securities Laws

Presented by:

Doug Brown

Stradling Yocca Carlson & Rauth

Why Is Disclosure Necessary?

- **Valley Water issues securities in the public capital markets**
- **Investors in municipal securities have rights under federal securities laws**
- **All “material” information must be disclosed**

The Securities Act Of 1933

- **Antifraud Rule applies to municipal securities**
 - Prohibits any person from, directly or indirectly, obtaining money or property by means of any untrue statement of a material fact or by a misleading omission.
 - Negligence standard

Securities Exchange Act Of 1934

Rule 10b-5

- Also contains antifraud provisions (Rule 10b-5)
- Antifraud provisions apply to government issuers
- Must show intent or recklessness

Rule 10b5

“It shall be unlawful for any person . . .

- a) To employ any device, scheme or artifice to defraud,**

- b) To make any untrue statement of a material fact or to omit to state a *material* fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading”**

Why is Disclosure Compliance Important

- **SEC has an active enforcement staff, including in San Francisco**
- **SEC has brought enforcement actions against public agencies in California as well as throughout the US**
 - **County of Orange – failure to describe nature of investment portfolio**
 - **County of San Diego – misleading pension disclosure**
 - **Westland Water District – failure to describe certain extraordinary accounting**
 - **Montebello Unified School District – failure to disclose dispute with auditor**

The “Materiality” Standard

- “[w]hether or not there is a substantial likelihood that a reasonable investor or prospective investor would consider the information important in deciding whether or not to invest.”
- Materiality is determined in context of all the facts and circumstances, but in Hindsight
- Guidance comes primarily from court decisions, SEC enforcement cases and SEC staff legal bulletins.

What Should Be Disclosed?

- **Unlike corporate securities, there is no “line item” set of rules for what goes into an Official Statement (“OS”)**
- **Various groups have suggested disclosure for particular market segments and general guidelines for OS content**
- **Look at practices in the industry; recent developments (e.g. Pension, Continuing Disclosure Compliance)**
- **In the end, Valley Water must use its own good judgment**

When Do Disclosure Rules Apply?

- **New offerings**
- **Annual Report under Rule 15c2-12**
- **Any other circumstance where an Issuer is “speaking to the market”, including speeches and presentations by senior staff and by elected officials**

Primary Disclosure

- Official Statement is offering document to investors
- Must contain all material information for the particular bond sale
- Official Statement is the Valley Water's document
- Underwriters, municipal advisers and lawyers can help develop the Official Statement but Valley Water is ultimately responsible for content

Three Step Process

- **Treasury and Debt Officer works with relevant staff to prepare draft Preliminary Official Statement**
- **Substantially updated POS provided to CEO, CFO and relevant Chief Operations Officer for review and input**
- **Substantially final POS provided to Board members to review, ask questions and make comments prior to approval of POS by Board of Directors**

Disclosure Principles

- **Historical and projected revenues, expenses and debt service coverage**
- **Additional bonds test**
- **Information on debt – types and amounts**
- **Litigation**

Disclosure Principles – (cont.)

- **Provide main points but do not overwhelm readers with detail**
- **Highlight important developments “up front”**
- **Determine appropriate level of importance for any particular event or budgetary item**
- **Bringing all these factors together into final product is ongoing process of give and take**
- **Important to maintain Attorney-Client privilege for sensitive issues**

Timing Considerations For Bond Sale

- **Progression of an offering**
 - POS → sale → final OS → closing
- **Supplements are possible**
 - Not preferred, can be disruptive after sale
- **Be mindful of public actions or releases likely to occur**
 - Budget actions, mid-year reports
 - Status of ongoing litigation or investigations

Process

- **Input from involved departments**
- **Empower staff at all levels**
- **Valley Water coordinates; Counsel helps pull information together and maintains document**
- **Drafts reviewed by working group**
- **“Due diligence” meeting before distribution of Preliminary Official Statement**

Current Hot Topics

- **COVID 19**
- **Status of fund balance and reserves**
- **Expected increases in retirement related payments; unfunded liabilities (pension and OPEB)**
- **Accounting practices**
- **Use of Bond Proceeds**
- **Secondary Market Disclosure**

Disclosure Considerations

- Tomorrow's "hot topic" may be different than today's
- Disclosure must evolve to reflect changing circumstances
- Read the disclosure with "fresh eyes"
- If you think something may be a concern, raise the issue with Valley Water staff and legal counsel, consider discussing with the working group
- Political sensitivity and confidentiality considerations are not exceptions to disclosure

Content of Annual Reports

- **Audited Financial Reports**
- **Information (i.e. tables) identified in Continuing Disclosure Undertaking**
- **Additional voluntary information**
- **Consider Rule 10b5 implications – is there more you should be saying?**

Investor Communications

- **No obligation to communicate with investors**
- **Tension between market (and SEC) desire for transparency and potential issuer liability**
- **Establish a single point of contact**
- **Speeches and presentations by executive staff (CEO, CFO, Chiefs) as well as Board members may be “speaking to the market”**

Highlights of the SEC staff legal bulletin issued on February 7, 2020

- All statements of a municipal issuer reasonably expected to reach investors are subject to antifraud provisions, regardless of compliance with continuing disclosure obligations;
- Fact that the information was not published for the purpose of informing the markets is not relevant;
- Legal bulletin is not legally binding but is a statement of SEC staff view and may be used by SEC staff in enforcement actions.

Recent SEC Legal Bulletin

- **Types of statements which are subject to anti-fraud rules:**

A Websites – would include Valley Water owned/operated websites and sub/micro web pages, including links to external websites

B Public Reports Delivered to Governmental and Institutional Bodies – would include Board agendas and public reports issued to external regulators, to water retailers etc.

C Statements made by municipal issuer officials – both verbal and written made by executive staff (CEO, CFO, Chiefs etc.) as well as Board members

Valley Water Response to SEC Legal Bulletin

- Updated debt management policy to reflect SEC legal bulletin
- Maintains an official Investor Relations webpage, with links to online EMMA filings
- Added investor disclosure to the privacy policy at bottom of Valley Water webpage to add disclaimers
- Added disclaimer to Board agenda package
- Added disclaimer to unaudited financial information presented to Board, including budget update

Topics of Recent SEC Enforcement Actions

- **Misleading or Incomplete Financial Disclosures**
- **Failed Economic Development Projects**
- **Inadequate Pension Disclosures**
- **Failure to disclose missed Continuing Disclosure Filings**

Increasingly Aggressive Actions by SEC in Recent Years

- **Filings against States:** N.J., Illinois, Kansas
- **Levying fines against issuers:** Wenatchee, Westlands
- **Increasingly charging issuer officials along with the issuer:** Miami, Allen Park, Harvey, Wenatchee, Victorville, Westlands, RIEDC, Ramapo
- **Levying fines against individual defendants:** San Diego, Allen Park, Harvey, Westlands, RIEDC
- **Officials barred from future involvement in municipal finance:** Allen Park, Harvey; sought in Ramapo

Increasingly Aggressive Actions by SEC in Recent Years (cont.)

- **Official who did not participate in bond deal charged as “controlling person” because he directed actions of others:** Allen Park; Ramapo
- **Individuals charged with “aiding and abetting” securities law violations:** RIEDC, Ramapo
- **Criminal charges against issuer officials:** Ramapo
- **Charging securities law violations in a situation which did not involve a bond offering:** Harrisburg

Increasingly Aggressive Actions by SEC in Recent Years (cont.)

- **Most settlements require implementation of remedial actions and training; in some cases issuer required to hire outside disclosure counsel for a period of years: Harvey, sought in Ramapo**
- **SEC brings actions even when there was no default, no rating downgrade, or any evident market impact on the bonds. (Port Authority; MCDC cases) Unlike in a private action, the SEC does not need to prove damages or reliance.**

Consequences of Bad Disclosure

- **SEC Investigation – fees for lawyers and consultants**
- **Adverse publicity**
- **Personal Fines**
- **Reduced market access**
- **May have to impose new procedures and oversight to settle SEC actions**
- **Rating Downgrades (triggers increased credit/liquidity provider fees)**

Summary

- **Investors must be provided all material information—When in doubt, disclose**
- **Officials participating in the disclosure process must be in a position to know material information (i.e., “the right people must be in the room”)**
- **Valley Water must support and encourage vigorous disclosure program**
- **Involved officials must receive training; Valley Water must maintain rigorous disclosure practices**
- **Protect Attorney-Client Privilege**
- **Adopt formal disclosure policy, including policies and procedures to ensure to ensure continuing disclosure compliance**
- **Because of SEC Legal Bulletin in public communications by senior staff and elected officials**