



\$97,860,000*
SANTA CLARA VALLEY WATER DISTRICT
Water System Refunding Revenue Bonds,
Series 2019A and Taxable Series 2019B
\$16,495,000* \$81,365,000*
Series 2019A Taxable Series 2019B

Dated: Date of Delivery**Due: June 1, as shown on the inside cover**

The Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2019A (the "2019A Bonds") and Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2019B (the "2019B Bonds" and together with the 2019A Bonds, the "2019 Bonds") are being issued to (i) pay the 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 2019 Bonds, all as more fully described herein. Interest due on the 2019 Bonds is payable on each June 1 and December 1, commencing June 1, 2019. Capitalized terms used but not defined on the cover of this Official Statement have the meanings ascribed herein.

The 2019 Bonds are being issued pursuant to Resolution No. 16-10 adopted by the Board of Directors of the District on February 23, 2016 (as amended to the date hereof, the "Parity Master Resolution") and an indenture of trust, dated as of March 1, 2019 (the "Indenture") by and between the District and U.S. Bank National Association, as trustee thereunder. **The 2019 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described in this Official Statement.**

The 2019 Bonds are being issued in fully registered form and, when each of the 2019 Bonds are delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2019 Bonds. Purchasers of beneficial interests will not receive certificates representing their interest in the 2019 Bonds. So long as Cede & Co. is the registered owner of the 2019 Bonds, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the 2019 Bonds. Individual purchases of the 2019 Bonds will be made in book-entry form only in authorized denominations of \$5,000 or any integral multiple thereof. Principal and interest on the 2019 Bonds are payable directly to DTC by U.S. Bank National Association, as Trustee. Upon receipt of payments of principal and interest, DTC is obligated to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the 2019 Bonds.

The principal and interest on the 2019 Bonds are secured by a pledge of and lien under the Parity Master Resolution on District Water Utility System Revenues and are payable from Net Water Utility System Revenues. The pledge and lien created under the Parity Master Resolution is subordinate to the pledge and lien created under the Senior Master Resolution which secures, as of March 1, 2019, \$58,300,000 aggregate principal amount of bonds and installment payments relating to certain Senior Obligations and which are payable prior to the 2019 Bonds. The District has covenanted in the Parity Master Resolution that it will not issue or incur any additional Senior Obligations under the Senior Master Resolution, including but not limited to refunding obligations. The principal and interest on the 2019 Bonds is secured by Water Utility System Revenues and are payable from Net Water System Revenues on a parity with the obligation of the District to pay debt service and to make installment payments on Bonds and Contracts outstanding, as of March 1, 2019, in the aggregate principal amount of \$328,035,000. The revenues of the District's flood control system and parcel tax revenue of the Safe, Clean Water Program, as well as property taxes levied by the District to pay certain State Water Project costs, are not included in Water Utility System Revenues pledged to the payment of the 2019 Bonds.

The obligation of the District to pay the principal of and interest on the 2019 Bonds does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2019A 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 2019 Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences with respect to the 2019 Bonds.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The 2019 Bonds are offered when, as and if executed and delivered to the Underwriters, subject to the approval as to the legality of certain matters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by District Counsel, Stan Yamamoto, Esq., for the Underwriters by their counsel Kutak Rock LLP, Los Angeles, California and for the Trustee by its counsel. It is expected that the 2019 Bonds will be available for delivery through the facilities of DTC on or about April 25, 2019.

STIFEL

Barclays

Fidelity Capital Markets

Dated: April __, 2019

* Preliminary, subject to change.

MATURITY SCHEDULES

\$16,495,000*

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

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

\$ _____ % 2019A Term Bonds due June 1, 20__ – Yield ____% – Price _____

\$81,365,000*

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

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

\$ _____ % 2019B Term Bonds due June 1, 20__ – Yield ____% – Price _____

* Preliminary, subject to change.

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SANTA CLARA VALLEY WATER DISTRICT

5750 Almaden Expressway
San Jose, California 95118

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BOND COUNSEL

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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, the District, or the Trustee to give any information to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2019 Bonds by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as a contract with the purchasers or any of the owners of the 2019 Bonds. Any statement made in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, is intended solely as such and not as representations of fact. The information set forth herein has been furnished by the District, The Depository Trust Company, and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriters.

In reliance upon exemptions contained in such acts, the 2019 Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Indenture Act of 1939, as amended. The registration or qualification of the 2019 Bonds in accordance with applicable provisions of securities laws of any state in which the 2019 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation. Neither those states nor any of their agencies have passed upon the merits of the 2019 Bonds or the accuracy or completeness of this Official Statement.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the 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 the District since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2019 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2019 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District maintains a website, however, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2019 Bonds.

References to website addresses other than the District's website presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission.

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

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\$97,860,000*
Santa Clara Valley Water District
Water System Refunding Revenue Bonds, Series 2019A and Taxable Series 2019B

\$16,495,000* Series 2019A	\$81,365,000* Taxable Series 2019B
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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) \$16,495,000* aggregate principal amount of the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2019A (the “2019A Bonds”) and \$81,365,000* aggregate principal amount of the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2019B (the “2019B Bonds” and together with the 2019A Bonds, the “2019 Bonds”). The Santa Clara Valley Water District (the “District”) is a multi-purpose special district organized and existing in accordance with the Santa Clara Valley Water District Act, Chapter 1405 of Statutes 1951 of the State of California, as amended.

Capitalized terms used herein with respect to the 2019 Bonds and not otherwise defined shall have the meanings set forth in Appendix B “—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS.” Capitalized terms used herein with respect to the Senior Obligations (defined below) and not otherwise defined shall have the meanings set forth in Appendix C “—SUMMARY OF SENIOR MASTER RESOLUTION.”

The 2019 Bonds

General. The 2019 Bonds will be issued pursuant to Resolution No. 16-10, adopted by the Board of Directors of the District on February 23, 2016 (amended to the date hereof, the “Parity Master Resolution”) and an Indenture of Trust, dated as of March 1, 2019 (the “Indenture”) by and between the District and U.S. Bank National Association, as trustee thereunder (the “Trustee”).

Purpose. The 2019 Bonds are being issued to (i) pay the 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 2019 Bonds, all as more fully described herein. See “THE REFUNDING PLAN.”

Security for the 2019 Bonds. The 2019 Bonds are secured by a pledge of the Water Utility System Revenues of the District’s Water Utility System (as such terms are defined in the Parity Master Resolution and as more particularly described under the caption “SOURCES OF PAYMENT FOR THE BONDS — Pledge of Water Utility System Revenues”) and amounts on deposit in certain funds and accounts established under Parity Master Resolution and the Indenture. The obligation of the District to pay principal of and interest on the 2019 Bonds is a special obligation of the District payable solely from Net Water Utility System Revenues of the Water Utility System. Net Water Utility System Revenues of the Water Utility System of the District include the Water Utility System Revenues remaining after payment of Operation and Maintenance Costs and less the principal and interest with respect to Senior Obligations (as defined in the Parity Master Resolution) and transfers to and from the Rate Stabilization Fund and Special Purpose Funds.

The District’s obligation to pay debt service on the 2019 Bonds from Net Water Utility System Revenues is subordinate to the District’s obligation to pay debt service on the Senior Obligations, and on a

* Preliminary, subject to change.

parity with the obligation to pay debt service on the Parity Obligations (as defined below). See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS— Pledge of Water Utility System Revenues” and “— Allocation of Water Utility System Revenues — *Senior Master Resolution*.”

No Reserve Fund for the 2019 Bonds. No reserve fund has been created with respect to the 2019 Bonds.

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

Senior Obligations

The District’s obligation to pay debt service on the 2019 Bonds from Net Water Utility System Revenues is subordinate to: (i) the District’s obligation to pay debt service on \$18,930,000 aggregate principal amount of the District’s Water Utility System Refunding Revenue Bonds Taxable Series 2006B (the “2006B Bonds”) and (ii) the obligation of the District to make \$39,370,000 aggregate principal amount of installment payments under an installment purchase agreement dated as of September 1, 2007 (the “2007 Installment Purchase Agreement”), by and between the District and the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”), which installment payments secure \$39,370,000 aggregate principal amount of the District’s Revenue Certificates of Participation (Water Utility System Improvement Projects) Taxable Series 2007B (the “2007B Certificates” and together with the 2006B Bonds, the “Senior Obligations”). The Senior Obligations were delivered pursuant to Resolution No. 94-58 adopted by the Board of Directors of the District (the “Board”) on June 23, 1994, entitled “A Resolution of the Board of Directors of the Santa Clara Valley Water District Providing for the Allocation of Water Utility System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Utility System Revenues,” as amended and supplemented from time to time (the “Senior Master Resolution”). The District has covenanted in the Parity Master Resolution that it will not issue or incur any additional Senior Obligations under the Senior Master Resolution, including but not limited to refunding obligations.

Parity Obligations

The 2019 Bonds are secured by a pledge of the Water Utility System Revenues and certain funds and accounts established under the Parity Master Resolution and are payable from Net Water Utility System Revenues on a parity with (i) the obligation of the District to pay principal of and interest on the District’s Water System Refunding Revenue Bonds, Series 2016A (the “2016A Bonds”) and Taxable Series 2016B (the “2016B Bonds” and together with the 2016A Bonds the, “2016 Bonds”) in the aggregate principal amount of \$181,530,000; (ii) the obligation of the District to make installment payments under an installment purchase agreement dated as of February 1, 2016 (the “2016 Installment Purchase Agreement”) by and between the District and the Corporation, which installment payments secure \$93,395,000 aggregate principal amount of the District’s Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2016C and Taxable Series 2016D (collectively, the “2016 Certificates”); (iii) the obligation of the District to pay principal of and interest on the District’s Water System Refunding Revenue Bonds, Series 2017A (the “2017A Bonds”) in the aggregate principal amount of \$53,110,000 and (iv) the obligation of the District to pay principal of and interest on any obligations hereafter issued or incurred on a parity therewith subject to the terms of the Parity Master Resolution (collectively, the “Parity Obligations”). See the captions “DEBT STRUCTURE OF THE DISTRICT” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Additional Bonds and Contracts.”

Rate Covenants

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

Parity Master Resolution. The District has covenanted in the Senior Master Resolution to fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield during each Fiscal Year (i) Current Water Utility System Revenues in an amount sufficient to meet the Maintenance and Operation Costs and the Debt Service for the then current Fiscal Year, and (ii) Net Water Utility System Revenues which are at least 1.25 times the sum of all Debt Service and Net Water Utility System Revenues which are at least 1.10 times the sum of all Debt Service on all Bonds and Contracts plus all debt service on all obligations subordinate to Bonds and Contracts; but, in any event such Net Water Utility System Revenues shall be sufficient in each Fiscal Year to make all of the allocations, transfers and payments to pay Debt Service on Bonds and Contracts and to replenish any reserve fund established with respect to such Bonds and Contracts. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Rate Covenant” herein.

The rate covenant described above applies only to coverage of Debt Service of Senior Obligations and shall not be effective with respect to the 2019 Bonds on and after the date no Senior Obligations are outstanding.

Parity Obligations. The District has covenanted under the Parity Master Resolution, to the fullest extent permitted by law, to fix and prescribe rates, fees and charges for Water Service at the commencement of each Fiscal Year, which, together with other Current Water Utility System Revenues or Net Water Utility System Revenues (as such terms are defined in the Parity Master Resolution), as the case may be, are reasonably expected to be at least sufficient to yield during each Fiscal Year (i) Current Water Utility System Revenues in an amount sufficient to meet the Maintenance and Operation Costs and the Debt Service for the then current Fiscal Year, and (ii) Net Water Utility System Revenues which are at least 1.25 times the sum of all Debt Service for such Fiscal Year. Debt Service under the Parity Master Resolution includes the principal of and interest on the 2019 Bonds.

The District may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Current Water Utility System Revenues or Net Water Utility System Revenues, as the case may be, from such reduced rates, fees and charges are reasonably expected to be sufficient to meet the foregoing requirements. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Rate Covenant” herein.

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

Additional Parity Debt Test

The Parity Master Resolution provides for the incurring of Parity Obligations payable from Net Water Utility System Revenues on a parity with the 2019 Bonds upon satisfaction of certain conditions. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Additional Bonds and Contracts” and in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE WATER UTILITY PARITY SYSTEM MASTER RESOLUTION — BONDS AND CONTRACTS — Additional Bonds and Contracts.”

Rate Stabilization Fund

The District has established a Rate Stabilization Fund under the Parity Master Resolution to be held by the District. The District may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Water Utility System Revenue Fund for application in

accordance with the Parity Master Resolution. Amounts transferred from the Rate Stabilization Fund to the Water Utility System Revenue Fund may be taken into account as Water Utility System Revenues for purposes of the calculations for the rate covenant and the issuance of additional Bonds or Contracts under the Parity Master Resolution but not the Senior Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Rate Stabilization Fund.” As of February 1, 2019, approximately \$21.1 million was on deposit in the Rate Stabilization Fund and, based on the mid-year budget, the District anticipates depositing an additional \$1.4 million to the Rate Stabilization Fund upon the closing of Fiscal Year 2018-19.

Special Purpose Funds

The Parity Master Resolution authorizes the District to establish Special Purpose Funds. Upon certain determinations by the Board, the District may withdraw all or any portion of the amounts in a Special Purpose Fund and transfer such amounts to the Water Utility System Revenue Fund for application in accordance with the Parity Master Resolution. Amounts transferred from a Special Purpose Fund to the Water Utility System Revenue Fund may be taken into account as Water Utility System Revenues for purposes of the calculations for the rate covenant and the issuance of additional Bonds or Contracts under the Parity Master Resolution but not the Senior Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Special Purpose Funds.” The District has previously designated the Drought Reserve, the San Felipe Emergency Reserve, the Advanced Water Purification Center Reserve, Public-Private Partnership Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of February 1, 2019, there was approximately \$24.6 million in aggregate on deposit in such Special Purpose Funds and, based on the mid-year budget, the District anticipates depositing an additional \$5.2 million to the Special Purpose Funds upon the closing of Fiscal Year 2018-19.

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

The District has executed and delivered two installment purchase agreements outstanding as of March 1, 2019 in the aggregate principal amount of \$73,570,000 (the “Flood Control System Obligations”) secured by revenues of the District’s flood and storm water control system (the “Flood Control System”). No Water Utility System Revenues are pledged to payment of these installment purchase agreements and the revenues of the Flood Control System are not pledged to the payment of the 2019 Bonds.

The District also receives parcel tax revenues in connection with its Safe, Clean Water program which are not pledged to the payment of the 2019 Bonds.

The District levies property taxes to pay certain costs under the District’s State Water Project contract. Such State Water Project contract costs are not Maintenance and Operation Costs of the Water Utility System. Such State Water Project property taxes are not pledged to the payment of the 2019 Bonds.

Limited Obligations

The obligation of the District to pay principal of and interest on the 2019 Bonds described herein is secured by a pledge of and lien on, the District’s Water Utility System Revenues and are payable from the Net Water Utility System Revenues (Water Utility System Revenues which remain after the payment of Maintenance and Operations Costs and the Senior Obligations). The obligation of the District to pay the principal of and interest on the 2019 Bonds does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Miscellaneous

Brief descriptions of the Senior Master Resolution, the Parity Master Resolution, the 2019 Bonds, the security and sources of payment for the 2019 Bonds and the District are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definition of certain capitalized terms used herein with respect to the Parity Master Resolution and the Senior Master Resolution may be found in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS” and in Appendix C “— SUMMARY OF SENIOR MASTER RESOLUTION,” respectively. All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the Clerk of the Board of the District located at 5750 Almaden Expressway, San Jose, California.

Continuing Disclosure

The District has covenanted in a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the 2019 Bonds to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2020, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and the notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system or any successor repository prescribed by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Reports and the notice of enumerated events is set forth hereto in Appendix F — “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. In 2018, the District filed two supplements to its continuing disclosure annual report for Fiscal Year 2016-17 to correct certain debt service coverage calculations with respect to the District’s Flood Control System Obligations and obligations secured by revenues of the Water Utility System. For a discussion of the District’s compliance with prior continuing disclosure undertakings, see the caption “CONTINUING DISCLOSURE UNDERTAKING.”

Forward-Looking Statements

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

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

THE REFUNDING PLAN

A portion of the proceeds of the 2019 Bonds will be applied to pay the portion of the outstanding Commercial Paper Certificates issued to finance projects for the Water Utility System. The District currently has outstanding \$127,340,000 aggregate principal amount of Commercial Paper Certificates, \$97,340,000 of which were issued to finance projects for the Water Utility System. Pursuant to the Indenture, the District will

transfer a portion of the proceeds of the 2019 Bonds to U.S. Bank National Association, as paying agent, to pay on the date of delivery of the 2019 Bonds \$97,340,000 principal amount of such Commercial Paper Certificates.

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

SANTA CLARA VALLEY WATER DISTRICT
Estimated Sources and Uses of Funds

	<i>2019A Bonds</i>	<i>2019B Bonds</i>	<i>Total</i>
<i>Sources</i>			
Principal Amount of 2019 Bonds	\$	\$	\$
Plus Net Original Issue Premium			
TOTAL	<u>\$</u>	<u>\$</u>	<u>\$</u>
<i>Uses</i>			
Transfer to Paying Agent for Commercial Paper Certificates ⁽¹⁾	\$	\$	\$
Costs of Issuance ⁽²⁾			
TOTAL	<u>\$</u>	<u>\$</u>	<u>\$</u>

⁽¹⁾ Equals the outstanding principal amount of Commercial Paper Certificates issued to finance projects for the Water Utility System.

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

THE 2019 BONDS

Terms of the 2019 Bonds

The 2019 Bonds will be issued in the aggregate principal amount of \$97,860,000*. The 2019 Bonds will be dated the date of initial issuance thereof, will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable on each June 1 and December 1, commencing June 1, 2019 (each, an "Interest Payment Date"), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2019 Bonds will be computed on the basis of a 360 day year of twelve 30 day months.

The 2019 Bonds will be issued only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2019 Bonds. Ownership interests in the 2019 Bonds may be purchased in book-entry form, in denominations of \$5,000 or any integral multiple thereof. See the caption "—Book-Entry Only System" below and Appendix D attached hereto.

In the event that the book-entry only system described below is discontinued, the principal of and redemption premium (if any) on the 2019 Bonds are payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the office of the Trustee in St. Paul, Minnesota, California (the "Office of the Trustee"). Interest on the 2019 Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the "Registration Books") as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the "Record Date"), such interest to be paid by check or draft of the Trustee, sent by first class mail to the Owner at such Owner's address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of 2019 Bonds may, at such Owner's option, be paid interest by wire transfer of immediately available funds to an account in the United States in accordance with written

* Preliminary, subject to change.

instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium, if any, on the 2019 Bonds will be payable in lawful money of the United States of America.

Interest on any 2019 Bond will be payable from the Interest Payment Date preceding the date of issuance thereof, unless such date is after a Record Date and on or before the succeeding Interest Payment Date, in which case interest thereon will be payable from such Interest Payment Date, or unless such date is on or before May 15, 2019, in which case interest thereon will be payable from the date of initial delivery.

Redemption of 2019A Bonds

Optional Redemption. The 2019A Bonds with stated maturities on or after June 1, 20__ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed in a Written Request of the District provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after _____ 1, 20__ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

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

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

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

*

* Final Maturity.

Selection of 2019A Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2019A Bonds, other than sinking fund redemption, the Trustee will select the 2019A Bonds for redemption as a whole or in part on any date as directed by the District and by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture.

Redemption of 2019B Bonds

Optional Redemption at Par. The 2019B Bonds with stated maturities on or after June 1, 20__ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed in a Written Request of the District provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date on or after June 1, 20__ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Optional Redemption With Make-Whole Payment. The 2019B Bonds shall be subject to redemption prior to June 1, 20__ at the option of the District, as a whole or in part on any Business Day in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date at the “Make-Whole Redemption Price.” The “Make-Whole Redemption Price,” as determined by the District, is the greater of (1) 100% of the principal amount of the 2019B 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 2019B Bonds to be redeemed, not including any portion of those payments of interest thereon accrued and unpaid as of the date on which the 2019B Bonds are to be redeemed, discounted to the date on which the 2019B 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 __ basis points, inclusive, in each case plus accrued and unpaid interest on the 2019B Bonds to be redeemed on the date of redemption.

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

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

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

*

* Final Maturity.

Selection of 2019B Bonds for Redemption. Whenever provision is made in the Indenture for the optional redemption of less than all of the 2019B Bonds, if the 2019B 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 2019B Bonds, the particular 2019B 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 2019B Bonds are held in book-entry form, the selection for redemption of such 2019B 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 2019B Bonds will be selected for redemption in accordance with DTC procedures by lot and in integral multiples of \$5,000.

Notice of Redemption

When redemption is authorized or required, such notice will be given at least twenty (20) days but not more than sixty (60) days before any redemption date, to the respective Owners of any 2019 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services; provided, however, that so long as a book-entry system is used for the 2019 Bonds, the Trustee will send notice of redemption only to the Securities Depositories and Information Services. Notice of redemption to the Securities Depositories shall be given by the method required by such Securities Depositories. Each notice of redemption will state the date of notice, the redemption date, the place or places of redemption, the redemption price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2019 Bonds of any such maturity are to be redeemed, the serial numbers of the 2019 Bonds of such maturity to be redeemed by giving the individual number of each 2019 Bond or by stating that all 2019 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2019 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed.

Each such notice shall also state that on the redemption date there will become due and payable on each of said 2019 Bonds or parts thereof designated for redemption the redemption price thereof or of said specified portion of the principal thereof in the case of a 2019 Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon will cease to accrue, and will require that such 2019 Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2019 Bond. Notice of redemption of 2019 Bonds shall be given by the Trustee at the expense of the District.

With respect to any notice of optional redemption of 2019 Bonds, such notice will state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2019 Bonds to be redeemed and that, if such moneys shall not have been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 2019 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Book-Entry Only System

One fully-registered 2019 Bond of each maturity and series will be issued in the principal amount of the 2019 Bonds of such maturity and series. Such 2019 Bond will be registered in the name of Cede & Co. and will be deposited with DTC.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2019 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The District cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2019 Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix D hereto for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system described above is abandoned, the 2019 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2019 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such 2019 Bond for cancellation at the Office of the Trustee, accompanied by delivery of a duly executed instrument of transfer in a form approved by the Trustee. Upon the surrender of a 2019 Bond for transfer, the Trustee is to issue a new 2019 Bond or 2019 Bonds of the same maturity, for a like series and aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new 2019 Bond issued upon any transfer. The Trustee may require the payment by any 2019 Bond Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2019 Bonds, the Trustee will cancel and destroy the 2019 Bonds it has received.

2019 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2019 Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new 2019 Bond issued upon any exchange except in the case of any exchange of temporary 2019 Bonds for definitive 2019 Bonds. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2019 Bonds, the Trustee will cancel and destroy the 2019 Bonds it has received.

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

SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS

Pledge of Water Utility System Revenues

Pursuant to the Parity Master Resolution, the District has continued and agreed to maintain, so long as any Bonds (including the 2019 Bonds) or Contracts (as such terms are defined in Appendix B attached hereto) remain outstanding, the Water Utility System Revenue Fund. The District has covenanted that all Water Utility System Revenues received by the District will be deposited in the Water Utility System Revenue Fund. So long as any Senior Obligations are outstanding, amounts in the Water Utility System Revenue Fund will be disbursed, allocated and applied solely to the uses and purposes described in the Senior Master Resolution and in the Parity Master Resolution. On and after the date no Senior Obligations are outstanding, amounts in the Water Utility System Revenue Fund will be disbursed, allocated and applied solely to the uses and purposes described in the Parity Master Resolution. Pursuant to the Senior Master Resolution and the Parity Master Resolution, amounts held in the Water Utility System Revenue Fund will be accounted for separately and apart from all other accounts, funds, money or other resources of the District.

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

System Revenue Fund and all amounts on deposit therein as permitted in the Parity Master Resolution for the payment of Contracts and Bonds in accordance with the terms thereof subordinate solely to the lien created under the Senior Master Resolution. See “— Allocation of Water Utility System Revenues” below.

The 2019 Bonds are Bonds under the Parity Master Resolution and are secured by the pledge and the liens created therein. Pursuant to the Indenture, in order to carry out the pledge contained in the Parity Master Resolution, the District will transfer Net Water Utility System Revenues from the Water Utility System Revenue Fund to the Trustee to pay the principal of and interest on the 2019 Bonds when due, all in accordance with the terms of the Parity Master Resolution and the Indenture. No reserve fund has been created with respect to the 2019 Bonds.

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

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

Net Water Utility System Revenues are defined by the Parity Master Resolution to be, for any Fiscal Year or other period, the Water Utility System Revenues during such Fiscal Year or period less the Maintenance and Operation Costs and less the principal and interest with respect to Senior Obligations payable during such Fiscal Year or period. The obligation of the District to pay the principal of and interest on the 2019 Bonds from Net Water Utility System Revenues is absolute and unconditional.

The obligation of the District to pay the principal of and interest on the 2019 Bonds is a limited obligation of the District payable solely from Net Water Utility System Revenues of the District’s Water Utility System and neither the full faith and credit nor the taxing power of the District, the County of Santa Clara, the State of California or any of its political subdivisions is pledged for the payment of the 2019 Bonds. The obligation of the District to pay the principal of and interest on the 2019 Bonds does not constitute indebtedness of the District in contravention of any constitutional or statutory debt limit or restriction.

Allocation of Water Utility System Revenues

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

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

So long as the Senior Obligations are outstanding, the District shall transfer or make payments from the Water Utility System Revenue Fund the amounts set forth below at the following times and in the following order of priority:

- (a) Such amounts at such times as the District shall require to provide for the payment of Maintenance and Operation Costs;
- (b) To each Trustee to pay Debt Service at the times and in the amounts required by the Senior Obligations;
- (c) To each Trustee for deposit in the reserve funds created with respect to Senior Obligations an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Senior Obligations reserve funds as and to the extent required by the applicable Senior Obligation (the District has not established any cash reserve funds with respect to Senior Obligations);
- (d) On any date prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the Water Utility System (including payment of the principal of and interest on the 2019 Bonds); and
- (e) On the last Business Day of each Fiscal Year, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the District.

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

- (a) to provide for the payment of Maintenance and Operation Costs of the Water Utility System as the District requires;
- (b) to pay Debt Service at the times and in the amounts required by applicable Bonds (including the 2019 Bonds) or Contracts or the trust agreements securing each Bond or Contract;
- (c) to each trustee for deposit in the applicable reserve fund with respect to such Bonds or Contracts, if any, an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Bond or Contract reserve fund as and to the extent required by the applicable Bond or Contract or the resolutions, trust agreements, indentures or other instruments securing each Bond or Contract (the District has not established any cash reserve funds with respect to the currently outstanding Bonds and Contracts);

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

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

Rate Covenant

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

The rate covenant described above applies only to coverage of Debt Service of Senior Obligations and shall not be effective on and after the date no Senior Obligations remain outstanding. The District has covenanted in the Parity Master Resolution that it will not issue or incur any additional Senior Obligations under the Senior Master Resolution, including but not limited to refunding obligations.

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

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

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

No Reserve Fund for the 2019 Bonds

No reserve fund has been created with respect to the 2019 Bonds.

Rate Stabilization Fund

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

All amounts on deposit in the Rate Stabilization Fund and the Rate Stabilization Fund are irrevocably pledged to the payment of the Bonds and Contracts, including the 2019 Bonds; provided that amounts on deposit in the Rate Stabilization Fund may be apportioned for such purposes as are expressly permitted in the Parity Master Resolution. Such pledge constitutes a first lien on amounts on deposit in the Rate Stabilization Fund for the payment of Contracts and Bonds in accordance with the terms of the Parity Master Resolution.

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

Under certain circumstances, moneys received in one Fiscal Year may be required or permitted by generally accepted accounting principles applicable to governmental agencies such as the District to be recorded as revenue in a subsequent Fiscal Year, regardless of whether such moneys have been deposited in the Rate Stabilization Fund. See Appendix A “— AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018.”

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

As of February 1, 2019, there was approximately \$21.1 million on deposit in the Rate Stabilization Fund and, based on the mid-year budget, the District anticipates depositing an additional \$1.4 million to the Rate Stabilization Fund upon the closing of Fiscal Year 2018-19.

Special Purpose Funds

The Parity Master Resolution authorizes the establishment of Special Purpose Funds. Amounts in Special Purpose Funds shall be accounted for separately and apart from all other accounts, funds, money or other resources of the District.

All amounts on deposit in Special Purpose Funds and the Special Purpose Funds are irrevocably pledged to the payment of the Bonds and Contracts, including the 2019 Bonds, as provided in the Parity Master Resolution; provided that amounts on deposit in the Special Purpose Funds there may be apportioned for such purposes as are expressly permitted therein. Such pledge constitutes a first lien on amounts on deposit in the Special Purpose Funds for the payment of Bonds and Contracts in accordance with the terms of the Parity Master Resolution.

The District may withdraw all or any portion of the amounts on deposit in a Special Purpose Fund and transfer such amounts to the Water Utility System Revenue Fund upon a determination by resolution of the Board of Directors of the District substantially to the effect that (a) (i) non-routine expenditures resulting from extraordinary events, including but not limited to droughts and natural disasters, are reasonably expected to be

incurred, and (ii) reduced Current Water Utility System Revenues have resulted from such an extraordinary event, (b) application of amounts on deposit in one or more Special Purpose Funds to the payment of such expenditures is financially prudent and necessary, and (c) the Board of Directors has adopted a budget amendment, if necessary, to reflect such expenditures and the transfer of such amounts from Special Purpose Funds to the Water Utility System Revenue Fund. Amounts transferred from Special Purpose Funds to the Water Utility System Revenue Fund during or within 270 days after the end of a Fiscal Year, may be taken into account as Current Water Utility System Revenues for purposes of the calculations to issue additional Bonds or execute additional Contracts and for the calculations described under “—Rate Covenant—*Parity Obligations*” above.

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

The District has designated the Drought Reserve, the San Felipe Emergency Reserve, the Advanced Water Purification Center Reserve, the Public-Private Partnership Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of February 1, 2019, there was approximately \$24.6 million on deposit in such Special Purpose Funds and, based on the mid-year budget, the District anticipates depositing an additional \$5.2 million to the Special Purpose Funds upon the closing of Fiscal Year 2018-19.

Additional Bonds and Contracts

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

Additional Parity Obligations. The District may at any time incur or issue additional Bonds or Contracts (that is, obligations the payments of which are payable from the Water Utility System Revenues on a parity with the 2019 Bonds), provided:

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

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

proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

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

Subordinate Obligations. The District may incur obligations secured by a pledge of Water Utility System Revenues, the Water Utility System Revenue Fund and all amounts on deposit in the Water Utility System Revenue Fund on a basis subordinate to the pledge of the Senior Master Resolution and payable therefrom on a basis subordinate to the pledge of the Parity Master Resolution securing the 2019 Bonds.

As of March 1, 2019, the District has tax and revenue notes (“TRANS”) outstanding in the amount of \$225,000,000 securing the Commercial Paper Certificates, which are payable from Net Water Utility System Revenues subordinate to the 2019 Bonds and other Bonds and Contracts. After the issuance of the 2019 Bonds and payment of the Commercial Paper Certificates issued to finance projects for the Water Utility System, the District 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 THE DISTRICT—Short-Term Indebtedness” below for a description of the letter of credit which supports the District’s commercial paper program.

DEBT SERVICE SCHEDULE

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

Outstanding Debt Service Schedule⁽¹⁾
(As of March 1, 2019)

Fiscal Year Ending June 30	Senior Obligations ⁽²⁾		2019 Bonds			Other Parity Obligations ⁽³⁾	Total Parity Obligations	Total
			Principal	Interest	Total			
2019	\$	3,924,049	\$		\$	\$ 16,005,247		\$
2020		5,564,106				23,577,862		
2021		5,546,101				23,595,528		
2022		5,530,418				23,599,734		
2023		5,545,344				23,580,126		
2024		5,497,880				23,609,790		
2025		5,516,760				23,587,679		
2026		5,456,718				23,636,573		
2027		5,482,490				23,592,917		
2028		5,463,339				23,604,626		
2029		5,431,002				23,620,461		
2030		5,409,211				23,636,121		
2031		5,390,702				23,648,121		
2032		5,006,210				20,240,371		
2033		4,971,387				20,257,121		
2034		4,908,378				20,313,871		
2035		4,861,915				19,197,298		
2036		2,596,000				19,210,064		
2037		-				19,224,856		
2038		-				14,695,302		
2039		-				14,692,236		
2040		-				14,697,372		
2041		-				14,695,122		
2042		-				14,689,899		
2043		-				14,695,734		
2044		-				14,696,008		
2045		-				14,689,784		
2046		-				14,691,903		
2047		-				-		
2048		-				-		
2049		-				-		
Total	\$	92,102,010	\$	\$	\$	\$ 549,981,727		\$

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

⁽²⁾ Includes scheduled debt service on the 2006B Bonds and the outstanding installment payments under the 2007 Installment Purchase Agreement, which secure the 2007B Certificates. Interest on the 2007B Certificates is payable at the three-month LIBOR rate plus 0.32%. Interest is projected at rates ranging between 5.7% and 6.6% per annum. On July 27, 2017 the Financial Conduct Authority, the United Kingdom's top regulator, tasked with overseeing LIBOR, announced the LIBOR benchmark will be phased out by the end of 2021. The District will comply with any future regulatory requirements related to LIBOR, but cannot predict the future outcome of the LIBOR phase out as it relates to the 2007B Certificates.

⁽³⁾ Includes scheduled debt service on all outstanding debt issued pursuant to the Parity Master Resolution, which includes the 2016 Bonds, the 2017A Bonds and the outstanding installment payments under the 2016 Installment Purchase Agreement.

THE DISTRICT

Organization, Purpose and Powers

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

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

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

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

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

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

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

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

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

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

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

As provided under California law, the District receives its share of the County-wide 1% tax levied. A portion of the taxes received is currently used to pay maintenance and operations cost of the Water Utility System. While the remaining portion of the taxes received is available to the Flood Control System Obligations secured by revenues of the flood protection system facilities of the District, such proceeds would be available by Board action to pay maintenance and operation costs of the Water Utility System after annual payments on debt service on certain Flood Control System Obligations have been met.

Board of Directors and Management

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

John L. Varela (District 1): Mr. Varela was re-elected to the Board in November 2018. Mr. Varela has served as a member of the City Council and Mayor of the City of Morgan Hill and currently sits on the board for the Morgan Hill Chamber of Commerce. In addition, Mr. Varela is active in the Silicon Valley Chamber Coalition Regional Economic Development Initiative. Mr. Varela has experience as an entrepreneur in the solar/clean energy and bio-fuel industries. District 1 encompasses the South County cities of Morgan Hill and Gilroy; the community of San Martin, the Evergreen and Silver Creek neighborhoods of San Jose; parts of south San Jose; and hills east of San Jose and Milpitas.

Barbara Keegan (District 2): Ms. Keegan was reelected to the Board in November 2016 to represent District 2. Ms. Keegan has extensive experience as a licensed civil engineer including over 19 years with the

City of San Jose's public works department and as City Engineer/Assistant Director of Public Works for the City of Sunnyvale. In addition to serving on the Board, Ms. Keegan serves on the boards of the North Willow Glen Neighborhood Association and the San Jose Arena Authority. Ms. Keegan holds a bachelor's and master's degree in civil engineering from San Jose State University. District 2 includes portions of the City of Jose and the City of Santa Clara.

Richard P. Santos (District 3): Mr. Santos became a member of the Board in 2000 and was reelected to the Board in November 2016 to represent District 3. Mr. Santos retired as a Fire Captain from the San Jose Fire Department with 33 years of service. While at the San Jose Fire Department, Mr. Santos served for 12 years on the San Jose Police and Fire Retirement Board and was a labor representative of the San Jose Firefighters local union. He was then and is still very active as a volunteer for community services and has spearheaded several civic activity fundraiser projects. Mr. Santos received a bachelor's degree in public administration from Farelston and Nova Colleges and received associates degrees in political science and fire science. He also has a lifetime teaching credential from the California Community College system, where he taught fire science at Mission College. District 3 is in the northeastern portion of the county and includes the City of Milpitas, portions of San Jose (Berryessa area, the Alum Rock area north of McKee Road and the Alviso area) portions of Sunnyvale and Santa Clara.

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

Nai Hsueh (District 5): Ms. Hsueh was reelected to the Board in November 2016 to serve District 5 and is the current Vice Chair of the Board. Ms. Hsueh has more than 25 years of experience working on various aspects of water resources issues, including previously serving as Chief Operating Officer, Capital Program Services of the District. During her tenure at the District, she first progressed through the engineering career path from Assistant Engineer to Senior Engineer to one of the District's Chief Operating Officers. In such capacity, Ms. Hsueh was responsible for managing and implementing the District's capital improvement program to support its water supply, flood protection and environmental stewardship missions. Ms. Hsueh is a registered civil engineer in California and received her bachelor's degree in agricultural engineering from National Taiwan University and her master's degree in hydraulic engineering from the University of Iowa. District 5 includes portions of Cupertino, San Jose, Saratoga and Sunnyvale.

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

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

leading water conservation company, WaterSmart Software. Mr. Kremen also teaches a graduate level energy policy course at Northwestern University's Institute for Sustainability and Energy (ISEN) and is a Foundation Board member at the University of California, Merced. He is also a long-time volunteer, judge and mentor at the leading water non-profit, Imagine H₂O. In addition to being elected as the 2015 Chair of the Board of Directors of the District, Gary has also served as President of the Board of Directors of Purissima Hill 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 the San Jose.

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

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

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

Nina Hawk, Chief Operating Officer – Water Utility Enterprise. Ms. Hawk joined the District in October 2017 as the Chief Operating Officer and is responsible for management of the District's Water Utility Enterprise. Responsibilities include leading the District's water policy development and program implementation of its water importation, surface reservoir operations, groundwater management, raw and treated water delivery, wholesale treated water, water recycling and water conservation programs. Ms. Hawk has held roles in utility management in both private and public sectors, including in engineering, regulatory compliance, safety, finance, and operations and maintenance. Ms. Hawk's experience includes groundwater management, water distribution, industrial wastewater treatment plant operations, and long-range water supply planning. Ms. Hawk received her bachelor's degree in civil and environmental engineering and a master's degree in public administration from San Jose State University.

Darin Taylor, Chief Financial Officer. Mr. Taylor became the District's Chief Financial Officer effective December 19, 2016, after 15 years as a senior project manager with the District. Mr. Taylor has more than 16 years of governmental financial planning and management experience with the District. Mr. Taylor holds a bachelor's degree in economics from Claremont McKenna College, and a master's degree in business administration from San Jose State University. Mr. Taylor is a Certified Public Financial Officer, a certification designated by the Government Finance Officers Association.

Melanie Richardson, Chief Operating Officer – Watershed. Ms. Richardson is the Chief Operating Officer for Watersheds at the District. She has been with the District for 27 years in the following roles: Associate Civil Engineer, Assistant Operating Officer of Water Supply, Deputy Administrative Officer of Corporate Business Services, and most recently, the Deputy Operating Officer of Watersheds Design &

Construction. Ms. Richardson is a registered Civil Engineer in California and has served as one of the two Designated Engineers for the District.

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

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

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

Insurance

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

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

The District maintains a risk management information system to track claims, litigation and establish claims reserves which are used to derive self-insurance fund requirements. These funding requirements are reviewed by outside actuaries biannually.

Property Appraisal and Insurance. A property appraisal and valuation of the District's buildings and contents was prepared in April 2006 for the period ending that date. The appraisal was in conformity with generally accepted appraisal practices for purposes of establishing insurable values and property records. The report provides current replacement costs for buildings and equipment in the event of a loss.

The District maintains blanket property insurance coverage for its buildings and equipment, covering all traditional perils, but excluding earth movement (earthquakes) and floods. The current blanket limit for this coverage is \$300,000,000. There are sub-limits for particular perils consistent with normal property policies and appropriate to District loss exposures. The District's dams are not insured.

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

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

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

Cyber Liability Insurance. Since June 1, 2015, the District has maintained cyber liability insurance coverage in the amount of \$5,000,000 with a self-insured retention of \$50,000 per claim. The liability associated with cybercrime, unauthorized access and failure to protect sensitive information are mitigated by cyber security insurance. See the caption "POTENTIAL INVESTMENT CONSIDERATIONS—Cyber Security."

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

Budgeting Process

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

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

The current budget for Fiscal Year 2018-19 was approved by the Board on May 8, 2018. As of February 1, 2019, the Board had approved budgetary adjustments in the Water Enterprise Fund consisting of an approximately \$3.5 million increase in capital expenditures and an approximately \$29,000 increase in operating expenditures.

PAWS Report

On February 22, 2019, the District released its Annual Report on the Protection and Augmentation of Water Supplies (the “2019 PAWS Report”), which provides an analysis of the District’s present and future water requirements and supply reliability, programs to promote reliability and an overview of the District’s future capital improvements, maintenance and operating requirements. The 2019 PAWS Report forms the basis on which the District proposed its maximum groundwater production and water charges for Fiscal Year 2019-20. See caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Water Charge Setting Process*” for more information with respect to the District’s rate-setting process. Copies of the 2019 PAWS Report may be obtained from the District’s website, however, the contents of the 2019 PAWS Report are not incorporated by reference herein.

DEBT STRUCTURE OF THE DISTRICT

Long-Term Indebtedness

The District’s long-term debt outstanding as of March 1, 2019, consisted of the following:

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

<i>Type of Indebtedness</i>	<i>Final Maturity</i>	<i>Balance Outstanding</i>
Water Utility System Senior Obligations:		
Water Utility System Refunding Revenue Bonds, Taxable Series 2006B	2035	\$ 18,930
Revenue Certificates of Participation (Water Utility System Improvement Projects), Taxable Series 2007B	2037	<u>39,370</u>
Total Senior Water System Obligations		<u>\$ 58,300</u>
Water Utility System Parity Obligations:		
Water System Refunding Revenue Bonds, Series 2016A and Taxable Series 2016B	2046	\$ 181,530
Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2016C and Taxable Series 2016D	2029	93,395
Water System Refunding Revenue Bonds, Series 2017A	2037	<u>53,110</u>
Total Parity Water System Obligations		<u>\$ 328,035</u>
All Other Debt Not Secured by Water Utility System Revenues:		
1994 Installment Purchase Agreement ⁽¹⁾	2030	\$ 25,724
1995 Installment Purchase Agreement ⁽²⁾	2030	<u>47,846</u>
Total Other Debt		<u>\$ 73,570</u>
Total Long-Term Indebtedness		<u>\$ 459,905</u>

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

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

Source: District.

Short-Term Indebtedness

The District may issue from time to time TRANs to secure the District's Commercial Paper Certificates. The TRANs are payable from taxes, income, revenue, cash receipts and other moneys which are received by the Water Utility System of the District for Fiscal Year 2018-19 and which are lawfully available for the payment of current expenses and other obligations of the District. The obligation of the District to make payments of principal and interest on the TRANs is a general obligation of the District. The District has additionally pledged Net Water Utility System Revenues on a subordinate basis to Bonds and Contracts (as defined in the Parity Master Resolution), in accordance with the Parity Master Resolution.

The current TRANs in the aggregate principal amount of \$225 million, which secure the Commercial Paper Certificates, are dated July 1, 2018 and mature on October 1, 2019. As of March 1, 2019, the District had \$127.3 million in Commercial Paper Certificates outstanding which were issued to finance the following projects: \$97.3 million for Water Utility System projects and \$30.0 million for Safe, Clean Water Program projects. The Commercial Paper Certificates are currently payable from draws under a letter of credit issued by MUFG Bank, Ltd. (formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.), acting through its New York Branch, in the maximum principal amount of \$150 million (the "Letter of Credit"). The District had also previously entered into a Certificate Purchase and Reimbursement Agreement (the "Wells Fargo Purchase Agreement") pursuant to which the District could issue up to \$75 million of Commercial Paper Certificates to Wells Fargo Bank, National Association. The District did not issue any Commercial Paper Certificates secured by the Wells Fargo Purchase Agreement and elected to terminate the Wells Fargo Purchase Agreement in Fiscal Year 2017-18.

The District could enter into additional agreements to obtain credit facilities in excess of the \$150 million under the Letter of Credit to support its Commercial Paper Certificates program. The District currently does not have any expectation to obtain such additional credit facilities. Notwithstanding the foregoing, there can be no guarantee that the District will be able to renew the Letter of Credit or obtain similar credit facilities in the future to support a commercial paper program such as the Commercial Paper Certificates.

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

The District expects to pay all the currently outstanding Commercial Paper Certificates issued for Water Utility System projects from a portion of the proceeds of the 2019 Bonds. See the caption "THE REFUNDING PLAN."

WATER UTILITY SYSTEM

Service Area

The District's service area encompasses all of Santa Clara County, one of nine counties that make up the San Francisco Bay area. The service area is approximately 1,330 square miles and constitutes a major portion of "Silicon Valley." According to the U.S. Census Bureau, the County's population increased by approximately 8.8% between April 1, 2010 and July 1, 2017 to a total of approximately 1,938,000. Of the approximately 370,000 acre-feet of water used in the County on average in a normal rainfall year, the District estimates that approximately 55 percent of water use in the County is residential, approximately 20 percent is commercial, approximately 10 percent is industrial, approximately 10 percent is agricultural, and approximately 5 percent is public water use. The 370,000 acre-feet of water referred to above includes treated water provided by the District, local groundwater pumped by the water retailers and individual well owners, water provided by the SFPUC, local surface water, and recycled water.

Primary Sources of Revenues

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

Groundwater Charges. The Board has the power to, and does, levy and collect a groundwater charge for the production of water from the groundwater supplies within zones of the District that will benefit from the recharge of groundwater supplies or the distribution of imported water in such zones. The District has established two primary zones, one in the northern area of the county and one in the southern area. The District prepares an annual PAWS Report supporting the basis for the groundwater charges that are adopted. The charges are levied upon the production of groundwater from all water-producing facilities, whether public or private. A fixed and uniform rate per acre-foot is set for agriculture water, and another rate per acre-foot for all water other than agricultural water.

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

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

Water Charge Setting Process. Each year, the Board establishes groundwater production charges for two zones of benefit in accordance with the Law. Zone W-2 refers to the northern area of the County and largely coincides with the Santa Clara Plain portion of the Santa Clara Groundwater Subbasin, while Zone W-5 refers to the southern area of the County and largely coincides with the Coyote Valley portion of the Santa Clara Subbasin and the Llagas Subbasin. Although not required under the Law, the Board also sets surface water charges, recycled water charges, treated water surcharges and the amount of the SWP cost to be recouped through the SWP tax, within the framework of the groundwater charge setting process. The Water Utility Taxing and Pricing Policy, Resolution 99-21 and legal requirements, guide staff in the development of the overall structure for such charges. The water charge setting process is conducted consistent with Board Resolution 12-10.

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

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

augment groundwater supplies in the applicable zone. As provided for in the annual PAWS report, staff describes those benefits and costs which are apportioned to the zones of benefit by customer class. The District is undertaking a study of the conjunctive use of various sources of water to evaluate the current zones of benefit and develop recommendations for Board consideration and approval. The study evaluates whether the existing groundwater charge zones reflect the areas receiving benefits from the District's groundwater management activities. The District expects such study to be complete in mid-2019 and any changes to the zones of benefit, if approved by the Board, may be implemented in Fiscal Year 2020-21 or later. The District currently expects that changes to its current zones of benefit implemented as a result of such study, if any, to be materially revenue-neutral.

Water Revenue Zones W-2 and W-5. The water charges listed in the following table are the historical agricultural and non-agricultural water charges for Zones W-2 and W-5. The treated water deliveries are all for municipal and industrial water use. The non-contract treated water may be available at the discretion of the District to encourage more treated water use and reduce groundwater pumping to maintain local aquifer storage. The water charges for the northern area of the County are higher than the southern area because the three water treatment plants and most of the distribution system service the northern area of the County. The southern area depends solely on groundwater, raw surface water, and recycled water, rather than treated water. See the caption "DISTRICT FACILITIES—Groundwater Subbasins" for a description of the groundwater basins managed by the District.

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

<i>Fiscal Year</i>	<i>Zone</i>	<i>Groundwater</i>		<i>Treated Water</i>		<i>Surface Water</i>		<i>Reclaimed Water</i>	
		<i>Non-Agricultural</i>	<i>Agricultural</i>	<i>Non-Contract</i>	<i>Contract</i>	<i>Non-Agricultural</i>	<i>Agricultural</i>	<i>Non-Agricultural</i>	<i>Agricultural</i>
2014-15 ⁽²⁾	W-2	\$747.00	\$19.14	\$897.00	\$847.00	\$765.60	\$37.74	-	-
	W-5	319.00	19.14	-	-	337.60	37.74	\$299.00	\$42.94
2015-16 ⁽²⁾	W-2	894.00	21.36	1,094.00	994.00	916.60	43.96	-	-
	W-5	356.00	21.36	-	-	378.60	43.96	336.00	45.16
2016-17	W-2	1,072.00	23.59	1,122.00	1,172.00	1,099.46	51.04	-	-
	W-5	393.00	23.59	-	-	420.46	51.04	373.00	47.38
2017-18	W-2	1,175.00	25.09	1,225.00	1,275.00	1,208.36	58.45	-	-
	W-5	418.00	25.09	-	-	451.36	58.45	398.00	48.88
2018-19	W-2	1,289.00	27.02	1,339.00	1,389.00	1,324.93	62.94	-	-
	W-5	450.00	27.02	-	-	485.93	62.94	430.00	54.41

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

⁽²⁾ Due to lower surface water supplies, non-contract treated water rates were higher than contract rates in Fiscal Years 2014-15 and 2015-16 to incentivize retail customers to not take more water than their contract allotment.

Source: District.

Future Rates and Charges. The water charges listed in the following table are the projected agricultural and non-agricultural water charges by the District for Zones W-2 and W-5.

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

<i>Fiscal Year</i>	<i>Zone</i>	<i>Groundwater</i>		<i>Treated Water</i>		<i>Surface Water</i>		<i>Reclaimed Water</i>	
		<i>Non- Agricultural</i>	<i>Agricultural</i>	<i>Non- Contract</i>	<i>Contract</i>	<i>Non- Agricultural</i>	<i>Agricultural</i>	<i>Non- Agricultural</i>	<i>Agricultural</i>
2019-20	W-2	\$1,374.00	\$28.88	\$1,424.00	\$1,474.00	\$1,411.50	\$66.38	-	-
	W-5	481.00	28.88	-	-	518.50	66.38	\$461.00	\$52.89
2020-21	W-2	1,465.00	30.87	1,515.00	1,565.00	1,504.15	70.02	-	-
	W-5	514.00	30.87	-	-	553.15	70.02	494.00	54.88
2021-22	W-2	1,561.00	33.00	1,611.00	1,661.00	1,601.87	73.87	-	-
	W-5	550.00	33.00	-	-	590.87	73.87	530.00	57.01
2022-23	W-2	1,664.00	35.28	1,714.00	1,764.00	1,706.67	77.95	-	-
	W-5	588.00	35.28	-	-	630.67	77.95	568.00	59.29
2023-24	W-2	1,774.00	37.72	1,824.00	1,874.00	1,818.80	82.52	-	-
	W-5	628.00	37.72	-	-	672.80	82.52	608.00	61.72

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

Source: District.

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

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

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

Deliveries

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

Sources

<i>Calendar Year</i>	<i>Local Surface Water⁽³⁾</i>	<i>Central Valley Project⁽⁴⁾</i>	<i>SFPUC Intertie⁽⁵⁾</i>	<i>State Water Project⁽⁶⁾</i>	<i>Other⁽⁷⁾</i>	<i>Total</i>
2014	15,400	69,400	(60)	40,000	2,000	126,740
2015	40,400	49,600	(600)	65,800	2,400	157,600
2016	97,800	104,600	90	68,700	2,000	273,190
2017 ⁽⁸⁾	515,400	70,900	960	45,000	1,900	634,160
2018 ⁽⁹⁾	34,200	107,700	(80)	77,100	2,200	221,120

⁽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 and Response."

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

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

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

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

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

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

⁽⁹⁾ Based on unaudited estimated amounts.

Source: District.

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

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

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

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

PROJECTED WATER DELIVERIES AND SOURCES OF WATER DELIVERED

(In acre-feet)

Deliveries

<i>Fiscal Year Ending June 30</i>	<i>Municipal & Industrial</i>	<i>Agricultural</i>	<i>Total</i>	<i>% Increase/ Decrease</i>
2019	198,800	27,590	226,390	0.08%
2020	211,800	27,590	239,390	5.74
2021	223,800	27,590	251,390	5.01
2022	223,800	27,590	251,390	0.00
2023	224,720	27,590	252,310	0.37

Sources

<i>Calendar Year⁽¹⁾</i>	<i>Local Surface Water</i>	<i>Central Valley Project⁽¹⁾</i>	<i>State Water Project⁽¹⁾</i>	<i>Other⁽²⁾</i>	<i>Total</i>
2019	78,600	109,600	61,400	2,100	251,700
2020	78,600	109,600	61,400	2,600	252,200
2021	78,600	109,600	61,400	2,600	252,200
2022	78,600	109,600	61,400	2,600	252,200
2023	78,600	109,600	61,400	2,600	252,200

⁽¹⁾ CVP and SWP sources for calendar years 2019 through 2023 are based on average supplies identified in the 2015 Urban Water Management Plan, and are less than previous estimates included in the 2010 Urban Water Management Plan. The projected decrease is due to lower CVP and SWP projections by California’s Department of Water Resources and lower local surface water projections by the District as a result of incorporating additional instream flow requirements. CVP and SWP sources exclude carryover.

⁽²⁾ Other sources include recycled water produced by South County Regional Wastewater Authority (SCRWA).
Source: District.

Projected deliveries in Fiscal Years 2020-21 through 2022-23 assume a gradual return to a new normal water use projection of approximately 250,000 acre-feet per year.

As described above under the caption “—*Historical Water Deliveries and Sources of Water Delivered*,” the water stored in the groundwater subbasins managed by the District during years of wet hydrological conditions accounts for a substantial amount of the difference between the volume of deliveries and the volume of sources in years of dry hydrological conditions.

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

HISTORICAL SALES REVENUES

<i>Fiscal Year Ending June 30</i>	<i>Groundwater</i>	<i>Treated Water</i>	<i>Surface & Recycled Water</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2014	\$84,308,271	\$86,385,838	\$1,679,357	\$172,373,466	10.70%
2015	77,094,928	76,798,888	925,457	154,819,273	(10.18)
2016	61,128,400	89,375,182	731,735	151,235,317	(2.31)
2017	67,936,832	122,212,497	747,007	190,896,336	26.22
2018	97,482,517	132,476,810	1,040,878	231,000,205	21.01

Source: District.

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

PROJECTED SALES REVENUES

<i>Fiscal Year Ending June 30</i>	<i>Groundwater</i>	<i>Treated Water</i>	<i>Surface & Recycled Water</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2019	\$90,696,000	\$152,787,000	\$2,653,000	\$246,136,000	6.55%
2020	105,036,000	169,519,000	2,820,000	277,375,000	12.69
2021	128,638,000	179,948,000	3,005,000	311,591,000	12.34
2022	137,175,000	191,065,000	3,203,000	331,443,000	6.37
2023	146,751,000	203,935,000	3,413,000	354,099,000	6.84

Source: District.

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

The taxes collected are allocated to taxing agencies within the County, including the District, on the basis of a formula established by State law enacted in 1979 and modified from time to time. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of “situs” growth in assessed value (due to new construction, change of ownership, or a 2% inflation allowance allowed under Article XIII A of the State Constitution) prorated among the jurisdictions which serve the tax rate area within which the growth occurs. Tax rate areas are groups of parcels which are taxed by the same taxing entities. Cities, counties, special districts and school districts share the growth of “base” revenues from each tax rate area. Assessed valuation growth is cumulative, i.e., each year’s growth in property value becomes part of each agency’s allocation in the following year. Notwithstanding the foregoing, counties could also broadly reassess properties (i.e. during economic recessions) and adjust property values downwards.

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

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

From time to time legislation has been considered as part of the State budget to shift property tax revenues from special districts to school districts or other governmental entities. While legislation enacted in connection with the 1992-93 State budget shifted approximately 35% of many special districts' shares of the countywide 1% ad valorem property tax, the share of the countywide 1% ad valorem property tax pledged to debt service by special districts, such as the District, was exempted. The 2004-05 State budget reallocated additional portions of the special districts' shares of the countywide 1% ad valorem property tax shifting a portion of the property tax revenues collected by the County from special districts to school districts. As a result of the 2004-05 State budget, the District lost approximately \$51,000,000 of property tax revenues, cumulatively, over Fiscal Years 2004-05 and 2005-06. Pursuant to the State fiscal year 2005 budget, such property tax revenues reverted to the District in Fiscal Year 2006-07.

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

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

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

There can be no assurance that the property tax revenues the District currently expects to receive will not be reduced pursuant to State legislation enacted in the future. If the property tax formula is permanently changed in the future it could have a material adverse effect on the receipt of property tax revenue by the District. The District currently expects that existing reserves and the statutory authority to raise water rates may offset future property tax revenue losses.

As a result of the implementation of the tax distribution system commonly referred to as the “Teeter Plan” by the County and the participation by the District, the District receives 100% of its share of the 1% property tax levies without regard to delinquencies. There can be no assurance that the Teeter Plan or the participation of the District therein will be continued indefinitely.

The District determines the amount of one-percent ad valorem property tax allocated to the Water Utility System on a year-to-year basis. In Fiscal Year 2017-18, the District allocated approximately \$7,088,000 (approximately 7.5%) to the Water Utility System. The District budgeted an allocation of \$6,962,471 (approximately 7.4%) to the Water Utility System for Fiscal Year 2018-19.

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

DISTRICT SHARE OF 1% PROPERTY TAX LEVY

<i>Fiscal Year Ended June 30</i>	<i>District Share of 1% Levy</i>	<i>% Increase/ (Decrease)</i>
2014	\$68,381,000	3.91%
2015	74,700,000	9.24
2016	80,797,165	8.16
2017	88,907,774	10.04
2018	94,491,000	6.28

Source: District.

Property taxes levied by the District to pay State Water Project contract costs are not pledged to the payment of the 2019 Bonds and other Bonds and Contracts, and are not included in the amounts shown above.

SANTA CLARA COUNTY WATER SUPPLY

The District derives its water supply from four main sources: (i) local natural recharge in the groundwater subbasins, (ii) local surface water from District reservoirs, (iii) water imported by the District through SWP, and (iv) water imported by the District through CVP. The District also sells a small amount of recycled water from the South County Regional Wastewater Authority’s Wastewater Treatment and Reclamation Facility (SCRWA Reclamation Facility), and delivers purified water from the Silicon Valley Advanced Water Purification Center (“SVAWPC”) to the City of San Jose. See the caption “DISTRICT FACILITIES—Water Treatment and Water Purification—*Silicon Valley Advanced Water Purification Center.*”

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

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

Approximately 45 percent of the County’s water supply comes from local sources. Such sources are heavily dependent upon rainfall and runoff. The remaining 55 percent comes through purchases from CVP

and SWP (40%), as well as from the SFPUC (15%). The following table summarizes the County's sources of its water supply for the last five calendar years:

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

<i>Calendar Year</i>	<i>SWP</i>	<i>CVP</i>	<i>SFPUC</i>	<i>Recycled Water</i>	<i>Local Surface Water</i>	<i>Natural Groundwater Recharge</i>	<i>Total</i>
2014 ⁽¹⁾	40,000	69,400	47,000	22,000	16,700	53,000	248,100
2015 ⁽¹⁾	65,800	49,600	43,000	20,000	45,200	39,000	262,600
2016 ⁽¹⁾	68,700	104,600	43,000	19,000	105,400	47,000	387,700
2017 ⁽¹⁾	45,000	70,900	47,000	17,000	517,300	55,000	752,200
2018 ⁽²⁾	77,100	107,700	47,000	18,000	42,400	42,000	334,200

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

⁽²⁾ Based on unaudited estimated amounts.

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

Source: District.

Local Supplies

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

The availability of local surface water and natural groundwater recharge depends upon local rainfall. An analysis of 144 years (1874-2018) of rainfall data from two rainfall gauges in central San Jose shows that the average (or mean) annual rainfall is approximately 14 inches. An analysis of the last 10 years (2009-2018) of rainfall data from the rainfall gauge at Station 86 shows that the average (or mean) annual rainfall is approximately 12 inches. Station 86, located at the Norman Y. Mineta San Jose International Airport (the "San Jose International Airport") since 2007 but previously co-located with Station 31, has been in use since 1874 and is currently operated by the City of San Jose in cooperation with the National Weather Service. Another rainfall gauge that is owned by the City of San Jose but maintained by the District has been located at Station 31 at the northwest corner of North San Pedro Street and West Mission Street (currently the City of San Jose's main police complex) since 1992 after having been originally installed nearby at the San Jose International Airport in 1986. There is variability in rainfall, with many years of above normal rainfall and many years of below normal rainfall. The District stores water from wetter years for use during drier years.

Surface Water

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

The District operates ten surface water reservoirs, with a total capacity of about 167,000 acre-feet, which generally provide seasonal storage for downstream releases to percolation facilities. Anderson Reservoir, the largest of the District's reservoirs, can provide carryover storage from one year to the next.

Groundwater storage is also available in the County's two groundwater subbasins and is used for both seasonal and carryover storage.

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

Groundwater Recharge

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

Imported Supplies

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

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

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

State Water Project

In 1961, the District contracted with the SWP (the "SWP Contract") for a new water supply. This imported supply normally provides water for groundwater recharge and for treatment at two District water treatment plants, the Rinconada and Penitencia Water Treatment Plants ("WTPs"), but can also be used to supply the Santa Teresa WTP. The SWP Contract provides for a maximum annual entitlement of 100,000 acre-feet of water from SWP, which became effective in 1961 and will remain effective through the project repayment period, or for seventy-five 75 years (2035), whichever period is longer. In certain years, the District can receive additional SWP water consisting of temporary flood flow in the Delta, or it can receive non-SWP water deliveries, neither of which count against the entitlement amount under the SWP Contract. As of December 31, 2018, the District had received delivery of approximately 3,640,000 acre feet of water through the SWP Contract. Based on a March 20, 2019 announcement by the California Department of Water

Resources (“DWR”), the District’s current SWP allocation under its SWP Contract for 2019 is 70 percent of its maximum annual entitlement. The allocation for 2019 is subject to revision by DWR throughout the year. See the caption “WATER UTILITY SYSTEM — Primary Sources of Revenues — *Historical Water Deliveries and Sources of Water Delivered.*” SWP water deliveries began in 1965 and are generally transported to the District service area via the South Bay Aqueduct.

The SWP Contract requires the District to reimburse the State for capital costs (including interest thereon) and minimum operating, maintenance, power and replacement costs of the SWP transportation and conservation facilities. A property tax is levied by the District to pay the cost of this obligation. Such property taxes are not pledged to the payment of the 2019 Bonds and such costs are not Maintenance and Operation Costs of the Water Utility System. The State re-estimates the District’s total commitment for reimbursement of such costs annually.

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

DWR faces various challenges in the continued supply of imported water to the District and other member agencies. A description of the challenges DWR faces in continuing to supply imported water as well as a variety of other operating information with respect to DWR is included in detail under the caption “STATE WATER PROJECT WATER SUPPLY” in DWR’S Official Statement dated October 10, 2018, relating to its Central Valley Project Water System Revenue Bonds Series AZ (“DWR’s Water Supply Disclosure”). The District incorporates DWR’s Water Supply Disclosure by specific reference in this Official Statement. DWR’s Water Supply Disclosure is the disclosure of DWR and, accordingly, the District does not make any representations as to the accuracy or completeness of DWR’s Water Supply Disclosure or as to the absence of material adverse changes in DWR’s Water Supply Disclosure after the date hereof.

DWR has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated for the benefit of owners of certain outstanding obligations to file with certain information repositories annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act (“Rule 15c2-12”) and annual audited financial statements (the “Department of Water Resources Information”). This information is to be filed by DWR with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <https://emma.msrb.org/>. DWR disclosure documents and annual reports should be reviewed for information pertaining to water supply matters. DWR has not entered into any contractual commitment with the District, the Trustee or the Owners of the 2019 Bonds to provide Department of Water Resources Information to the District or the Owners of the 2019 Bonds. The District has not incorporated by reference the information filed

by DWR described above and neither the District nor the 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 THE DISTRICT OR THE OWNERS OF THE 2019 BONDS UNDER RULE 15c2-12.

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

Central Valley Project

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

On March 15, 2019, USBR announced updated allocations for 2019. For CVP contractors south of the Bay-Delta, including the District, the allocations were 55 percent of contracted amounts for agricultural water and 80 percent of historic use for M&I water. Such allocations will be subject to revision by the USBR. In 2018, for CVP contractors south of the Bay-Delta, including the District, the allocations were 50 percent of contracted amounts for agricultural water and the greater of 75 percent of historic use or public health and safety needs for M&I water. See the caption “WATER UTILITY SYSTEM — Primary Sources of Revenues — *Historical Water Deliveries and Sources of Water Delivered.*” In certain years, the District can receive additional CVP water consisting of temporary flood flow in the Delta which does not count against the contract amount. The District’s CVP supplies provide surface water to the Santa Teresa WTP, Rinconada WTP, surface water customers, local reservoirs for storage, groundwater recharge, and can also be used to supply the Penitencia WTP. The CVP Contract specified initial water rates for agricultural and M&I water service and provides for periodic adjustment of the respective water rates in accordance with prevailing CVP water rate policies commencing in the years 1993 for the in-basin M&I rate component, 1996 for the agricultural O&M rate component and 2001 for the full agricultural water rate. The methodology of CVP water rate setting has historically recovered current year operating costs, and over 50 years, the applicable construction costs.

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

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

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

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

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

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

DISTRICT FACILITIES

Local Reservoirs

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

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

SIGNIFICANT FEATURES OF DISTRICT RESERVOIRS

<i>Reservoir</i>	<i>Capacity (acre-feet)</i>	<i>DSOD Restricted Capacity (acre-feet)</i>	<i>Year Completed</i>	<i>Surface Area (acres)</i>	<i>Approximate Dam Height (feet)</i>
Almaden	1,586	1,472	1935	59	105
Anderson**	89,278	51,766	1950	1,253	240
Calero	9,738	4,414	1935	346	98
Chesbro*	7,967	7,967	1955	271	95
Coyote	22,541	11,843	1936	633	138
Guadalupe	3,415	2,218	1935	79	129
Lexington*	19,044	19,044	1952	404	195
Stevens Creek*	3,056	3,056	1935	90	120
Uvas*	9,688	9,688	1957	287	118
Vasona*	495	495	1935	58	30
Total	166,808	111,963		3,480	

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

*Indicates reservoirs that do not have DSOD operating restrictions.

** An interim reservoir restriction of 589.5 feet (NGVD 1929) was approved by DSOD on May 8, 2017 for Anderson Reservoir. This elevation translates to a storage capacity of 52,553 AF.

Source: District.

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

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

Groundwater Subbasins

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

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

Santa Clara Subbasin – Santa Clara Plain

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

Santa Clara Subbasin – Coyote Valley

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

Llagas Subbasin

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

Managed Recharge Facilities

The District owns and operates seven managed aquifer recharge systems. Within these systems, the District supplies off-stream recharge facilities and supplements natural flow in existing stream channels to recharge local and imported surface water into the groundwater subbasins. In 2017, it was estimated that the amount of managed recharge into the groundwater subbasins by the District was 96,000 acre-feet. The amount recharged in each year varies depending on hydrological conditions and the availability of surface water for recharge. As set forth in the District's 2016 Groundwater Management Plan, the long-term average is estimated at approximately 98,000 acre-feet per year. Significant features of these managed recharge systems appear in the following table.

MANAGED RECHARGE SYSTEMS

<i>Recharge System</i>	<i>Number of Ponds</i>	<i>Pond Surface Area (in acres)*</i>	<i>Miles of Stream**</i>	<i>Average Annual Recharge Quantity (acre-feet per year)***</i>
Westside	2	3	28	8,000
Los Gatos	27	71	11	18,000
Guadalupe	20	80	17	14,000
Penitencia	24	21	2	2,000
Coyote	2	40	14	22,000
Upper Llagas	21	25	9	10,000
Lower Llagas	<u>3</u>	<u>25</u>	<u>9</u>	<u>10,000</u>
Total	99	265	90	84,000

* Approximate pond water surface area based on ArcGIS layer.

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

*** Average Annual Recharge Quantity is based generally on recharge averaged over calendar years 2012 through 2016. Calendar years 2014 and 2015 were exceptionally dry years with limited surface water available for recharge. As set forth in the District's 2016 Groundwater Management Plan, the long-term average managed recharge is estimated at approximately 98,000 acre-feet per year.

Source: District.

Raw Water Conveyance System

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

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

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

RAW WATER PIPELINES

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

Source: District.

Water Treatment and Water Purification

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

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

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

Santa Teresa Water Treatment Plant. First operated in 1989, Santa Teresa WTP is the largest of the District's three treatment plants with the ability to treat and deliver up to 100 MGD. The plant is primarily supplied by imported water from the San Luis Reservoir, a key component of the federal CVP. In addition, the plant is also fed from the District's local supplies at Anderson and Calero reservoirs.

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

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

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

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

Rinconada Water Treatment Plant. First operated in 1968, the Rinconada WTP is the oldest of the three surface water treatment plants in the District system. As the second largest of the District’s treatment plants, the Rinconada WTP can treat and deliver up to 80 MGD. The Rinconada WTP draws water from the South Bay Aqueduct and from the San Luis Reservoir. The plant can also be supplied from the District’s local Anderson and Calero reservoirs.

The Rinconada WTP differs from the two other plants in that the plant utilizes upflow clarifiers in place of the coagulation, flocculation, and sedimentation processes. The District is currently upgrading the Rinconada WTP to a 100 MGD conventional sedimentation plant with ozone disinfection, as well as the fluoridation system. The Rinconada WTP is also expected to provide fluoridated water to the customers by the completion of such upgrade. See the caption “LITIGATION— Rinconada Water Treatment Plant Upgrade” for a description of a contractor dispute with respect to the Rinconada WTP.

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

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

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

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

Treated Water Storage and Distribution System

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

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

WATER TREATMENT AND STORAGE FACILITIES AND DISTRIBUTION SYSTEM

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

Source: District.

Seismic Considerations

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

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

Beginning in the late 2000’s, the District embarked on another series of studies to re-evaluate the seismic performance of major District dams in accordance with modern seismic design criteria. These studies

are performed in cooperation with and reviewed by the DSOD. The seismic stability evaluations and results for the following dams have been completed to date:

Summary of Recent Seismic Stability Evaluations of District Dams

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

Source: District.

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

Earthquake effects on dams, pipelines and other water facilities are expected to vary depending upon the nature of the facility and the magnitude of the seismic forces (which depend upon a number of factors, including the energy released, proximity to the epicenter, duration of strong shaking, etc). In the design of new facilities, care is taken to avoid active faults, liquefaction areas and landslide terrain when feasible. Under some earthquake scenarios, significant damage is predicted for District raw and treated water pipelines. A project was completed in December 2007 to obtain adequate spare pipe which will reduce outage periods from seismic damage to pipelines. Studies are in progress to further evaluate ways of mitigating the damage and minimizing loss of water and impacts to level of service. Recent independent studies indicate that some

District facilities might be subject to damage from fault displacement or moderate earthquakes on faults previously thought to be low-risk. The District conducts periodic engineering studies, inspections and maintenance of District facilities, including District dams, which informs the District's future planning and design work.

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

Water Distribution System

The following illustration shows how all water distribution system components are utilized to serve the water demands of the County. In general, the District's water distribution system, in conjunction with the SFPUC, has the capacity to deliver the total projected water needs of the County.

District map

Water Supply Distribution



Water Usage

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

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

TREATED WATER AND GROUNDWATER USAGE (ACRE-FEET)

	<i>Fiscal Year 2016-17</i>			<i>Fiscal Year 2017-18</i>		
	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>	<i>Groundwater</i>	<i>Treated Water</i>	<i>Total</i>
WATER RETAILERS						
San Jose Water Company	32,823	68,064	100,887	41,121	65,354	106,475
Santa Clara, City of	10,952	4,409	15,361	12,134	4,525	16,659
California Water Service	2,793	7,638	10,431	5,096	7,256	12,352
San Jose, City of	438	10,726	11,164	550	11,630	12,180
Great Oaks Water Co.	9,136	-	9,136	10,248	-	10,248
Sunnyvale, City of	164	7,815	7,979	112	8,537	8,649
Gilroy, City of	7,253	-	7,253	7,883	-	7,883
Morgan Hill, City of	6,427	-	6,427	7,071	-	7,071
Milpitas, City of	-	3,227	3,227	-	3,165	3,165
Cupertino, City of	449	1,808	2,257	141	2,452	2,593
Mountain View City of	125	899	1,024	115	984	1,099
West San Martin Water Co.	306	-	306	352	-	352
New Avenue Mutual Water	12	-	12	10	-	10
Subtotals Water Retailers	70,878	104,586	175,464	84,833	103,903	188,736
Other Groundwater Revenue Accounts	37,588	0	37,588	35,022	0	35,022
Total	108,466	104,586	213,052	119,855	103,903	223,758

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

<i>Fiscal Year Ended June 30</i>	<i>Groundwater</i>		<i>Treated Water</i>	<i>Surface Water</i>	<i>Recycled Water</i>	<i>Total</i>
	<i>Agricultural</i>	<i>Non-Agricultural</i>				
2014	26,985	141,797	111,551	3,558	894	284,785
2015	25,700	119,126	90,673	607	893	236,999
2016	25,380	81,951	89,915	967	2,153	200,366
2017	25,159	83,307	104,586	1,400	907	215,359
2018	26,840	93,015	103,903	1,784	658	226,200

⁽¹⁾ Certain water usage reflects adjustments made subsequent to the relevant fiscal year.
Source: District.

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

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

Source: District.

San Jose Water Company. San Jose Water Company is the largest water retailer served by the District and currently provides water service to over 1,000,000 customers. San Jose Water Company is a wholly-owned subsidiary of SJW Group, a public traded company. For the fiscal year ended June 30, 2018, the District received approximately \$131.6 million in charges for treated water and groundwater from San Jose Water Company consisting of approximately 60% of the water sales revenues of the District's Water Enterprise.

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

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, have announced a pending acquisition-merger. On October 15, 2018, CTWS sent a letter to its shareholders informing them of a special meeting to vote on the purchase of outstanding CTWS stock by SJW Group. On December 3, 2018, the Connecticut Public Utilities Regulatory Authority (PURA) issued a proposed decision denying merger. On January 9, 2019, and January 23, 2019, respectively, the companies withdrew their applications before PURA and the Maine Public Utilities Commission (MPUC). On January 9, 2019, the SJW Group announced that SJW Group and CTWS have decided to file new applications with PURA and MPUC which are intended to address PURA's concerns. SJW Group expects such new applications to be filed during the second quarter of 2019.

San Jose Water Company and SJW Group are not obligors with respect to the 2019 Bonds. The 2019 Bonds are obligations of the District payable from the District's Net Water Utility System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS," herein. References made herein to San Jose Water Company and SJW Corporation are for informational purposes only. The District makes no representations as to the accuracy or the adequacy of any of the filings of SJW Group with the Securities Exchange Commission (the "Commission") described below. The filings described below are strictly those of SJW Group and not of the District and such filings are not incorporated by reference herein.

SJW Group is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Commission. The Annual Report on Form 10-K (the “Form 10-K”) for the year ended December 31, 2018, has been filed by SJW Group with the Commission. The Form 10-K and other annual and periodic reports of the SJW Group (including financial information) may be inspected and copied at the public reference facilities of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 and the Securities Exchange Commission’s regional offices.

FACTORS AFFECTING WATER SUPPLIES

General

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

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

The District completed its 2015 Urban Water Management Plan (“UWMP”) on June 20, 2016 (District Resolution No. 16-50), pursuant to California Water Code Sections 10610 through 10657 (the Urban Water Management Planning Act). The Urban Water Management Planning Act requires urban water suppliers such as the District to review, update and adopt an UWMP at least every five years. The District’s UWMP is prepared in coordination with water retailers (who also must prepare their own UWMPs), the County, and local cities and towns. The District’s 2015 UWMP updates the District’s water demand projections based upon increases in population and job growth to 2040 as projected by local water retailers. The 2015 UWMP also presents water supply projections and includes the District’s Water Shortage Contingency Plan. Completion of the UWMP allows the District to remain eligible for state water bank assistance and for state grant funding.

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

Another key finding of the UWMP is that, in addition to baseline investments described in the 2012 Plan, additional investments will be necessary to achieve the District’s water supply reliability level of service goal. The District is in the process of updating the 2012 Plan with the Water Supply Master Plan 2040 (the “Water Supply Master Plan”), with a target completion in 2019. The process of developing the Water Supply Master Plan will involve evaluating groups of water supply projects and programs to achieve long-term water supply reliability targets. The preliminary lifecycle cost projections for the groups of water supply projects and programs ranges from less than \$500 million to over \$3 billion. The impact of the implementation of the various groups of water supply projects and programs on the District will also be evaluated in the Water Supply Master Plan. The objectives of the 2012 Plan have been incorporated into the District’s Capital Improvement Program and the new objectives and projects in the completed Water Supply Master Plan are expected to be incorporated into the Capital Improvement Program in the future. See the caption “CAPITAL IMPROVEMENT PROGRAM.”

Endangered Species Act Issues

The District's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA"). The listing of winter-run Chinook salmon in 1989 and delta smelt in 1993 resulted in pumping restrictions imposed on the state and federal water projects to protect these species. These pumping restrictions resulted in reduced deliveries from the SWP and CVP, compounding the shortages created by the on-going drought at the time. In 1993, the United States Environmental Protection Agency (the "EPA") also proposed to implement water quality standards for the Bay-Delta that would impose severe restrictions on the operation of the SWP and CVP. It was these circumstances that led to the historic Bay-Delta Accord in 1994, in which the state and federal governments, along with urban, agricultural and environmental interests, agreed to an interim set of ESA protection measures coupled with water supply certainty. The Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Plan and the California Water Fix (See the below caption "—California Water Policy Framework") to develop a long-term solution for conflicts in the Bay-Delta.

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

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

While the litigation was ongoing, the SWP and CVP have been operating under a 2008 BO regarding Delta smelt and a 2009 BO regarding salmonids since they were issued. Deliveries of water supply from the SWP and CVP are not likely to increase in the near future unless new information or projects are developed that support a re-consultation and reconsideration of project operations. The District believes that any future decision or order by a State or Federal court related to one or more of the above-described BOs and leading to adverse decisions reducing SWP or CVP supplies would not have a material impact on the District's ability to pay debt service on the 2019 Bonds.

Re-Initiation of Consultation on Coordinated Long-Term Operations of the SWP and CVP. On August 2, 2016, the USBR and DWR requested re-initiation of consultation for coordinated long-term operations due to new information learned after multiple years of drought, low populations for listed species and new scientific information. USBR and DWR submitted their Biological Assessment to the federal fish and wildlife agencies on February 5, 2019 and per Presidential Order, the federal fish agencies are expected to complete formal consultation by June of 2019. Separately, DWR will need to renew its permits to operate the

SWP under the California Endangered Species Act. At this time it is uncertain whether and to what extent these processes will impact the District's water supply.

California Water Policy Framework

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

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

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

On September 15, 2016, the SWRCB staff released a draft proposal for new flow requirements for the San Joaquin River's major tributaries, increasing flows for fish and wildlife. The proposal recommends increasing flow on the San Joaquin River and its tributaries to a range of 30 to 50 percent 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.

A hearing for receipt of oral comments on the draft proposal began on November 29, 2016 and concluded on January 3, 2017. The SWRCB accepted written comments on the draft proposal through March 17, 2017. On July 6, 2018, the SWRCB released minor changes to the draft proposal to amend the Bay-Delta Plan (the "Phase 1 Amendments"), a final Substitute Environmental Document (the "SED"), and written responses to comments. Public comment only on the Phase 1 Amendments was accepted until July 27, 2018. On August 21-22, 2018 the SWRCB heard additional oral comments and on December 12, 2018, the SWRCB adopted the Phase 1 Amendments with a few minor changes.

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

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

In July 2018, the SWRCB released a Framework for the Sacramento/Delta Update to the Bay-Delta Plan (Phase 2 Framework) that describes changes that will likely be proposed 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 July 25, 2012, Governor Jerry Brown and Secretary of the Interior Ken Salazar announced key proposed elements to advance the Bay Delta Conservation Plan (“BDCP”) planning process, including north Bay-Delta water diversion facilities with a total capacity of 9,000 cubic-feet per second (“cfs”), two tunnels sized to minimize energy use during operations and a “decision tree” process for unresolved operation criteria such as fall and spring outflows. The Draft BDCP and associated Draft Environmental Impact Report/Environmental Impact Statement (“EIR/EIS”) were completed on December 13, 2013. Preliminary cost estimates for the BDCP were approximately \$25.0 billion.

In 2015, the State separated the focus of the BDCP into two efforts: the California EcoRestore (“EcoRestore”) Project and the California Water Fix. California EcoRestore aims to accelerate and implement a comprehensive suite of habitat restoration actions to support the long-term health of the Bay-Delta’s native fish and wildlife. California Water Fix focuses on protecting the State’s water supplies from climate change through water system upgrades that protect against the impacts of sea level rise and earthquakes while improving river flows and reducing entrainment for threatened fish species. The Bay-Delta diversion facilities previously proposed in the BDCP are now captured within the California Water Fix effort. The State released the Recirculated Draft Environmental Impact Report (“RDEIR”)/Supplemental Draft Environmental Impact Statement (“SDEIS”) in July 2015. The RDEIR/SDEIS addresses the environmental impacts of the diversion facilities. The current estimated cost of the California Water Fix, including capital, operation and maintenance and monitoring costs (excluding financing costs) over a 50-year period is approximately \$17.0 billion. There can be no assurance that such projected costs will not increase as a result of revisions to the project, increases in construction or other costs related thereto. Any changes could be material and impact the costs of the District’s state and federal water supplies. The final Environmental Impact Report/Environmental Impact Statement (“FEIR/EIS”) for California Water Fix was released in late December 2016. DWR certified the FEIR/EIS and issued a Notice of Determination approving California Water Fix. A record of decision under the National Environmental Policy Act has not been issued by USBR.

DWR and USBR have filed a petition with the SWRCB to change certain of their water rights as a result of the proposed California Water Fix project. The SWRCB is conducting a hearing on the petition in two parts. The first part, which has already concluded, addressed the potential impacts of the California Water Fix project on other legal users of water. The second part, which has concluded sur-rebuttal and subsequent cross-examination, is focused on potential effects of the project on fish and wildlife and recreational uses, and conditions that should be placed on any approval of the petition to protect those uses, including consideration of the appropriate Delta flow criteria for the California Water Fix project. The parties are awaiting a ruling regarding briefing and other procedural matters. The terms and conditions of any order approving the necessary water rights changes to implement California Water Fix will be important with regard to how California Water Fix will operate. Based on a recent announcement by Governor Gavin Newsom described below with respect to the diversion facilities for the California Water Fix project, DWR and USBR have submitted a request to the SWRCB for a temporary stay on the foregoing proceedings.

DWR has filed a validation action in the Sacramento County Superior Court to confirm the validity of the financing approach for California Water Fix project, including the issuance of bonds by DWR. Numerous entities and organizations supporting and opposing the California Water Fix project have filed answers to this action. The District can make no predictions with respect to the timing of a final resolution of the validation action or the outcome of such validation action. Pending an affirmative outcome in the validation action, certain agencies, including the District, have formed joint exercise of powers authorities under State law to finance certain preconstruction costs of the California Water Fix project, as described below.

The Board has authorized the District's participation in the California Water Fix project to the extent described below. The Board authorized the District to be a member of the Delta Conveyance Design and Construction Joint Powers Authority ("DCA"), which was formed for the purpose of implementing the design and construction of the California Water Fix project. The District has paid a \$200,000 administrative fee for Fiscal Year 2018-19 as required by the DCA. The Board has also authorized the District's participation in the Delta Conveyance Finance Authority (the "Financing JPA"). The Board authorized the District to contribute \$1,092,975 as the District's share of interim financing for preconstruction work for the California Water Fix project. While the District has joined the DCA and the Financing JPA, the District has not made any further financial commitment with respect to the California Water Fix project other than the \$1,092,975 interim funding, the \$200,000 administrative fee described above, and an annual administrative fee of \$80,000 paid to the Financing JPA with respect to the period ending on June 30, 2019. Additional financial commitments by the District to the California Water Fix project would require additional action by the Board. The District cannot predict at this time whether any additional financial commitment to California Water Fix will be made.

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. The District cannot predict at this time the effect that Governor Newsom's announcement will have on the timing of the California Water Fix project.

Allocation of Water Deficiencies

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

The District's maximum annual CVP Contract amount of 152,500 acre-feet is currently allocated to both irrigation and M&I use, with an irrigation contract amount of 33,100 acre-feet and M&I allocations based on historic use. The contract provides flexibility to convert the entire amount to M&I use in future years. In 1994, USBR developed a M&I water shortage policy that gives M&I use a higher degree of protection than agricultural use in drought periods. USBR had implemented this policy as an Interim Policy since 1994. In November 2015, USBR finalized the policy and signed a Record of Decision, supported by the CVP Municipal and Industrial Water Shortage Policy Final Environmental Impact Statement, specifying how USBR intends to allocate M&I water supplies during shortages. The policy generally provides a minimum of 75% of historic use to M&I contractors during times of shortage, with "historic use" calculated from average CVP water deliveries during the last three years of normal water deliveries, adjusted for growth. In 1997, the District entered into a 25-year renewable contract with USBR and agricultural contractors in the SLDMWA to further establish the reliability of its CVP M&I supplies (the "Water Reallocation Agreement"). Under the Water Reallocation Agreement, the District's historical use is set at 130,000 acre-feet.

Water Banking

The District's 2012 Plan identified banking of excess supplies in wetter years as a central element in the preferred strategy for providing supplies needed in future dry years. The 2012 Plan is being updated and the District expects to complete such update in late 2019.

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

Over the past twenty years, the District has stored about 428,000 acre-feet of water in Semitropic Groundwater Banking Program and withdrawn about 220,000 acre-feet of supply, including 97,000 acre-feet over the last three years during a time when supplemental water supply has been limited. As of December 31, 2018, the District had approximately 293,000 acre-feet in storage. In the event of a major disruption in the Delta, failure of the Delta pumping plants or drought conditions, delivery of water from the Semitropic Groundwater Banking Program to the District would be significantly affected along with other imported water deliveries from the District's SWP and CVP contracts. To the extent that SWP water may be conveyed through or is stored in the San Luis Reservoir and is available, deliveries from the Semitropic Groundwater Banking Program could be accomplished through the San Felipe Division.

District's Local Water Right Permit and Licenses

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

In 1997, the District commenced settlement negotiations with GCRCD as well as with National Marine Fisheries Service ("NMFS"), U.S. Fish and Wildlife Service, California Department of Fish and Wildlife ("CDFW"), and other interested non-governmental non-profit organizations in an effort to resolve GCRCD's complaint (collectively referred to as the "Settlement Parties"). Settlement negotiations occurred through a District established process called the Fisheries and Aquatic Habitat Collaborative Effort ("FAHCE"). On May 27, 2003, a conditional settlement was initialed by the Settlement Parties, which set forth a pathway to resolve the water rights complaint. This settlement agreement, entitled, Settlement Agreement Regarding Water Rights of the Santa Clara Valley Water District on Coyote, Guadalupe, and Stevens Creeks ("FAHCE Settlement Agreement") committed the District to carrying out certain conditions precedent including completing an environmental review and obtaining state and federal regulatory approvals of certain District reservoir reoperations measures, scientific studies, and restoration measures (collectively referred to as the "FAHCE Restoration Program"), and amending the District's challenged water rights and permit in substantial conformity to the FAHCE Settlement Agreement. Once the conditions precedent are completed, the FAHCE Settlement Agreement obligates the District to carry out the FAHCE Restoration

Program. Although the District is not required to implement the FAHCE Restoration Program until the conditions precedent are completed, the District has implemented a number of the restoration measures for the protection of fish and wildlife resources with the expectation of receiving credit towards its restoration requirements under the FAHCE Settlement Agreement.

To date, the conditions precedent have not been completed. Since 2003, the District actively pursued completion of the condition precedent of obtaining federal incidental take coverage of Steelhead Trout from NMFS under the ESA through a Habitat Conservation Plan. Since 2015, because of past and likely ongoing protracted negotiations with NMFS, the District prioritized addressing state regulatory requirements. The District is working on a Fish Habitat Restoration Plan and the associated environmental document in support of District's water rights change petitions before the SWRCB. Once these state requirements are addressed, the District will need to implement the FAHCE Restoration Program, while pursuing federal incidental take coverage of Steelhead Trout either through Section 7 or Section 10 of the ESA. During this process, GCRCD could pursue a ruling for increased in-stream uses of the District's local water rights for aquatic fisheries, which would lead to decreased water supply availability, and increased cost for protecting local water rights and for increased water uses.

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

On May 6, 2018, the Santa Clara County Creeks Coalition filed a complaint before the SWRCB alleging various Fish and Game Code and public trust violations as a result of the District's operation of its Alamitos Drop Structure, which includes a seasonal flashboard dam, in the Guadalupe River. The complaint requests (1) an interim flow regime for the local water rights diverted at the Alamitos Drop Structure, and 2) an order from the SWRCB directing the District to develop within one year a feasibility study analyzing alternative design and/or operating protocols for the Alamitos Drop Structure. District appropriative water right licenses 2205, 2206, 2837 and 6943 are implicated by the complaint. These water rights allow the District to divert up to 9,627.3 acre-feet of water each year from the Guadalupe River watershed. The District filed an answer on May 8, 2018 stating that the Alamitos Drop Structure has been remediated as part of early implementation of a FAHCE measure to enable fish passage past this structure. The District's answer also states that the District is working with state and federal wildlife agencies to develop flow regimes not only in the Guadalupe River watershed, but the Stevens Creek and Coyote Creek watersheds where the District has other appropriate water rights.

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

California Drought and Response

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

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

On May 9, 2016, the Governor issued an executive order directing the SWRCB to adjust and extend the SWRCB's emergency water conservation regulations through the end of January 2017 (the "2016 Executive Order"). On May 18, 2016 and in accordance with the 2016 Executive Order, the SWRCB adopted an emergency water conservation regulation (the "2016 SWRCB Regulation") that replaced its February 2, 2016 emergency regulation and extends through January 31, 2017. The 2016 SWRCB Regulation requires urban water suppliers, including retail water agencies within the District, to develop conservation standards based upon each urban water supplier's specific circumstances and replaces the prior percentage reduction-based standard described above. On February 8, 2017, the SWRCB modified and extended the emergency water conservation regulation for another 270 days.

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

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 rescinds the 2015 Executive Order. 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.

Water use by major water retailers in calendar year 2018 was reduced by approximately 19% as compared with water use in calendar year 2013. Continued reduction in water sales may adversely affect the District's projected operating results set forth under the caption "FINANCIAL INFORMATION OF THE DISTRICT—Projected Operating Results and Debt Service Coverage." The District is obligated under the Parity Master Resolution to set rates and charges which are reasonably expected to provide Net Water Utility System Revenues at least to 1.25 times the sum of all Debt Service due in each Fiscal Year as more particularly described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS—Rate Covenant."

In May 2018, the Governor signed Senate Bill 606 and Assembly Bill 1668 into law to establish State-wide water efficiency standards. These two pieces of new legislation will require increased water conservation as compared to the State's existing 20% reduction by December 31, 2020 water conservation target along with several additional metrics to be established by both retail and wholesale agencies. Such legislation will authorize the SWRCB to adopt water use variances to account for climate and local conditions. Long-term water use efficiency targets will be intended to be customized to the unique conditions of each water agency

with a goal to establish specific targets that will generate increased conservation. The standards will be strengthened to include: indoor residential per capita water use; outdoor irrigation incorporating new satellite imagery data; commercial water use; and water loss through leaks. The District believes that the actions it has taken described under the caption “—*District Drought Response Actions and Impact*” below will achieve the reductions required by Senate Bill 606 and Assembly Bill 1668. The District’s projections set forth under the captions “WATER UTILITY SYSTEM —Primary Sources of Revenues —*Projected Water Deliveries and Sources of Water Delivered*” and “FINANCIAL INFORMATION OF THE DISTRICT —Historical and Projected Operating Results and Debt Service Coverage” reflect the conservation targets that the District has set to meet the requirements of Senate Bill 606 and Assembly Bill 1668.

District Drought Response Actions and Impact. The District projects that it will be able to meet existing demands for at least the next three years even if dry conditions return, provided retailers continue to achieve high levels of water savings. The District is currently calling for a voluntary 20% reduction, and plans to continue outreach to community and customers, operate the Water Waste Inspector program, provide water conservation rebates and technical assistance, utilize water from the Semitropic Groundwater Banking Program, purchase supplemental water supplies, work with local agencies and retailers on ordinance development, consider and pursue potential legislation, and develop potable reuse to augment local water supplies. The District is also in the process of updating its Water Supply Master Plan to identify the programs and projects that are needed to further ensure a reliable water supply. See the caption “FACTORS AFFECTING WATER SUPPLIES—General” for information on the 2018 Plan.

QUALITY OF DISTRICT’S WATER

Groundwater

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

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

The District also engages in policy and project review with land use agencies on activities that may affect groundwater quality. Similarly, the District also provides technical expertise and peer review to regulatory agencies, such as the Regional Water Quality Control Board, the Department of Toxic Substances Control, and the EPA for cleanup sites and the development of standards for groundwater protection. The District is continuing to support the Central Coast Regional Board’s efforts to regulate perchlorate cleanup in the Llagas Subbasin. Cleanup is progressing well, with fewer than ten domestic wells requiring replacement water as of June 2018. The District provides groundwater data, technical assistance, and logistical and technical support for Perchlorate Community Advisory Group meetings. In addition, staff is working closely with the Central Coast Regional Board, to ensure that the long-term corrective action plan meets the community’s interests for water supply and groundwater cleanup.

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

Surface Water

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

The District's imported supplies from the SWP and the CVP are occasionally low in quality because of elevated levels of bromide and organic content. Since both the SWP and the CVP water is pumped out of the Bay-Delta Estuary, the quality of those supplies is affected by tidal influences, natural organic materials of the peat soil in the Delta and discharge from agricultural and urban runoff. Constituents such as bromide and organics are of concern to the District because they are disinfection by-product precursors. In addition to disinfection precursors, the District's imported and local supplies can contain taste and odor compounds, particularly in the late summer or fall, when taste and odor-producing algae typically bloom. Two of the most common compounds responsible for tastes and odors are geosmin and 2-methylisoborneol (MIB), which result in earthy and musty taste and odor. Even though these compounds are harmless, the human senses can detect them in the water at concentrations as low as 5 parts per trillion.

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

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

Treated Water

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

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

upgrades of the TWIP2 into a larger project known as the Reliability Improvement Project (RIP) that is targeted for completion in 2020.

The District's three water treatment plants: Santa Teresa WTP, Rinconada WTP, and Penitencia WTP, provide high-quality treated water to the residences and businesses in the County. Two of the treatment plants, Santa Teresa WTP and Penitencia WTP utilize a conventional treatment process of flocculation, sedimentation, filtration, and disinfection to provide high-quality water. As part of TWIP2, these two treatment plants added advanced treatment technologies, including ozone as the primary disinfectant. The improvements ensure that the District continues producing high-quality drinking water that meets recent and future more stringent drinking water standards. The District brought ozone systems on-line at Santa Teresa WTP in January 2006 and at Penitencia WTP in July 2006. Construction of the comparable RIP project broke ground in July 2015 at the Rinconada WTP, the District's oldest treatment facility. In 2016, the District started adjusting the fluoride level of drinking water to prevent tooth decay. The Santa Teresa WTP and Penitencia WTP began fluoridation on December 2016 and on July 2017, respectively. The Rinconada WTP is slated to begin fluoridating in 2022.

CAPITAL IMPROVEMENT PROGRAM

Future Water Utility System Improvements

The District currently expects to undertake approximately \$1.2 billion of improvements to the Water Utility System from Fiscal Years 2018-19 through 2022-23. Such improvements would be funded with approximately \$844 million of additional debt issuance, and approximately \$356 million from other non-financing sources. The report on the capital improvement program for Fiscal Years 2019-20 through 2023-24 is in development and a resolution for approval is currently scheduled to be heard by the Board on May 14, 2019.

With regards to investments to expand its water supply portfolio, the District is developing a Countywide Water Reuse Master Plan in collaboration with recycled water producers, wholesalers, retailers, and other interested stakeholders that will evaluate and recommend potable and non-potable reuse projects that are projected to produce at least 24,000 acre-feet per year of purified water for potable reuse by 2028 consistent with the Water Supply Master Plan. The Countywide Water Reuse Master Plan is scheduled for completion in 2019. This effort is consistent with the District's earlier response to prior droughts which was to evaluate the production of purified water for potable water reuse to expand the County's water supply (the "Expedited Purified Water Program").

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

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

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

In addition to the two water storage projects described above, the District has undertaken initial steps to develop an expansion of the Pacheco Reservoir (the “Pacheco Reservoir Expansion Project”) to be owned and operated by the District. The Pacheco Reservoir Expansion Project is planned to expand storage capacity of the existing reservoir (currently owned by the Pacheco Pass Water District) on the north fork of Pacheco Creek from approximately 6,000 acre-feet to approximately 140,000 acre-feet. The Pacheco Reservoir Expansion Project is expected to be a partnership among the District, the Pacheco Pass Water District and the Grasslands Water District. The District is currently exploring various financing sources for the Pacheco Reservoir Expansion Project, including financing from the State as described below.

All three of the water storage projects described above have received approval by the California Water Commission to receive significant State of California financial support. The District cannot currently project whether the District will ultimately undertake or participate in any of such proposed water storage projects or, if the District determines to undertake or participate in such projects, how the District will finance the costs thereof.

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

FINANCIAL INFORMATION OF THE DISTRICT

Financial Statements

A copy of the most recent audited financial statements of the District prepared by District staff and audited by Vavrinek, Trine Day & Co., LLP, Palo Alto, California (the “Auditor”) is attached as Appendix A hereto (the “Financial Statements”). The Auditor letter concludes that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The District’s government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

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

Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting and distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Water enterprise fund is the sale of water to

outside customers and of the District's internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

Historical and Projected Operating Results and Debt Service Coverage

The following table summarizes the District's combined revenues and expenses relating to the Water Utility System recorded in Fiscal Year 2013-14 through Fiscal Year 2017-18. Historical results have been derived from the Financial Statements of the District but exclude certain non-cash items and include certain other adjustments.

The District accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the District ("GAAP"). In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See Appendix A "—AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018." Except as otherwise expressly noted herein, all financial information derived from the District's audited financial statement reflect the application of GAAP.

Fiscal Year 2017-18 Financial Highlights for the Water Enterprise Fund

The following provides a summary of the financial position of the District's Water Enterprise fund at the end of Fiscal Year 2017-18:

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

For further information with respect to the District's operating results for Fiscal Year 2017-18, see Appendix A "— AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

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

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

⁽¹⁾ Amounts rounded to nearest thousand.

(Footnotes continued on following page)

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- (2) Includes adjustments for homeowners' property tax relief and certain other property tax receipts not constituting Water Utility System Revenues.
- (3) Includes market value adjustments per GAAP. Fiscal Year 2015-16 includes \$1.04 million from the release of the guaranteed investment certificate held in the reserve fund for the Water Utility System Refunding Revenue Bonds, Series 2006A (the "2006A Bonds"), in connection with the refunding of 2006A Bonds from a portion of the proceeds of the Water System Refunding Revenue Bonds, Series 2016A.
- (4) Includes transfers from the General Fund and Watershed Fund for the open space credit provided for agricultural rates and charges. Fiscal Year 2016-17 includes a transfer back in of \$1.68 million from the State Water Project Fund for reserves funded the prior fiscal year. Fiscal Year 2015-16 includes transfers from the Safe, Clean Water Fund for the Anderson Dam Seismic Retrofit project (\$14.0 million), the Watershed Fund for the sale of excess property (\$2.4 million), and from the Watershed and General Funds for water conservation landscape rebates (\$3.2 million and \$400,000, respectively).
- (5) Includes rental income, reimbursements relating to the San Felipe Division, and adjustments for unrealized gains and losses on investments to comply with Governmental Accounting Standards Board Statement No. 31.
- (6) Increases in Fiscal Years 2014-15, 2015-16, and 2017-18 are a result of supplemental water purchases. Decrease in Fiscal Year 2016-17 is a result of the availability of significantly higher than normal local surface water and groundwater infiltration. See the caption "WATER UTILITY SYSTEM—Primary Source of Revenues—*Historical Water Deliveries and Sources of Water Delivered.*"
- (7) Includes letter of credit fees and other banking costs and certain adjustments for OPEB costs and accrued compensated absences. Decrease in Fiscal Year 2016-17 is due primarily to reversal of \$7.4 million in prior periods' judgment liability costs that were incurred prior to the reversal of a trial court's judgment (see discussion "LITIGATION—Great Oaks Matter"). Increase in Fiscal Year 2017-18 is primarily due to higher pension costs and increased salary and benefit costs as a result of negotiated increases that became effective July 2017.
- (8) Includes transfers to the General Fund to support the drought emergency response project. Fiscal Year 2015-16 includes an interfund loan transfer of \$1.68 million to the State Water Project Fund to fund reserves. Fiscal Year 2017-18 includes a transfer of \$11.38 million to the Safe, Clean Water and Natural Flood Protection Program Fund for the Main and Madrone Pipeline Rehabilitation project.
- (9) In February 2016, the District prepaid the outstanding balance of the DWR Loan from proceeds of Commercial Paper Certificates.
- (10) The Parity Master Resolution authorized the designation of the Rate Stabilization Fund and Special Purpose Funds. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS — Rate Stabilization Fund" and "— Special Purpose Funds."
- (11) Constitutes interest only on Commercial Paper Certificates.

Source: District.

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

Projected Operating Results and Debt Service Coverage

The estimated projected operating results for the Water Utility System for Fiscal Year 2018-19 through Fiscal Year 2022-23 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the estimate of projected financial results of the District based upon the District's judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart below are material in the development of the financial projections of the District, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

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

	<i>2018-19⁽²⁾</i>	<i>2019-20</i>	<i>2020-21</i>	<i>2021-22</i>	<i>2022-23</i>
Water Utility System Revenues					
Groundwater Charges ⁽³⁾	\$ 90,696	\$ 105,036	\$ 128,638	\$ 137,175	\$ 146,751
Treated Water Charges ⁽⁴⁾	152,787	169,519	179,948	191,065	203,935
Surface and Recycled Water Charges ⁽⁵⁾	2,653	2,820	3,005	3,203	3,413
Property Taxes ⁽⁶⁾	7,282	7,537	7,801	8,074	8,356
Investment Income ⁽⁷⁾	2,640	2,800	2,178	2,591	3,111
Operating Grants/Intergovernmental Services	735	1,237	1,254	1,282	1,320
Transfers In ⁽⁸⁾	1,228	1,011	4,357	4,907	5,505
Other	<u>825</u>	<u>1,017</u>	<u>1,025</u>	<u>1,033</u>	<u>1,041</u>
Total Revenues	\$ 258,846	\$ 290,977	\$ 328,206	\$ 349,330	\$ 373,432
Maintenance and Operation Costs					
Sources Of Supply ⁽⁹⁾	\$ 75,569	\$ 75,698	\$ 84,391	\$ 89,096	\$ 97,395
Water Treatment ⁽¹⁰⁾	38,925	41,164	43,501	45,279	47,321
Transmission And Distribution ⁽¹¹⁾					
Raw Water	14,953	16,394	16,425	17,054	17,916
Treated Water	1,645	2,343	2,408	2,632	2,799
Administration and General ⁽¹²⁾	26,835	26,301	32,319	35,515	36,266
Transfers Out ⁽¹³⁾	<u>3,243</u>	<u>1,664</u>	<u>2,228</u>	<u>4,067</u>	<u>2,862</u>
Total Operating Expenses	\$ 161,170	\$ 163,564	\$ 181,272	\$ 193,643	\$ 204,559
Net Water Utility System Revenues	\$ 97,676	\$ 127,413	\$ 146,934	\$ 155,687	\$ 168,873
Debt Service on Senior Obligations					
Series 2006B Bonds	\$ 1,778	\$ 1,778	\$ 1,781	\$ 1,780	\$ 1,777
2007 Installment Purchase Agreement ⁽¹⁴⁾	<u>3,664</u>	<u>3,786</u>	<u>3,765</u>	<u>3,750</u>	<u>3,768</u>
Total Senior Debt Service	\$ 5,442	\$ 5,564	\$ 5,546	\$ 5,530	\$ 5,545
Transfers to (-)/from (+) Rate Stabilization Fund	-	-	-	-	-
Transfers from Special Purpose Funds	-	-	-	-	-
Net Water Utility System Revenues Available for Parity Obligations Debt Service	\$ 92,234	\$ 121,849	\$ 141,388	\$ 150,157	\$ 163,328
Debt Service on Parity Obligations					
2016 Bonds	\$ 8,545	\$ 8,545	\$ 8,545	\$ 8,545	\$ 8,545
2016 Installment Purchase Agreement	10,485	10,682	10,689	10,687	10,696
2017A Bonds	4,356	4,351	4,362	4,368	4,339
2019 Bonds ⁽¹⁵⁾	409	5,904	5,900	5,904	5,906
Future Debt Issuances ⁽¹⁶⁾⁽¹⁷⁾	<u>7,300</u>	<u>2,856</u>	<u>9,280</u>	<u>16,907</u>	<u>31,418</u>
Total Parity Debt Service	\$ 31,095	\$ 32,338	\$ 38,776	\$ 46,411	\$ 60,904
Parity Obligations Debt Service Coverage	2.97	3.77	3.65	3.24	2.68
Debt Service on Subordinate Obligations					
Commercial Paper ⁽¹⁶⁾⁽¹⁸⁾	\$ 4,167	\$ 4,080	\$ 4,675	\$ 5,270	\$ 5,270
Total Debt Service on Senior, Parity and Subordinate Obligations⁽¹⁹⁾	\$ 40,704	\$ 41,982	\$ 48,997	\$ 57,211	\$ 71,719
Revenues Remaining for Capital Improvements	\$ 56,972	\$ 85,431	\$ 97,937	\$ 98,476	\$ 97,154
Senior Debt Service Coverage	17.95	22.90	26.49	28.15	30.46
Senior, Parity and Subordinate Obligations Debt Service Coverage	2.40	3.03	3.00	2.72	2.35

⁽¹⁾ Amounts rounded to nearest thousand.

(Footnotes continued on following page)

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- (2) Reflects adjusted budget amounts.
 - (3) Reflects compound annual growth rate of 12.8% per annum between Fiscal Year 2018-19 and Fiscal Year 2022-23. Assumes the water rates and charges set forth under the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Future Rates and Charges.*”
 - (4) Reflects compound annual growth rate of 7.5% per annum between Fiscal Year 2018-19 and Fiscal Year 2022-23. Assumes the water rates and charges set forth under the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Future Rates and Charges.*”
 - (5) Reflects compound annual growth rate of 6.5% per annum between Fiscal Year 2018-19 and Fiscal Year 2022-23. Assumes the water rates and charges set forth under the caption “WATER UTILITY SYSTEM—Primary Sources of Revenues—*Future Rates and Charges.*”
 - (6) Reflects compound annual growth rate of 3.5% per annum between Fiscal Year 2018-19 and Fiscal Year 2022-23. Includes adjustments for homeowners’ property tax relief and certain other property tax receipts not constituting Water Utility System Revenues.
 - (7) Reflects projected interest earnings at a rate of 1.75% in Fiscal Year 2018-19 and Fiscal Year 2019-20, 2.0% in Fiscal Year 2020-21, 2.25% in Fiscal Year 2021-22 and 2.5% in Fiscal Year 2022-23. The projected interest earnings do not include any assumptions for market value adjustments.
 - (8) Includes projected transfers in from the Watershed Stream Stewardship Fund and the General Fund for the open space credits provided for agricultural water rates.
 - (9) Includes projected costs for only the SWP portion of California Water Fix project (does not include CVP portion). Projected costs reflecting further participation in the California Water Fix project are subject to Board approval. See the caption “FACTORS AFFECTING WATER SUPPLIES—California Water Policy Framework.” Reflects compound annual growth rate of 6.5% between Fiscal Years 2018-19 and 2022-23.
 - (10) Reflects compound annual growth rate of 5.0% per annum between Fiscal Year 2018-19 and Fiscal Year 2022-23.
 - (11) Reflects compound annual growth rate of 4.6% for raw water and 14.2% for treated water between Fiscal Years 2018-19 and 2022-23. Increases to treated water transmission and distribution costs beginning in Fiscal Year 2019-20 are primarily the result of planned increases to the preventative maintenance and repair of pipelines.
 - (12) Includes letter of credit fees and other banking costs. See the caption “DISTRICT EMPLOYEE RELATIONS” below for information with respect to the District’s pension and post-employment benefit liabilities and costs.
 - (13) Fiscal Years 2018-19 and 2019-20 include projected transfers out for Information Technology upgrades. Fiscal Years 2020-21 to 2022-23 include transfers out for buildings and grounds improvements at the District’s main campus.
 - (14) Installment payments under the 2007 Installment Purchase Agreement secure the 2007B Certificates. Interest on the 2007B Certificates is payable at the three-month LIBOR rate plus 0.32%. Interest through Fiscal Year 2022-23 is projected at rates ranging between 5.7% and 6.0% per annum. On July 27, 2017 the Financial Conduct Authority, the United Kingdom’s top regulator, tasked with overseeing LIBOR, announced the LIBOR benchmark will be phased out by the end of 2021. The District will comply with any future regulatory requirements related to LIBOR, but cannot predict the future outcome of the LIBOR phase out as it relates to the 2007B Certificates.
 - (15) Projected at an all-in true interest cost of 3.8% and a principal amount of \$16.5 million for the 2019A Bonds and at an all-in true interest cost of 4.2% and a principal amount of \$81.4 million for the 2019B Bonds.
 - (16) Assumes the issuance of new-money short-term (subordinate) debt projected at \$64 million in Fiscal Year 2018-19, \$60 million in Fiscal Year 2019-20, \$71 million in Fiscal Year 2020-21, \$209 million in Fiscal Year 2021-22, and \$169 million in Fiscal Year 2022-23 and periodic issuance of long-term (parity) debt to refund the short-term debt.
 - (17) Calculated assuming fixed interest rates ranging between 4.3% and 6.5% per annum.
 - (18) Calculated assuming interest only payments on projected outstanding Commercial Paper Certificate balances at assumed rates ranging between 4.2% and 6.2% per annum.
 - (19) Excludes letter of credit fees and other banking costs, which are paid as Maintenance and Operation Costs.
- Source: District.

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

DISTRICT EMPLOYEE RELATIONS

Bargaining Units

On March 21, 2018, the Board approved new multi-year memorandum of understanding agreements (“MOU’s”) between the District and the bargaining units. The agreements became effective on January 1, 2018 and expire on December 31, 2021. The current agreements include across the board annual salary

adjustments of 4.0% beginning July 2, 2018 and then the fourteenth bi-weekly pay period (late June or early July) in 2019, 2020 and 2021. Under the current MOU's, the District will continue to participate in the California Public Employment Retirement System ("CalPERS"), a cost sharing multiple-employer defined benefit plan operated on a statewide basis. The District's contract with CalPERS includes a three-tier benefit level: (1) benefits at the 2.5% of fiscal year compensation benefit level for every year of service for employees at age 55 ("2.5% @ 55") hired prior to March 19, 2012; (2) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 60 ("2% @ 60") hired on or after March 19, 2012 and before January 1, 2013, and (3) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 62 ("2.0% @ 62") hired on or after January 1, 2013 (See the caption "Employees Retirement Plan – *Benefits Provided*" below). During the term of the current MOU's: (1) employees participating in the 2.5% @ 55 tier and the 2.0% @ 60 tier will pay 9.5% of their covered salary effective the first full pay period in July 2018, increasing to 11.0% of their covered salary effective the first full pay period in July 2021; and (2) employees participating in the 2% @ 62 tier will pay 50% of the normal cost as determined by CalPERS plus an additional 0.5% effective the first full pay period in July 2018, increasing to an additional 2.0% effective the first full pay period in July 2021. The current normal cost as determined by CalPERS was 10.059% for Fiscal Year 2018-19 and increases to 10.276% for Fiscal Year 2019-20.

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

Employees' Retirement Plan

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

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of CalPERS credited service, the member's benefit formula, age and average final compensation. Members with five years of total service are eligible to retire at age 50 (if enrolled in the 2.5% @ 55 or 2% @ 60 benefit formulas) or age 52 (if enrolled in the 2% @ 62 benefit formula) with statutorily reduced benefits for those members enrolled in the 2.5% @ 55 and 2.0% @ 60 retirement formulas. Members enrolled in the 2.0% @ 62 formula are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of CalPERS service credit. The death benefits are based on the members' eligibility to retire and consist of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit and the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law.

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

Beginning with Fiscal Year 2017-18, CalPERS collects employer contributions towards the Plan's unfunded liability as a dollar amount instead of the prior method of using a contribution rate. In July 2018,

CalPERS released the actuarial valuation report of the District's pension plan as of June 30, 2017. As set forth in such actuarial valuation report, in Fiscal Year 2019-20, the District's unfunded liability dollar amount is \$15,794,836. This amount will be collected along with the employer normal cost rate as a percentage of payroll of 10.276%. If the unfunded liability dollar amount was converted to a percentage of payroll and added to the normal cost rate of 10.276%, the resulting employer contribution rate would be approximately 27.113%. As set forth in the latest CalPERS actuarial valuation report delivered to the District in July 2018, the projected normal cost contribution increases to 11.0% in Fiscal Years 2020-21 and 2021-22 and the projected unfunded liability dollar contribution increases to \$17,383,000 in Fiscal Year 2020-21 and to \$19,379,000 in Fiscal Year 2021-22.

Employees Covered. As of the most recent CalPERS valuation report, dated June 30, 2017, the following number of employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	732
Active employees	743

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

The table below provides a recent history of the required employer contributions for the Plan, as determined by the annual actuarial valuation, as well as the required employer contributions for Fiscal Years 2017-18, 2018-19, and 2019-20. The information below does not account for prepayments or benefit changes made during a fiscal year.

<i>Fiscal Year</i>	<i>Employer Normal Cost</i>	<i>Unfunded Rate</i>	<i>Total</i>
2015-16	10.197%	10.950%	21.147%
2016-17	10.249	12.167	22.416
2017-18 ⁽¹⁾	9.985	13.638	23.623
2018-19 ⁽¹⁾	10.059	15.286	25.345
2019-20 ⁽¹⁾	10.276	16.837	27.113

⁽¹⁾ As described above under “— *Benefits Provided*,” beginning with Fiscal Year 2017-18, CalPERS collects employer contributions toward the unfunded accrued liability as dollar amounts instead of a contribution rate. Therefore, the unfunded rates shown for Fiscal Years 2017-18, 2018-19, and 2019-20 are for illustrative purposes only.

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2017.

Net Pension Liability. The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The available net pension liability of the Plan was most recently measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions. The total pension liabilities in the June 30, 2017 and June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2015	June 30, 2016
Measurement date	June 30, 2016	June 30, 2017
Actuarial cost method	Entry-age normal cost method	Entry-age normal cost method
Discount rate ⁽¹⁾	7.65%	7.15%
Inflation	2.75%	2.75%
Salary increases	Varies by entry age and service	Varies by entry age and service
Investment rate of return ⁽²⁾	7.5%	7.0%
Mortality rate table ⁽³⁾	Derived using CalPERS' membership data for all funds	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.75% unit purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.	Contract COLA up to 2.75% unit purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

⁽¹⁾ The discount rate, net of pension plan investment expenses (including inflation), is equal to the Investment Rate of Return noted in the table.

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

⁽³⁾ The mortality rate table was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuarial Scale BB.

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2016 and as of June 30, 2017.

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 lowered the investment rate of return (also referred to as the discount rate). Such reductions in the discount rate are expected to increase the District's required employer contributions as well as the District's unfunded accrued pension liability. See the caption "— *Sensitivity of the Net Pension Liability to Changes in the Discount Rate*" for the estimated effect of changes in the discount rate to the District's net pension liability. The District does not expect such reductions in CalPERS' assumed discount rate and increases in its required payments to CalPERS which may result therefrom to have a material adverse impact on its ability to pay debt service on the 2019 Bonds. CalPERS may adjust the discount rate in the future, which will require action by CalPERS' Board and proper stakeholder outreach.

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

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

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability (a)</i>	<i>Plan Fiduciary Net Position (b)</i>	<i>Net Pension Liability (c) = (a) – (b)</i>
Balance at 6/30/2016 ⁽¹⁾	\$ 711,593,432	\$ 508,377,503	\$ 203,215,929
Changes Recognized for the Measurement Period:			
Service Cost	15,752,291	-	15,792,291
Interest on Total Pension Liability	53,109,673	-	53,109,673
Changes of Assumptions	44,289,025	-	44,289,025
Difference between Expected and Actual Experience	(4,716,605)	-	(4,716,605)
Plan to Plan Resource Movement	-	370	(370)
Contribution from Employer	-	19,055,019	(19,055,019)
Contribution from Employees	-	6,624,798	(6,624,798)
Net Investment Income	-	56,514,065	(56,514,065)
Benefit Payments, including Refunds of Employee Contribution	(32,498,706)	(32,498,706)	-
Administrative Expense	-	(750,585)	750,585
Net Changes During 2016-17	<u>75,935,678</u>	<u>48,944,961</u>	<u>26,990,717</u>
Balance at 6/30/2017 ⁽¹⁾	\$ 787,529,110	\$ 557,322,464	\$ 230,206,646

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

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

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

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

<i>Actuarial Valuation Date</i>	<i>Actuarial Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Unfunded Actuarial Liability</i>	<i>Funded Ratio</i>	<i>Annual Covered Payroll</i>
6/30/13	\$595,102,821	\$433,484,413	\$161,618,408	72.8%	\$75,617,324
6/30/14	657,572,648	507,409,049	150,163,599	77.2	75,737,603
6/30/15	689,570,070	511,968,421	177,601,649	74.2	77,343,360
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

Source: Miscellaneous Plan of the Santa Clara Valley Water District Annual Valuation Report as of June 30, 2017.

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

Pension Expenses and Deferred Outflow/Inflow of Resources. For the year ended June 30, 2018, the District recognized pension expense of \$33,215,000. At June 30, 2018, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	<i>Deferred Outflow of Resources</i>	<i>Deferred Inflow of Resources</i>
Pension contribution subsequent to measurement date	\$ 19,746,343	-
Change of assumptions	32,634,018	\$ (2,543,134)
Difference between actual and expected experience	-	(5,017,601)
Net differences between projected and actual earnings on plan investments	<u>7,367,346</u>	<u>-</u>
Total	\$ 59,747,707	\$ (7,560,735)

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

\$19,746,343 is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. This amount reflects what was paid in employer pension contributions to CalPERS in Fiscal Year 2017-18, and accounts for approximately 6.0% of District expenses (\$326,651,000) recognized in the same fiscal year. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

<i>Measurement Period</i>	<i>Deferred Outflows/(Inflows) of Resources</i>
2018-19	\$ 6,850,179
2019-20	18,256,516
2020-21	11,441,246
2021-22	<u>(4,107,312)</u>
Total	\$ 32,440,629

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

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

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

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

In June 2015, GASB published Statement No. 75 ("GASB 75"), which replaced the requirements under GASB Statement No. 45. The provisions in GASB 75 became effective for fiscal years beginning after June 15, 2017. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (i.e. OPEB). GASB 75 requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. GASB 75 also requires certain descriptive information to be included in the notes to a public agency's audited financial statements as well as additional supplementary information such as sources of changes in net OPEB liability and the components of the net OPEB liability. The District implemented GASB 75 beginning with its audited financial statements for Fiscal Year 2017-18.

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

The District participates in the CalPERS California Employer's Retiree Benefit Trust Program ("CERBT"), a prefunding plan trust fund. On June 24, 2008, the Board approved the reallocation of \$17.7 million from its existing reserves for the initial prefunding of the unfunded liability as part of its multi-year financial planning strategy. The District's OPEB plan and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining groups. The annual contribution is based on the actuarially determined contribution ("ADC"). The ADC represents the annual employer contribution that along with member contributions and investment income is projected to fully fund the OPEB plan over a static 30 years beginning in Fiscal Year 2007-08. For the fiscal year ended June 30, 2018, the District's total contribution to the plan amounted to \$12.5 million. This amount reflects what was paid in employer OPEB contributions to the CERBT in Fiscal Year 2017-18, and accounts for approximately 3.8% of District expenses (\$326,651,000) recognized in the same fiscal year.

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

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

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

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

The discount rate of 7.28% is the expected long-term rate of return on District assets using investment "Strategy 1" within the CERBT. The projected cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The objective of the CERBT Strategy 1 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS board. See Note 12 to the District's audited financial statements attached hereto as Appendix A for a description of the composition, as of June 30, 2018, of investment asset classes with respect to the District's OPEB plan.

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

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

Source: District.

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

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

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

The District has established a deferred compensation plan for employees wishing to defer part of their salaries. Under certain conditions, the District makes matching contributions. In the Fiscal Year ended June 30, 2018, the District contributed \$1,058,411 to the deferred compensation plan.

LITIGATION

General

No litigation is pending or, to the knowledge of the District, threatened, in any way questioning or affecting the validity or enforceability of the Senior Master Resolution, the Parity Master Resolution, the 2019 Bonds or the Indenture. Neither the creation, organization or existence of the District, nor the title of the present directors or officers of the District to their respective office is being contested. While the District has certain other ongoing litigation with respect to the Water Utility System, District Counsel does not believe such litigation is material to the finances or operation of the Water Utility System.

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

See the caption "FACTORS AFFECTING WATER SUPPLIES—California Water Policy Framework" for a description of a lawsuit filed by the District with respect to the effect on the groundwater

basins managed by the District and the supplemental imported water supplies available to the District in the event that the Phase 1 Amendments and the accompanying SED are implemented by the SWRCB.

Great Oaks Matter

As a public entity and due to its size and its activities, at virtually all times, the District is a defendant, co-defendant, or cross-defendant in court cases in which money damages are sought. Such a case is Great Oaks Water Company v. Santa Clara Valley Water District, Santa Clara County Superior Court Case No. 105-CV-053142; Cal. Court of Appeals Nos. HO35260 and HO35885; and Cal. Supreme Court No. S231846 (the “Great Oaks Case”).

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

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

During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, the District recorded a liability in the amount of \$5,930,000, which includes the Judgment After Trial decision amount plus interest, in Fiscal Year 2008-09. The District recorded an additional \$1,456,000 as liability for the post-judgment interest in Fiscal Years 2009-10 to 2013-14 at the rate of \$886.62 per day. No further liability was recorded after Fiscal Year 2013-14 due to the favorable judgement on March 26, 2015 by the Sixth District Court of Appeals, which is discussed below. Based on the contemporaneous court decisions described below, the District reversed the total recorded liability in the aggregate amount of \$7,386,000 in its audited financial statements for Fiscal Year 2016-17.

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

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

Great Oaks has filed refund actions for subsequent years of annual groundwater charges, all of which are currently stayed (Santa Clara Superior Court Case Nos. 107-CV-087884; 108-CV-119465; 108-CV-123064; 109-CV-146018; 110-CV-178947; 111-CV-205462; 112-CV-228340; 113-CV-249349; 115-CV-281385; 16-CV-292097; 17-CV-308140; and 18-CV-327641). Although the court has not issued an order lifting the stay, a case management conference has been scheduled for April 19, 2019.

Similar to the Great Oaks Case, Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa Golf Club have filed a refund action in the Santa Clara Superior Court under Case No. 111-CV-195879. This action is currently stayed. Although the court has not issued an order lifting the stay, a case management conference has been scheduled for April 19, 2019.

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

The District filed its petition for review of the Great Oaks Case with the California Supreme Court on January 19, 2016, and on March 23, 2016 review was granted. The case was placed on hold pending resolution of the California Supreme Court's City of Buenaventura v. United Water Conservation District (UWCD) case. The UWCD case presents similar issues to the Great Oaks Case – namely whether Proposition 218 applies to groundwater charges.

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

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

Flooding in the City of San Jose

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

As of the date of this Official Statement, the District has received 423 claims with respect to the flooding along Coyote Creek. The aggregate stated value of these claims is approximately \$5,500,000; however the District cannot predict the final amount of any proven damages. Many of the claimants are also

seeking recovery from the County, City of San Jose, DWR, and/or DSOD; therefore, a portion of the aggregate stated value of the claims may be apportioned to the above local and state government entities.

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

Rinconada Water Treatment Plant Upgrade

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

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

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

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

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

POTENTIAL INVESTMENT CONSIDERATIONS

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

Rate Covenant Not a Guarantee

The 2019 Bonds are payable from Net Water Utility System Revenues of the Water Utility System. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019 BONDS.” The District’s ability to pay

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

Water Utility System Expenses

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

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

Statutory and Regulatory Compliance

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

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

Limitations on Revenues

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

Limitations on Remedies Available; Bankruptcy

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

No Obligation to Tax

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

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce the revenues and adversely affect the security of the 2019 Bonds.

Constraints on SWP and CVP Water Deliveries

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

Risks Related to Water Utility System Facilities and Operation

The operation of the Water Utility System, and the physical condition of the Water Utility System facilities, are subject to a number of risk factors that could adversely affect the reliability of the District to provide water service, or increase the operating expenses of the Water Utility System. Prolonged damage to the Water Utility System facilities could interrupt the ability of the District to realize Net Water Utility System Revenues sufficient to pay principal of and interest on the 2019 Bonds, or require the District to increase

expenditures for repairs significantly enough to adversely impact the District's ability to pay the principal of or interest on the 2019 Bonds. These factors could include, among others, the following:

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

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

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

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

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

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

Cybersecurity

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

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

Business Process Management Software/Enterprise Resource Planning Implementation

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

Potential Impact of Climate Change

Climate change is an important issue facing water resources planning. Therefore, the District considers 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 could result in various types of impacts on the District's Water Utility System, including among others, changes in the quantity, timing, intensity, and annual variability of precipitation, increased incidences and intensity of wildfires that could degrade water quality, sea level rise and riverine flooding, increased storm intensity and flooding, and increased temperatures. The foregoing is not an exhaustive list of the potential impact of climate change on the District's operations. Such changes, among others, could affect the Water Utility System's water source reliability as well as water utility assets.

District staff conducted specific studies into a few of the issues above to support development of the Water Supply Master Plan. Staff's analysis looked at the potential for increased risks and uncertainties into the late 21st century that are associated with these climate change related aspects: water demand, evaporative losses, decreased rainfall runoff/decreased reservoir inflow and degraded imported water reliability. The results of these analyses indicate, as would be expected, that climate change may result in risks of 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 the District's ability to pay debt service on the 2019 Bonds. District staff continues to monitor the available scientific information relating to climate change. The District's water

supply planning studies are updated regularly and will consider new or changing climate information if it becomes available. The District is currently working on an agency-wide Climate Change Action Plan that includes vulnerability and risk assessments. That plan will lay out strategies the District can employ now and consider in the future to reduce risks and continue to reduce greenhouse gas emissions. This plan will guide water supply decisions to reduce risks to the water utility. Furthermore, the District's Water Supply Master Plan assesses climate change risks includes strategies for water supply reliability that are flexible and robust to a wide range of future outcomes.

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

Economic, Political, Social and Environmental Conditions

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

Loss of Tax Exemption/Risk of Tax Audit of Municipal Issuers

As discussed under "TAX MATTERS," interest on the 2019A Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the 2019A Bonds as a result of future acts or omissions of the District in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2019 Bonds are not subject to redemption or any increase in interest rate as a result of such event of taxability.

The IRS has initiated an expanded program for the auditing of tax-exempt securities issues, including both random and targeted audits. It is possible that the 2019A Bonds could be selected for audit by the IRS. It is also possible that the market value of the 2019A Bonds might be affected as a result of such an audit of the 2019A Bonds (or by an audit of similar securities).

Change in Tax Law

As discussed under "TAX MATTERS," current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

Failure to Maintain Credit Ratings

Certain rating agencies have assigned ratings to the 2019 Bonds. The ratings issued reflect only the views of such rating agencies. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. See "RATINGS." There is no assurance current ratings will continue for any given period or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or

withdrawal of such ratings could be expected to have an adverse effect on the market price or the marketing of the 2019 Bonds. The District undertakes no obligation to maintain its current credit ratings on the 2019 Bonds or to oppose any such downward revision, suspension or withdrawal.

Secondary Market

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

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

Uncertainties of Projections, Forecasts and Assumptions

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

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

An initiative constitutional amendment entitled Limitations on Government Appropriations was approved by California voters on November 6, 1979. Under the amendment which added Article XIII B to the California Constitution (“Article XIII B”), State and local government agencies are subject to an annual limitation on certain appropriations. Appropriations subject to limitation consist of “tax revenues,” State subventions and certain other funds (together herein referred to as “proceeds of taxes”). Article XIII B does not affect the appropriation of money excluded from the definition of “appropriations subject to limitation,” such as debt service on indebtedness existing or authorized before January 1, 1979 or subsequently authorized by the voters and appropriations mandated by any court having proper jurisdiction. Article XIII B also excludes from limitation the appropriation of proceeds from regulatory licenses, user charges or other fees to the extent such proceeds equal “the costs reasonably borne by such entity in providing the regulations, product or service.”

In general terms, Article XIII B provides that the appropriations limit will be based on certain 1978-79 expenditures and will be adjusted annually to reflect changes in cost of living, population and transfer of financial responsibility of providing services from one governmental unit to another. Article XIII B also provides that if an agency’s revenues in any year exceed the amount which is appropriated by such agency in compliance with the provisions of Article XIII B, the excess must be returned during the next two fiscal years by revising tax rates or fee schedules. The District’s revenues do not exceed any applicable appropriations limit.

Proposition 218

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

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

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

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

Based upon the California Second District Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIII D did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. In a decision rendered in February, 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District* (S105078) upheld a Third District Court of Appeal decision that water connection fees were not property-related fees or charges subject to Article XIII D while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court’s dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal held in *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal. App. 4th 914 (2005) that an “in lieu” fee which is payable to the City of Fresno’s general fund from its water utility and

which is included in the city's water rate structure was invalid. In reaching its decision, the court concluded that the city's water rates were "property related" fees, governed by the limitations of Article XIID. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006 the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. The Court restated the dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing domestic water service through an existing connection were property related fees and charges under Article XIID.

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

Article XIIC. Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms "local tax," "assignment," "fee" or "charge." On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIIC included rates and fees charged for domestic water use. The Supreme Court noted, however, that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations of the public agency involved in the litigation. The District and its District Counsel do not believe that Article XIIC grants to the voters within the jurisdiction of the District the power to repeal or reduce wholesale rates and charges or groundwater charges in a manner which would be inconsistent with the statutory or contractual obligations of the legislative body of District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2019 Bonds. Remedies available to beneficial owners of the 2019 Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2019 Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix E), will be similarly qualified.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIC to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge,

or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Based on the outcome of the Great Oaks Case described under the caption "LITIGATION—Great Oaks Matter" above, the District's believes that Proposition 26 applies to the District's groundwater charges and may limit any groundwater charges found to have been imposed after November 2, 2010. The District believes that it did not "impose" any groundwater charge after November 2, 2010, as such term is used in Proposition 26. Moreover, the District believes that all groundwater charge rates adopted after November 2, 2010, satisfy the substantive limitations of Proposition 26. See the caption "— Proposition 218" above.

Future Initiatives

Articles XIIIB, XIIIC and XIIID were adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the District's revenues or ability to increase revenues.

CERTAIN LIMITATIONS ON RIGHTS AND OBLIGATIONS

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2019 Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix E), will be similarly qualified.

TAX MATTERS

2019A 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 (and original issue discount) on the 2019A 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 2019A Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (an original issue discount) on the 2019A Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2019A Bonds to assure that interest on the 2019A 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 2019A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2019A Bonds. The District has covenanted to comply with all such requirements.

The difference between the issue price of a 2019A Bond (the first price at which a substantial amount of the 2019A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2019A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2019A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2019A

Bond Owner will increase the 2019A Bond Owner's basis in the applicable 2019A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the 2019A Bond Owner is excluded from gross income of such 2019A Bond Owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the 2019A Bond Owner is exempt from State of California personal income tax.

The amount by which a 2019A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2019A 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 2019A Bond Owner's basis in the applicable 2019A Bond (and the amount of tax-exempt interest received with respect to the 2019A 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 2019A Bond Owner realizing a taxable gain when a 2019A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019A Bond to the Owner. Purchasers of the 2019A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the 2019A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2019A Bonds might be affected as a result of such an audit of the 2019A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2019A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2019A Bonds constituting interest or the market values of the 2019A Bonds.

It is possible that subsequent to the issuance of the 2019A Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the 2019A Bonds or the market value of the 2019A Bonds. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the 2019A Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2019A Bonds. No assurance can be given that subsequent to the issuance of the 2019A Bonds such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the 2019A Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the 2019A Bonds.

Bond Counsel's opinion with respect to the 2019A Bonds, respectively, may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2019A Bond constituting interest if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the 2019A Bonds constituting interest, respectively, are excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2019A Bonds and the accrual or receipt of interest on the 2019A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any

of the 2019A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2019A Bonds.

2019B Bonds

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

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

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

The federal tax and State of California personal income tax discussion set forth above with respect to the 2019B Bonds is included for general information only and may not be applicable depending upon a 2019B Bond Owner's particular situation. The ownership and disposal of a 2019B Bond and the accrual or receipt of interest with respect to the 2019B Bond may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2019B Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2019B Bonds.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the 2019 Bonds the rating of "Aa1" (stable outlook) and Fitch Ratings, Inc. ("Fitch") has assigned the 2019 Bonds the rating of "AA+" (stable outlook). There is no assurance that any credit rating given to the 2019 Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by Moody's and Fitch if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the 2019 Bonds. Such ratings reflect only the views of Moody's and Fitch, as the case may be, and an explanation of the significance of such ratings may be obtained from Moody's and Fitch, as the case may be. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

In providing a rating on the 2019 Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology which may not reflect the

provisions of the Parity Master Resolution. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any bond covenants, the availability of particular revenues for the payment of Debt Service or for any other purpose.

The District has covenanted in a Continuing Disclosure Agreement for the 2019 Bonds to file on EMMA, notices of any ratings changes on the 2019 Bonds. See the caption “CONTINUING DISCLOSURE UNDERTAKING” below and Appendix F. Notwithstanding such covenant, information relating to ratings changes on the 2019 Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the 2019 Bonds are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the 2019 Bonds after the initial issuance of the 2019 Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The District has covenanted in a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the 2019 Bonds to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2020, to provide notices of the occurrence of certain enumerated events, and to provide notices of the occurrence of certain other enumerated events, if material. The Annual Reports and the notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events with respect to the 2019 Bonds are set forth in Appendix F “—FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriters in complying with Section (b)(5) of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934.

Over the past five years, the District has been subject to obligations under various continuing disclosure certificates, including but not limited to the Refunding and Improvement Certificates of Participation Series 2003A, the 2006A Bonds, the 2006B Bonds, the 2007A Certificates, the 2007B Certificates, the 2016 Bonds, the 2016 Certificates, the 2017A Bonds and the Refunding and Improvement Certificates of Participation, Series 2004A, Refunding and Improvement Certificates of Participation, Series 2007A, and the Refunding and Improvement Certificates of Participation, Series 2012A executed and delivered to finance and refinance facilities of the District’s Flood Control System (collectively, the “Prior Continuing Disclosure Undertakings”). Pursuant to the Prior Continuing Disclosure Undertakings, the District agreed to file its audited financial reports, certain operating data with respect to the Water Utility System and Flood Control System, as well as notices of certain enumerated events. In 2018, the District filed two supplements to its continuing disclosure annual report for Fiscal Year 2016-17 to correct certain debt service coverage calculations with respect to the District’s Flood Control System Obligations and obligations secured by revenues of the Water Utility System.

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

UNDERWRITING

The 2019 Bonds are being purchased by an underwriting syndicate consisting of Stifel, Nicolaus & Company, Incorporated, acting as representative, and the other underwriters named on the cover page hereto (collectively, the “Underwriters”) pursuant to a Purchase Contract, dated April __, 2019, by and between the Underwriters and the District (the “Purchase Contract”). The purchase price of the 2019A Bonds is equal to \$_____, being the aggregate principal amount of the 2019A Bonds of \$_____, plus net original issue premium of \$_____ and less an underwriters’ discount of \$_____. The purchase price of the 2019B Bonds is equal to \$_____, being the aggregate principal amount of the 2019B Bonds of \$_____, plus net original issue premium of \$_____ and less an underwriters’ discount of \$_____. The Purchase Contract provides that the Underwriters will purchase all of the 2019 Bonds, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions.

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

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

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

MUNICIPAL ADVISOR

The District has retained Public Resources Advisory Group, Los Angeles, California, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the 2019 Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Resources Advisory Group is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of certain fees of the Municipal Advisor for the 2019 Bonds is contingent upon the issuance thereof.

CERTAIN LEGAL MATTERS

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

Bond Counsel represents the District in connection with the issuance of the 2019 Bonds. Bond Counsel may represent the Underwriters from time-to-time on other financings and matters unrelated to the District or the 2019 Bonds. Bond Counsel does not represent the Underwriters or any other party with respect to the issuance of the 2019 Bonds other than the District.

MISCELLANEOUS

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

The general purpose financial statements of the District, a summary of the principal legal documents related to the 2019 Bonds, information with respect to the book-entry only system relating to the 2019 Bonds, the form of opinion of Bond Counsel and the form of the proposed Continuing Disclosure Agreement are attached hereto as Appendices. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Chief Executive Officer

Attest:

Clerk of the Board of Directors

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APPENDIX A

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

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**Fiscal Year Ended
June 30, 2018**



Comprehensive Annual Financial Report

San José, California

**Santa Clara Valley
Water District**



Santa Clara Valley
Water District



Santa Clara Valley Water District

San Jose, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Prepared by the General Accounting Services Unit

Darin Taylor, Chief Financial Officer
Gloria del Rosario, Accounting Manager

Santa Clara Valley
Water District



**SANTA CLARA VALLEY WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018**

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Comprehensive Annual Financial Report

Introductory Section

Santa Clara Valley
Water District





Comprehensive Annual Financial Report

Introductory Section



December 21, 2018

TO THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Santa Clara Valley Water District (District) for the fiscal year ended June 30, 2018. The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The purpose of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on the District's financial statements for the fiscal year ended June 30, 2018. The opinion rendered concluded that the financial statements are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the District is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not

Letter of Transmittal (continued)

only on the fair presentation of the financial statements but also on the District's internal controls and compliance over the administration of federal awards. The single audit review is applicable when Federal funded expenditures exceed \$750 thousand and is typically completed after the audit of the financial statements and will be issued separately for the Board's acceptance.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditor.

District Profile

The mission of the District is to provide Silicon Valley safe, clean water for a healthy life, environment, and economy.

The District traces its origins to the Santa Clara Valley Water Conservation District, approved by north county voters in 1929. Voters elsewhere in the County eventually formed similar agencies that later consolidated with the original District. Today's District represents a consolidation of four agencies. In 1954, the Central Santa Clara Valley Water Conservation District was annexed to the Santa Clara Valley Water Conservation District. With the 1968 merger of the Santa Clara Valley Water Conservation District and the Santa Clara County Flood Control and Water District, the agency adopted dual missions of providing water supply and flood protection. The South Santa Clara Valley Water Conservation District was renamed the Gavilan Water District in 1980, and upon south county voter approval, was annexed to the Santa Clara Valley Water District in 1987. The merger's catalyst was the belief that a coordinated operation of the County's water supply and flood control systems would result in optimum water resource management.

Throughout its history of consolidations, the District has maintained a relationship with Santa Clara County (County). In 1952, County Supervisors initiated the valley's first flood protection program; they later expanded their efforts to include water importation. In 1968, the District and County decided to merge their water functions, and the governing boards of both agencies agreed the County supervisors would have a role in reviewing and approving the water district's annual budget. On September 14, 2006 Assembly Bill 2435 was passed (effective January 1, 2007) which ended the County's oversight of the District's budget and other procedural holdovers from the 1968 merger.

The Santa Clara Valley Water District (District) operates as a State of California special district under the authority of the District Act (Stats. 1951, c.1405, p.3336, urgency, eff. July 10, 1951, as amended Stats. 1963, c.1941, p.3993, 1). The District is the primary water resources agency for Santa Clara County, California. It is the largest multi-purpose water supply, watershed stewardship, and flood management special district in California. It acts not only as the County's water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers and district-built reservoirs.

The District Act governs the structure, function and operations of the District's Board of Directors (Board), which governs the District and directs the Chief Executive Officer. On October 11, 2009, Governor Arnold Schwarzenegger signed into law Assembly Bill 466 (AB466)

Letter of Transmittal (continued)

to amend the District Act. AB466 replaced the former Board structure (five elected/two appointed at-large members) with one in which all seven members would be elected from new districts created through a formal redistricting process. A Redistricting Advisory Committee was formed to draw the District boundaries. On May 14, 2010, the Board officially adopted a new map following testimony from the public, consideration of past testimony during Redistricting Advisory Committee meetings, and consideration of all communications and letters received from the public. A formal election was held for four of the seven board members on November 2, 2010. As required by state law, the District must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

The District is the primary water resources agency for nearly two million residents of the County. It encompasses all of the county's approximately 1,300 square miles and serves the area's 15 cities: Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale. The District also serves the unincorporated areas of the County.

The District sells treated water to 8 water retail companies and cities that service communities within the County via their own distribution systems. There are also private well owners in the County. This demand requires the District to operate and maintain a complex delivery and treatment system that includes 3 water treatment plants, 1 advanced water purification center, 10 local reservoirs and dams, a state-of-the-art water quality laboratory, dozens of groundwater recharge basins, 5 pump stations and 144 miles of pipelines. Water supplies include local surface water and groundwater, imported water, and recycled water. Water conservation is also an important part of the water supply mix because it offsets water demands.

To ensure an adequate and reliable supply of high-quality water, the District has partnered with cities and water retailers in the county to develop recycled water supplies. About 5% of the County's total water use currently consists of recycled water, limited primarily to landscaping and industrial uses. Recycled water use is expected to expand in coming years. In 2010, the Board approved agreements with the City of San Jose to partner and build a facility to produce about eight million gallons per day of highly purified water. The new Silicon Valley Advanced Water Purification Center in North San Jose commenced full operation in March 2014. In November 2016, after 15 months of intensive water quality testing and systems monitoring, tests results showed that highly purified water produced from treated wastewater is just as safe to drink as regular tap water. Currently, purified water produced by the Silicon Valley Advanced Water Purification Center is not used for potable (drinking) purposes, and is instead blended with existing recycled water to enhance its quality for non-potable purposes such as irrigation, cooling towers and industrial applications.

As the primary wholesale water supplier in the County, the District is dedicated to assuring a reliable supply of healthy and clean drinking water. The District provides stream stewardship that encompasses managing flood and storm waters within the County and protecting watersheds and riparian corridors, thereby providing for public safety, and the protection of property and the natural environment along creeks and rivers, and at the edge of the San Francisco Bay. The District makes every effort to provide clean safe water in our creeks and bays; to provide, enhance, and restore creek and bay ecosystems, and to promote additional open space, trails and parks along creeks and in the watersheds.

Letter of Transmittal (continued)

Factors Affecting Financial Condition

Local Economy

The County is located at the southern end of San Francisco Bay that measures approximately 1,312 square miles. The northwestern portion of the County is part of an area referred to as Silicon Valley due to the domination and concentration of technology sector.

Silicon Valley's innovative engine continues to fuel economic expansion across most sectors, driving commercial development and pushing unemployment to a 17-year low. More new commercial space has been built over the past three years than during the previous 13 years combined. Venture capital investment remains at a very high level (particularly Internet and Healthcare companies), but larger shares are going to fewer companies, giving rise to a record-breaking number of 'megadeals' over \$100 million each. In addition, Silicon Valley inventors continue to generate a staggering number of patents. Innovation, a driving force behind Silicon Valley's economy, continues to form novel ideas into products, processes, and services that create and expand business opportunities.

The total number of jobs in Silicon Valley has far surpassed pre-recession levels and has continued to grow. Though the growth rate over the past two years has been slightly lower than over the previous three years, about 64% of the growth occurred in Santa Clara County.⁽¹⁾ More than half of all new jobs were in Community Infrastructure and Services, which has grown steadily in employment levels since the beginning of the economic recovery period in 2010. Other major areas of employment growth are in Innovation and Information Products and Services, and Business Infrastructure and Services. While overall regional employment levels continue to grow, recent gains have been less rapid in mid-skill/mid-wage jobs.

Silicon Valley's unemployment rate at the end of 2017 was lower than it has been since 2000. The unemployment rate was 2.5% in November 2017, compared to 2.3% in San Francisco, 4.0% in California, and 3.9% in the U.S. overall.⁽¹⁾

Incomes in Silicon Valley are higher than those in the state and nation as a whole, but costs are high and have increased significantly over the past eight years. Though companies are prospering, many Silicon Valley residents are struggling to keep up. Income inequality is also growing, and a larger share of the region's population is struggling to make ends meet. Wage gains are eroded by cost of living increases and the nation's highest housing prices. Median home prices continue to climb, making it extremely difficult for homebuyers to get into the market. Fewer than 34% of first-time homebuyers can afford a median-priced home, compared to 49% statewide. The Santa Clara County Assessor reported that in 2018, the net assessment roll for the County increased by 7.4%, from \$419 billion to \$450 billion.⁽²⁾

Multi-family units continue to represent the majority of all new permitted housing, but only a small share of recent housing permits was affordable for low-income residents. High housing costs have contributed to increasing average household sizes and the rise of multigenerational households. The housing crunch, combined with declining transit use and an increase in solo-drivers, has exacerbated traffic congestion. Commute times have increased, and delays have more than doubled over the past decade, with cross-county commuting rising significantly in recent years.

¹ 2018 Silicon Valley Index – Joint Venture Silicon Valley Network

² 2017-2018 Assessor's Annual Report, Office of County Assessor, County of Santa Clara

Letter of Transmittal (continued)

Silicon Valley's economic engine is still going strong, fueled by innovation and entrepreneurship. A region with a thriving innovation habitat supports a vibrant ecosystem to start and grow businesses. As such, businesses continue to expand, unemployment is staying low, and the region's population continues to grow both in number and in its diversity. However, Silicon Valley is straining under years of economic expansion with the challenges of high housing costs, commute times, and traffic congestion.

The Santa Clara Valley Water District Board of Directors continue its call for reduced water use or water savings, emphasizing that dry conditions could return. The Board has called for a 20% reduction and a limit of three days per week for irrigation of ornamental landscape with potable water. From the beginning of the drought response initiated in 2014, the District has worked with water retailers, cities, and the County to maintain water conservation efforts and public outreach, and to implement other actions to reduce water use. Through these efforts, the District has achieved a 22% reduction in water use through June 2018.⁽³⁾

Long-term Financial Planning

The District plans, manages and carries out work to meet policies established by its Board of Directors. Under the District's form of Policy Governance, these "Ends" policies describe the mission, outcomes or results to be achieved by District staff. Balancing the Ends policies are Executive Limitations, which set limits on staff activities in fulfilling the Ends. Alignment of plans and resources with the Ends policies helps the Board fulfill the critical responsibility of defining, balancing and prioritizing "what benefits, for what people, at what cost," and enhances District staff's accountability in using budgeted resources to accomplish those ends.

For fiscal year 2019 budget, the District funds activities that carry out its mission through the following three highest-level policies.⁴

- E2 - Reliable, clean water supply for current and future generations
- E3 - Healthy and safe environment for residents, businesses, and visitors, as well as for future generations
- E4 - Water resources stewardship to protect and enhance watersheds and natural resources and to improve the quality of life in Santa Clara County

The District's largest revenue source is water charges, acting as a wholesaler for numerous water supply retailers in Santa Clara County. Water revenues for fiscal year 2018 were \$231 million. For fiscal year 2018-19, the District Board adopted a 9.7% increase (average of \$3.92 per month per household) in the municipal and industrial groundwater production charge for the North County and a 7.7% increase (average of \$1.10 per month) for the South County, relative to fiscal year 2017-18. The revenue projection assumes water demand volume of 226,000 acre-feet.⁴

The Five-Year Capital Improvement Plan (CIP) includes a total of 61 capital projects with an estimated cost of over \$4.15 billion. The District has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the \$4.15 billion total funding, \$672 million is expected from the District's various

³ Santa Clara Valley Water District – Water Tracker, August 2018

⁴ Santa Clara Valley Water District – FY2018-19 Operating and Capital Budget

Letter of Transmittal (continued)

partners, such as the U.S. Army Corps of Engineers (USACE), and \$3.479 billion from the District. Of the \$691 million that is expected from the District's partners, \$199 million is advanced by the District and reimbursed later. This \$199 million is included in the CIP, and increases the District's total funding requirement from \$3.479 billion to \$3.678 billion to ensure that the District has adequate funding to advance the reimbursement.⁵

In November 2012, the voters overwhelmingly approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax to fund projects addressing the following community priorities:

- Ensuring safe reliable water for the future;
- Reducing toxins, hazards and contaminants in our waterways;
- Protecting water supply and local dams from the impacts of earthquakes and natural disasters;
- Restoring fish, bird, and wildlife habitat; and
- Providing flood protection to homes, businesses, schools, streets, and highways.

Safe, Clean Water builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. Safe, Clean Water replaces the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The program will be funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2018-19, the budget includes \$44 million of tax revenue for this program.

Relevant Financial Policies

End of Year Balances

The District policies for end-of-year balance re-appropriations are as follows:

- Any remaining appropriation balances at the end of the fiscal year for capital projects are annually re-appropriated for continued use in those same projects in the following fiscal year. These amounts shall be consistent with the planned expenditure schedule identified in the 5-year CIP;
- Any variances at the end of the current fiscal year in Operating and Capital Reserves and Contingent Liability Reserves from those estimated in the budget not otherwise re-appropriated above shall result in corresponding adjustments to the estimated reserve appropriations in accordance with District Reserve policy.

The District also maintains a commercial paper program for funding capital projects. Commercial papers are used during the early phases of construction. Long-term debt, matching the useful life of the asset, is issued to replace the commercial papers.

⁵ Santa Clara Valley Water District – FY2019-23 Capital Improvement Program

Letter of Transmittal (continued)

Budgetary Controls

The District maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories - the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures). The District also maintains an encumbrance accounting system as one process to accomplishing budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented starting on pages 106 as part of required supplementary information and selected watershed activities starting on pages 114 as part of supplemental information. For proprietary funds, this comparison is presented starting on pages 118 and 124 as part of the combining and individual fund statements and schedules.

The guidelines used by the District in developing this formal budget process are those recommended by the National Advisory Council on State and Local Budgeting, and the Government Finance Officers Association (GFOA).

Reserve Requirements

The District's financial policies establish the levels at which reserves shall be maintained. District reserve policies address the need for both operating and capital reserves, and funding of contingency and future liabilities.

Major Initiatives

Highlights of activities and accomplishments for the fiscal year ended June 30, 2018 include the following:⁶

- ◆ On July 14, 2017, the San Francisco District of the Army Corps accepted the District's request to enter into a partnership with the District to develop a feasibility study for Coyote Creek. The agreement is a first step in establishing a federal interest in an eventual project. A federal interest, which indicates that a project's benefits exceed the costs, must be established before the federal and state governments can contribute funding for a flood protection project.

⁶ Santa Clara Valley Water District Newsletters and Santa Clara Valley Water District CEO Bulletins

Letter of Transmittal (continued)

- ◆ On August 15, 2017, the City of Cupertino presented the District with a Certificate of Recognition for the McClellan Ranch Preserve Meadow Enhancement Project. This project was a multiyear, collaborative restoration effort that successfully added over 11,000 locally-native plants installed by over 3,500 volunteers, reduced invasive plants, and increased habitat value and diversity to better support native wildlife.
- ◆ On September 8, 2017, the District received the award from the Silicon Valley Business Journal and the San Francisco Business Times as a Top Bay Area Healthy Employer. The competitive award placed the District 3rd out of 20 companies with 500 to 1,999 employees. Not only has the District's program resulted in better health for the employees, but it also led to an actual savings of more than \$600,000 in the District's annual health insurance premiums in 2017.
- ◆ On September 16, 2017, the District participated in the annual Coastal Clean Up Day. A total of 1,892 volunteers collected 50,838 pounds of trash and 6,912 pounds of recyclables over more than 67 miles of creeks.
- ◆ On September 30, 2017, the District, in partnership with the City of San Jose, Keep Coyote Creek Beautiful, South Bay Clean Creeks Coalition, and the Downtown Streets Team, coordinated a community cleanup event along Coyote Creek. A total of 130 volunteers collected and removed 10,500 pounds of trash from the waterway. These large cleanup efforts help to prepare the creek to carry water flows safely during winter storms.
- ◆ On October 18, 2017, the District, in partnership with the City of San Jose, hosted the first in a series of resource fairs for residents. These fairs provide the opportunity to learn about the District's tools to monitor stream, reservoir and rainfall levels, learn where to access this information made available through the district's gauge system, learn about free sandbag workshops and smartphone apps to prepare for an emergency, as well as, receive free emergency preparedness workbooks and emergency starter kits.
- ◆ On November 13, 2017, the District was one of 16 employers in Santa Clara County that received a Family-Friendly Workplace Award from the Commission on the Status of Women and the Office of Women's Policy of Santa Clara County. The award recognizes the District's outstanding efforts to create a workplace that supports the needs of working families and employees and specifically for its policies related to work-life balance, pregnancy and lactation accommodations, and parental leave.
- ◆ On November 3, 2017, the District and the San Jose City Council approved a Joint Emergency Action Plan (EAP), outlining strategies and actions for agency coordination during potential flooding along waterways in San Jose.
- ◆ On December 2, 2017, there was a ribbon cutting ceremony to celebrate the completion of a new 600-foot expansion to connect the Almaden Trail to the Guadalupe River Trail, a walking loop along Lake Almaden in South San Jose to improve access to the Almaden Light Rail Station. This project was a partnership between the District and the

Letter of Transmittal (continued)

City of San Jose's Parks, Recreation and Neighborhood Services and Public Works departments.

- ◆ On December 12, 2017, the District Board adopted a set of moral, ethical, environmental, social and governance guiding principles to lead investment decisions. The revised investment policy keeps the District accountable and committed to providing Silicon Valley with safe, clean water for a healthy life, environment, and economy. The new guidelines enhance the district's role as a leader in socially and environmentally responsible practices and governance allowing for resounding impacts to the larger community.
- ◆ On December 13, 2017, a celebration was held to commemorate the completion of the Wolfe Road Recycled Water Facilities Project, which will bring recycled water to a portion of Sunnyvale as well as the new Apple Park campus in Cupertino. The water that travels through the pipe will be waste water from Sunnyvale that has gone through several levels of treatment and will help to conserve drinking water and reduce wastewater that would otherwise go into the bay.
- ◆ At the end of 2017, the District's water quality lab ranked second out of 54 participating labs nationwide in a proficiency testing managed by the Wisconsin State Laboratory of Hygiene. The testing means that the District's lab and employees were among the top labs to detect organisms in unknown water samples. The District's lab performs more than 170,000 tests each year on raw and treated water from various sources to ensure that we provide safe, clean water that supports life and the economy in Silicon Valley.
- ◆ On March 22, 2018, the District received an award from the Silicon Valley Water Conservation Awards for its education efforts on purified water, which includes free tours of the Silicon Valley Advanced Water Purification Center in San Jose.
- ◆ On March 25, 2018, the District debuted the H2O to Go Water Truck for the runners at the Morgan Hill Wildflower run. Standing 11 feet tall, the water dispenser-on-wheels holds approximately 500 gallons of chilled tap water; enough to fill 8,000 services in 8-ounce cups. The truck is a way to educate the community about our tap water quality as well as provide for a means of supplying water in the event of an emergency.
- ◆ On April 11, 2018, the San Francisco Bay Restoration Authority awarded \$4.4 million of Measure AA funds to the District for the South San Francisco Bay Shoreline Project. This project would provide flood protection, restore 2,900 acres of former salt evaporation ponds and improve public access to recreation.
- ◆ On April 20, 2018, the California Water Commission staff released the highest public benefit score for the Pacheco Reservoir Expansion Project. Pacheco will be the largest reservoir in Santa Clara County, providing a wide range of benefits to the Bay Area, the Delta and throughout the state. An expanded Pacheco Reservoir will improve steelhead habitat, provide an emergency water supply, reduce flood risks to disadvantaged communities, expand ground water recharge, and provide water to wildlife refuges.

Letter of Transmittal (continued)

- ◆ On May 8, 2018, the District's Board of Directors voted to participate in the California WaterFix Project, the state's proposed plan to improve the infrastructure that carries water through the Sacramento-San Joaquin Delta.
- ◆ On May 14, 2018, the Delta Conveyance Design and Construction Joint Powers Authority (DCA) was formed. The founding members of the DCA are Santa Clara Valley Water District, Alameda County Zone 7 Water District, Metropolitan Water District of Southern California, and San Bernardino Valley Municipal Water District. The formation begins the process of ensuring that Santa Clara County will be able to get a clean and safe water supply while protecting the environment. At the first meeting on May 17, 2018, DCA approved and signed an agreement with the California Department of Water Resources (DWR) delineating their joint partnership to construct the California WaterFix Project to improve the infrastructure that carries water through the Sacramento-San Joaquin Delta.
- ◆ On May 19, 2018, the District coordinated with Creek Connections Action Group the National River Cleanup. A total of 1,354 volunteers cleaned up 64 miles of creeks and rivers throughout Santa Clara County. A total amount of trash, including recyclables, came out to 47,353 pounds, which was almost 14,000 more pounds picked up than the prior year.
- ◆ On June 29, 2018, the District hosted the first Trails and Waterways Summit. This summit brought together almost 70 policy makers and advocates from more than two dozen agencies, nonprofits, and municipalities across Santa Clara County. Attendees received information on the history of trail development along waterways and heard case studies on how to overcome challenges and leverage opportunities to advance trails along waterways.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Clara Valley Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the 21st consecutive year that the District has received this prestigious award. To be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

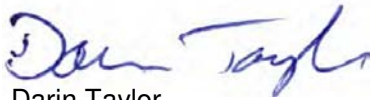
The preparation of this CAFR represents the culmination of months of concerted team effort by diverse District staff, including team members from Financial Planning and Management Services Division, Water Supply Division, Information Management Services Division, General Services Division, Human Resources Division, and Office of the District Counsel. Many team members demonstrated a high degree of personal dedication and determination in producing

Letter of Transmittal (continued)

this exemplary document. In addition, special thanks to District staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Vavrinek, Trine, Day & Co., LLP is also acknowledged for the significant technical contribution and assistance.

Special thanks go to Gloria del Rosario, General Accounting Unit Manager; the following Accounting staff: Jaime Salandanan, Guy Canha, Fanny Chan, Leticia Rocha, Trisha Cheung, Christine Hernandez, Ofelia Hsieh and Gloria Chou; and Chenlei Yao of the Budget and Financial Planning Unit, for their talent and dedication in preparing this financial report.

Finally, we wish to express our sincere appreciation to the District's Board of Directors and management for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors.



Darin Taylor
Chief Financial Officer



Norma Camacho
Chief Executive Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Santa Clara Valley Water District
California**

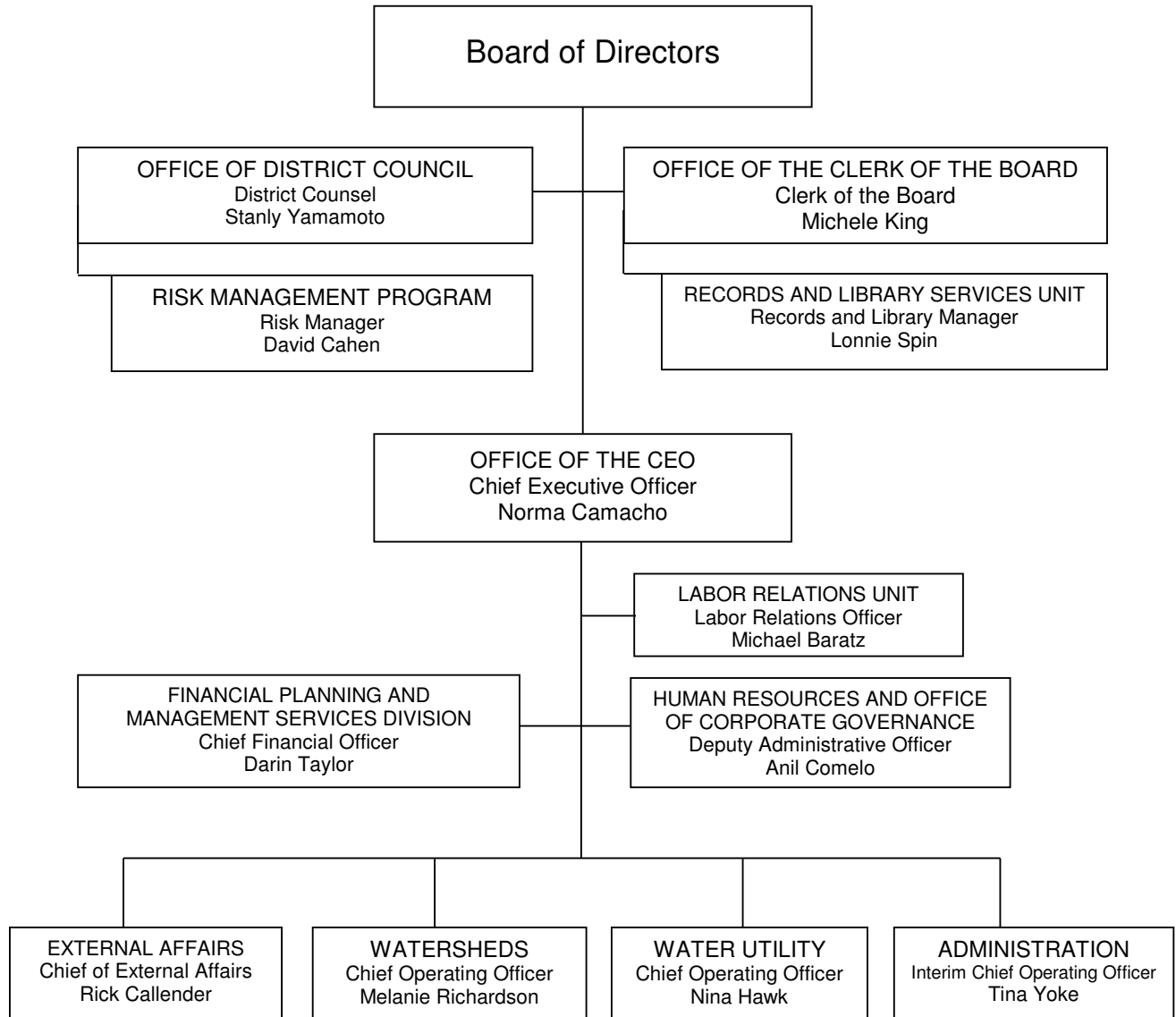
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

SANTA CLARA VALLEY WATER DISTRICT
Board of Directors
& Executive Management



**SANTA CLARA VALLEY WATER DISTRICT
2017 – 2018
BOARD OF DIRECTORS**



John L. Varela
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Comprehensive Annual Financial Report

Financial Section

Santa Clara Valley
Water District





Comprehensive Annual Financial Report

Financial Section

Santa Clara Valley
Water District





VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Santa Clara Valley Water District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Water District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter**Change in Accounting Principles**

As discussed in Note 1 to the basic financial statements, effective July 1, 2017, the District adopted the provisions of Governmental Accounting Standards Board (GASB) statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer pension contributions, the schedules of changes in net OPEB liability and related ratios, and the schedule of employer OPEB contributions and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, the introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 21, 2018

Management's Discussion and Analysis

Our discussion and analysis of the Santa Clara Valley Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The net position of the District was \$2,274 million as of June 30, 2018. Of this amount, \$86.6 million (unrestricted, but committed and assigned net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's net position increased by \$85.4 million during the current fiscal year, and is net of the \$73 million prior period adjustment related to the implementation of GASB 75 to record the other post employment liability. The net position of the governmental activities increased by \$70 million and the net position of the business-type activity by \$15.4 million.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$332.6 million, a decrease of \$18.9 million in comparison with the prior fiscal year fund balances of \$351.5 million.
- The fund balance for the general fund was \$9.7 million, a decrease of \$2.7 million from the prior fiscal year. Committed and assigned fund balances were \$9.7 million or 100% of the total fund balance.
- The fund balances of the Watershed & Stream Stewardship and Safe, Clean Water & Natural Flood Protection funds were \$311.1 million, a decrease of \$13 million from the prior fiscal year.

Overview of the Financial Statements

The financial statements presented herein include all the activities of the District and its component units using the integrated approach as prescribed by Generally Accepted Accounting Principles (GAAP).

Government-wide financial statements. The government-wide financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting.

The statement of net position presents information on all the District's assets, deferred outflow, liabilities, and deferred inflow, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but uncollected taxes and earned but unused vacation leave).

Management's Discussion and Analysis (continued)

Both the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the District include general government, watershed management, and construction and debt service funding. The business-type activity includes the water utility operation fund.

The government-wide financial statements include not only the District itself (known as the primary government), but also a legally separate Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) for which the District is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide financing to the District under the debt issuance documents of the District. Additional information on this legally separate entity can be found in Note 1(b) in the notes to basic financial statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's projects.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and change in fund balances to the government-wide statements are provided to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The District maintains two-different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activity in the government-wide financial statements but provide more detail and additional information. The District uses enterprise funds to account for its water utility operations fund. Internal service funds are used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its fleet of vehicles and computer equipment, and for

Management's Discussion and Analysis (continued)

its risk management activities. The internal service funds have been included within governmental activities and business-type in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found starting on page 47 of this report.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$2,274 million at the end of the current fiscal year.

Santa Clara Valley Water District's Net Position

(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 412,374	\$ 392,906	\$ 253,505	\$ 229,637	\$ 665,879	\$ 622,543
Capital assets	1,433,864	1,310,343	1,133,623	1,061,689	2,567,487	2,372,032
Total assets	1,846,238	1,703,249	1,387,128	1,291,326	3,233,366	2,994,575
Deferred outflow of resources	40,772	26,089	32,079	20,902	72,851	46,991
Current liabilities	54,452	19,326	112,388	60,701	166,840	80,027
Long-term liabilities outstanding	284,313	232,748	571,185	532,111	855,498	764,859
Total liabilities	338,765	252,074	683,573	592,812	1,022,338	844,886
Deferred inflow of resources	5,562	4,573	4,339	5,891	9,901	10,464
Net position:						
Net investment in capital	1,344,142	1,213,840	626,514	623,828	1,970,656	1,837,668
Restricted	158,062	209,873	58,679	52,118	216,741	261,991
Unrestricted	40,479	48,978	46,102	39,895	86,581	88,873
Total net position	<u>\$ 1,542,683</u>	<u>\$ 1,472,691</u>	<u>\$ 731,295</u>	<u>\$ 715,841</u>	<u>\$ 2,273,978</u>	<u>\$ 2,188,532</u>

The largest portion of the District's net position (87%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis (continued)

For governmental activities, net investment in capital assets increased by \$130.3 million or 10.7% compared to the prior fiscal year. Capital assets, net of depreciation, increased by \$123.5 million. Long term liabilities, which include related debt outstanding, went up by \$51.6 million.

Current fiscal year major additions to capital assets for governmental activities include the following (in millions):

- \$30.5 - Permanente Creek Bay – Foothill Clean Safe Creek
- \$29.3 - Berryessa Creek, Lower, Penitencia Phase 2
- \$19.2 - Land purchase for Guadalupe River Upper Project
- \$9.8 - San Francisquito Early Implementation
- \$5.8 - Land purchases for Upper Llagas Creek Project
- \$5.6 - Main/Madrone Pipeline Restoration
- \$5.1 - Lower Silver Creek - R4-6 North Babb to Cunningham
- \$1.9 - Lower Penitencia Creek Improvements
- \$1.7 - San Francisco Bay Shoreline Study Economic Impact Area Design and Partial Construction
- \$1.6 - Coyote Creek, Montague to I-280
- \$1.6 - Cunningham Flood Detention
- \$1.5 - Guadalupe River Upper, SPRR-BH 7-12
- \$1.5 - Upper Berryessa Creek Flood Risk Management Project
- \$1.5 - Salt Ponds A5-11 Restoration

For business type activities, net investment in capital assets increased by \$2.7 million or 0.4% over the previous fiscal year. Capital asset, net of depreciation, increased by \$71.9 million. Long term liabilities, which include related debt outstanding, went up by \$39.1 million.

Current fiscal year major additions to capital assets for business type activities include the following (in millions):

- \$31.7 - Rinconada Water Treatment Plant Reliability Improvement
- \$21.6 - 10-year Pipeline and Rehabilitation
- \$9.1 - Anderson Dam Seismic Retrofit
- \$4.4 - Calero Dam Seismic Retrofit Design and Construction
- \$3.9 - Pacheco Conduit Rehabilitation
- \$3.3 - Indirect Potable Reuse-Plan C
- \$3.2 - Penitencia Force Main Seismic Retrofit
- \$3.0 - Guadalupe Dam Seismic Retrofit Design and Construction
- \$2.0 - Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications
- \$1.3 - Dam Safety Seismic Stability
- \$1.2 - Wolfe Road Recycled Water Facility

Management's Discussion and Analysis (continued)

The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers, and creditors. The District's unrestricted net position decreased by \$19.5 million or 21.9%, during the current fiscal year.

Santa Clara Valley Water District's Changes in Net Position

(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Water charges for services	\$ -	\$ -	\$ 231,001	\$ 190,896	\$ 231,001	\$ 190,896
Operating grants and contributions	-	-	4,396	2,037	4,396	2,037
Capital grants and contributions	61,190	16,609	4,350	17,527	65,540	34,136
General revenues:						
Property taxes	129,891	123,325	37,417	44,786	167,308	168,111
Investment earnings	2,477	1,186	1,267	979	3,744	2,165
Miscellaneous	6,685	4,051	6,428	2,527	13,113	6,578
Total revenues	<u>200,243</u>	<u>145,171</u>	<u>284,859</u>	<u>258,752</u>	<u>485,102</u>	<u>403,923</u>
Expenses:						
General government	8,407	9,339	-	-	8,407	9,339
Watersheds	85,780	69,166	-	-	85,780	69,166
Interest on long-term debt	3,091	4,271	-	-	3,091	4,271
Water enterprise	-	-	229,373	199,631	229,373	199,631
Total expenses	<u>97,278</u>	<u>82,776</u>	<u>229,373</u>	<u>199,631</u>	<u>326,651</u>	<u>282,407</u>
Increase in net position before transfers	102,965	62,395	55,486	59,121	158,451	121,516
Transfers	<u>8,225</u>	<u>(1,902)</u>	<u>(8,225)</u>	<u>1,902</u>	-	-
Change in net position	111,190	60,493	47,261	61,023	158,451	121,516
Net position, beginning	1,472,691	1,412,198	715,841	654,818	2,188,532	2,067,016
Prior period adjustment	(41,198)	-	(31,807)	-	(73,005)	-
Net position, ending	<u>\$ 1,542,683</u>	<u>\$ 1,472,691</u>	<u>\$ 731,295</u>	<u>\$ 715,841</u>	<u>\$ 2,273,978</u>	<u>\$ 2,188,532</u>

Management's Discussion and Analysis (continued)

Governmental activities. Net position in governmental activities increased by \$111.2 million during the fiscal year, but this increase was reduced by \$41.2 million due to the prior period adjustment in implementing GASB 75 to record the other post-employment benefit liability. Net revenues from operations of \$103 million, and transfers in of \$8.2 million, added to net position.

The fiscal year net revenue of \$103 million came from property tax (\$129.9 million), capital grants (\$61.2 million), other revenues (\$6.7 million), investment earnings (\$2.5 million) and operating expenses \$97.3 million.

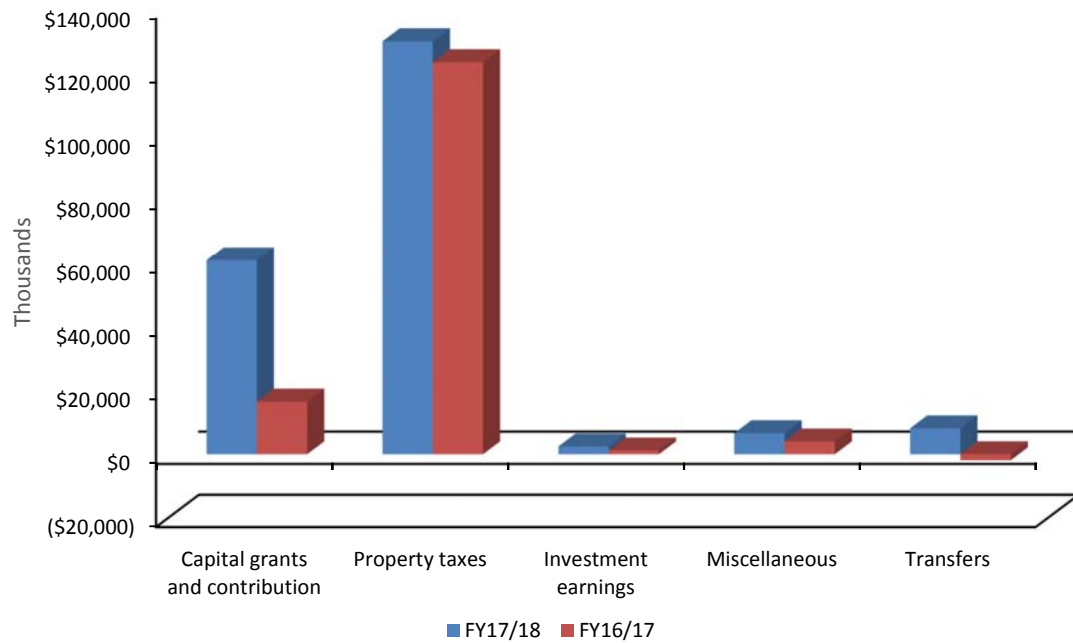
Compared to the prior fiscal year, revenues increased \$55.0 million and expenses increased by \$15.0 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Capital grants and contributions increased \$44.6 million or 268% due largely to the increase in capital costs reimbursements from the Department of Water Resources.
- Property taxes increased \$6.6 million or 5.3%, reflective of the upward trend in the real estate market in the valley.
- Investment earnings were \$1.3 million or 109% higher due mainly to higher yields on investments.
- Watersheds expenditures were \$16.6 million or 24% higher due to the increase in pension expense and fixed assets purchases.

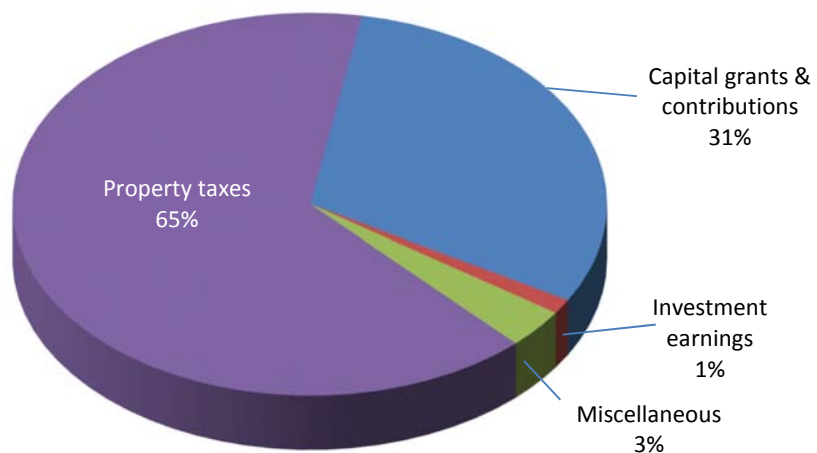
Net transfers in were \$8.2 million during fiscal year 2018, compared to net transfers out of \$1.9 million in the prior fiscal year. This large swing reflects the \$11.4 million transfer in to the Safe, Clean Water and Natural Flood Protection Program Fund from the Water Enterprise Fund for funding of the Main and Madrone pipeline restoration capital project during the current fiscal year.

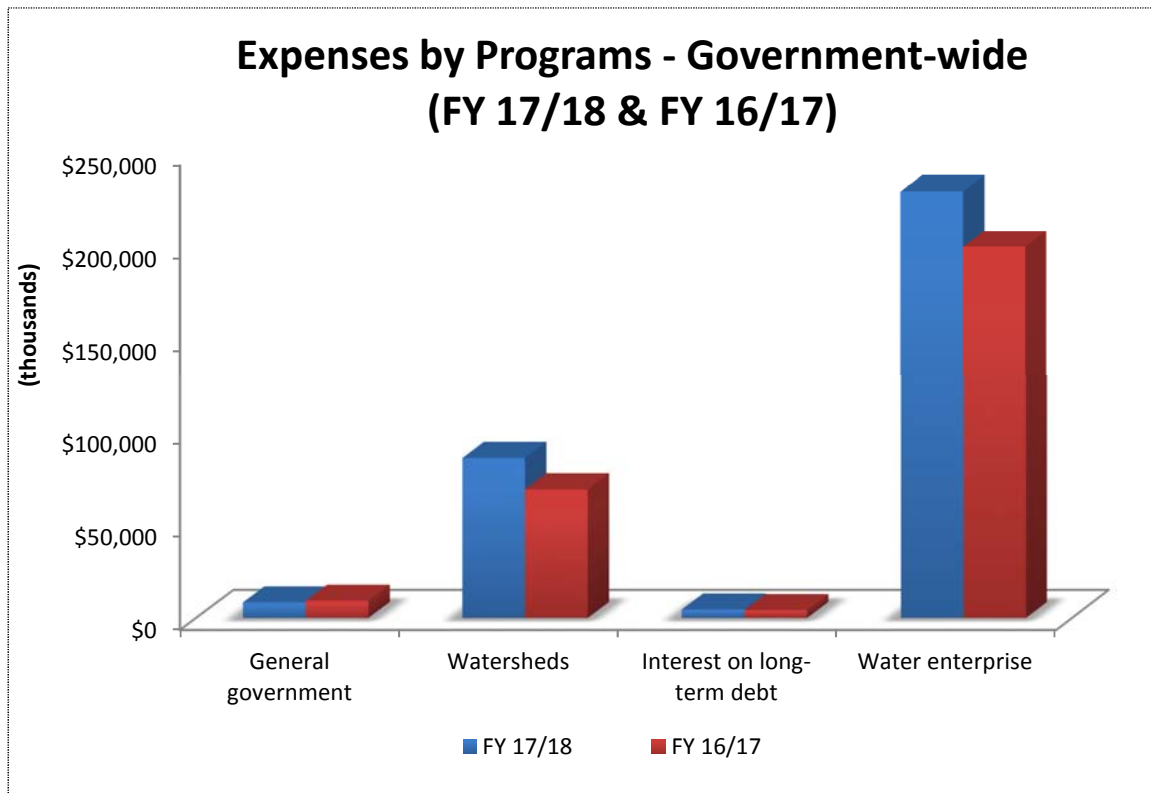
Management's Discussion and Analysis (continued)

**Revenue by Sources – Governmental Activities
(FY 17/18 & FY 16/17)**



**Revenues by Sources – Governmental Activities
(FY 17/18)**





Management's Discussion and Analysis (continued)

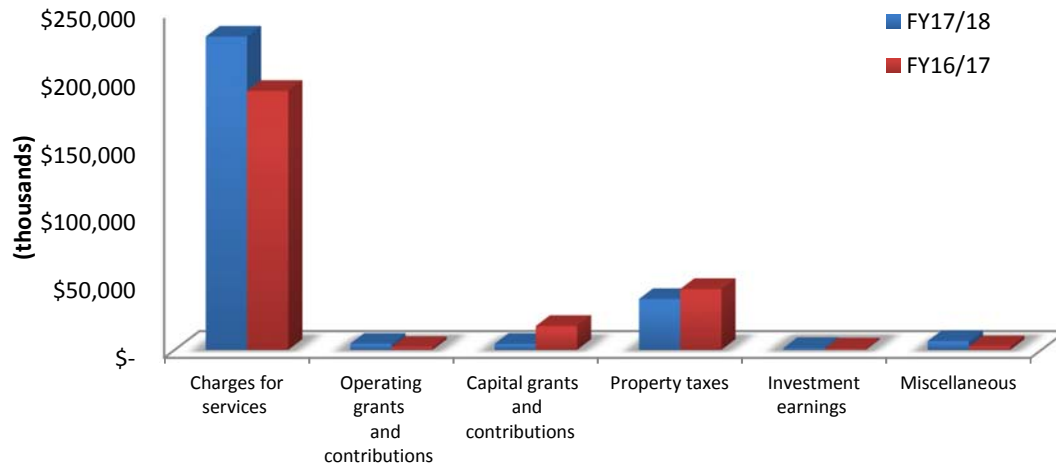
Business-type activities. Net position in business-type activities increased by \$47.3 million during the fiscal year, but this increase was reduced by \$31.8 million due to the prior period adjustment in implementing GASB 75 to record the other post-employment benefit liability. Fiscal year revenue included water charges for services (\$231 million), property taxes (\$37.4 million), miscellaneous revenue (\$6.4 million), capital and operating grants (\$4.4 million), operating grants and contributions (\$4.4 million) and investment earnings (\$1.3 million). Operating expenses, mainly from water purchases, were \$229.3 million. Without the transfer out of \$8.2 million, net revenue was \$55.5 million.

Compared to the prior fiscal year, total revenues increased \$26.1 million and expenses increased \$29.7 million. Key elements of the changes in revenues and expenses from prior year are as follows:

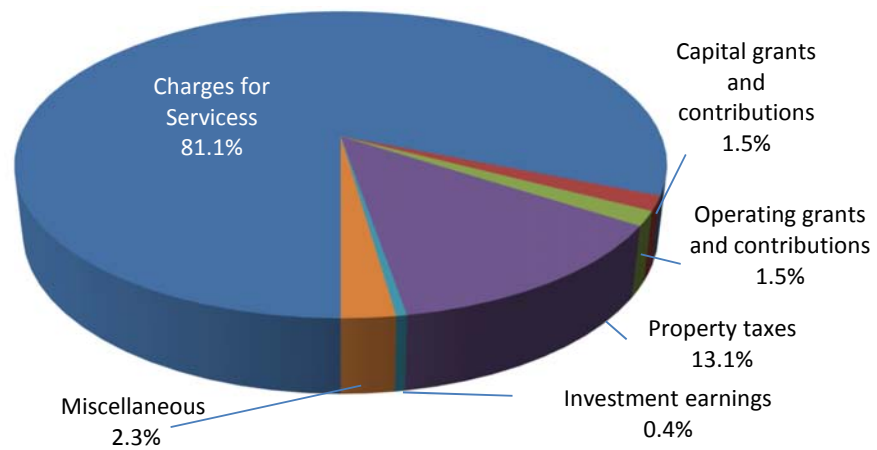
- Water charges for services were \$40.1 million or 21% higher than last fiscal year, reflecting the increase in rates and volume. Groundwater revenue increased \$29.5 million or 43.5% and treated water revenue increased \$10.3 million or 8.44%.
- Capital grants and contributions decreased \$13.2 million due to lower capital cost reimbursements received.
- Property taxes were \$7.4 million or 16.5% lower than last fiscal year, reflecting lower State tax requirements needed to fund State Water project contract obligations.
- Water enterprise expenses increased by \$29.7 million or 14.9% year over year. \$16.4 million of the increase was related to higher water supply and water treatment costs. The balance of the increase was due to increased expenditures for technical and consultant services and higher salary and benefits employee costs.

Management's Discussion and Analysis (continued)

Revenues by Sources - Business Activity (FY 17/18 & FY 16/17)



Revenues by Source – Business Activity (FY 17/18)



Management's Discussion and Analysis (continued)

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of June 30, 2018, the District's governmental funds reported combined ending fund balances of \$332.6 million, a decrease of \$19.0 million for the fiscal year.

Compared to the prior year, revenues increased by \$55 million and total expenditures increased by \$64.8 million. Property taxes went up \$6.6 million due to the upward trend of property values in the area. Investment income increased by \$1.3 million, reflecting higher investment yields year over year. Reimbursements of capital cost revenue, namely from the Department of Water Resources, were \$44.6 million higher. Other income also increased by \$2.4 million due mainly to proceeds received from the sale of fixed assets.

Total expenditures were \$64.8 million higher compared to the prior fiscal year. Most of this increase was in capital improvement project expenditures for the Safe, Clean Water and Natural Flood Protection Program.

Approximately \$150.3 million or 45.2% of the total fund balance amount (\$332.6 million) constitutes committed and assigned for specific purposes. The remainder of the fund balance is restricted to indicate that it is not available for new spending because of the external enforceable limitations on its use to: 1) fund Safe, Clean Water & Natural Flood Protection projects (\$170.5 million); 2) pay debt service (\$6.3 million); and 3) provide funds for projects funded by bond proceeds (\$5.5 million).

General fund

The general fund is the chief operating fund of the District supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the committed and assigned fund balance of the General Fund was \$9.7 million. The total fund balance decrease of \$2.6 million is attributable to \$1.3 million net expenditures and \$1.3 million of transfers out exceeding transfers in.

Special revenue funds

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of the District. The available fund balances at the end of the current fiscal year for the special revenue funds were \$311.1 million, which decreased during the current fiscal year by \$13 million or 4%.

Fund balance for the Watershed & Stream Stewardship fund increased \$21.5 million or 18.1% compared to last fiscal year, mainly due to \$34.1 million of capital cost

Management's Discussion and Analysis (continued)

reimbursements received during the fiscal year. Partially offsetting this increase in revenue were transfers out to the COP Debt Service Fund.

The fund balance in the Safe, Clean Water & Natural Flood Protection fund balance decreased from \$205 million to \$170.5 million during the fiscal year, as total expenditures of \$105.8 million (mainly from capital improvement projects) exceeded total revenues of \$56.5 million. Transfers in of \$14.8 million from the Capital Project Fund offset some of the decrease in fund balance between the fiscal years.

COP debt service fund

The COP debt service fund is used to account for resources used for debt service payments. It has a total fund balance of \$6.3 million, all of which is reserved for payment of debt service.

COP construction fund

The COP construction fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. It has a total fund balance of \$5.5 million, all of which is reserved for major capital projects.

Proprietary funds. The District's proprietary funds provide a detailed breakdown of the same type of information found in the government-wide financial statements.

Water Enterprise fund. The Water Enterprise fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for to show net income or loss from operations. The fund is intended to be entirely or predominantly self supported by user charges.

Net position of the Water Enterprise fund at the end of the fiscal year was \$692.8 million, an increase of \$10.1 million from the prior fiscal year. Largely offsetting net revenues of \$41.9 for the fiscal year was a \$31.8 million negative prior period adjustment to implement GASB 75 for other post-employment benefits. Operating revenues went up \$44.2 million or 23.1%, reflecting increased billing rates year over year and higher water usage. Operating expenses increased by \$31.9 million, or 20.5% to account for higher water supply and treatment costs.

Net non-operating expenses were \$2.3 million compared to net non-operating expenditures of \$6.7 million in fiscal year 2017, resulting in a \$4.4 million variance. Collectively, property tax, investment income, and operating grants revenue were \$3.1 higher than last year. Interest paid on long term debt and fiscal agent fees were also \$1.5 million lower compared to the prior fiscal year.

State Water Project fund. The State Water Project fund was established and approved by the Board of Directors on October 26, 2010. This fund accounts for the State Water Project Tax receipts pursuant to Section 1B of Article 13A of the California Constitution to pay for county-wide voter-approved State Water Project contract obligations. Fund resources are used for the Water System Revenue Bond and other related capital expenditures billed by the State of California Department of Water Resources and are

Management's Discussion and Analysis (continued)

accounted for in such a manner as to restrict the use of the resources exclusively for the State Water Project related costs.

Net position ended at \$29.8 million or \$1.8 million higher than the prior fiscal year. Operating expenses were \$29.7 million, of which \$28.8 million or 97% was cost associated with water purchases. Net non-operating revenues were \$31.5 million, with property taxes contributing \$30.3 million or 96.2% of the total.

Internal Service Funds. The District has three internal service funds - the Equipment Fund, Risk Management Fund and Information Technology Fund. Revenues to the funds are generated from fees charged for services provided to the District operating programs.

The Equipment fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment and hourly usage of equipment on projects. The fund's annual reimbursement charge for the replacement and maintenance cost of equipment is determined during the budget process and varies yearly depending upon need. Ending net position for the fund was \$9.9 million.

The Risk Management fund charges premiums based on exposure levels by project for liability, property, worker's compensation and self-insurance costs. Revenues required to properly reimburse the Risk Management Fund are determined during the budget process and varies yearly depending upon need. The fund's net position ended at \$6 million.

The Information Technology fund was established on July 1, 2014 to account for the acquisition installation, replacement and maintenance costs of district-wide capital charges related to information technology projects. The annual reimbursement charge to the Information Technology Fund is determined during the budget process and varies yearly depending upon need. The fund's net position was \$26.3 million or \$8.1 million higher than the prior fiscal year. Operating revenues were \$12.2 million and operating expenses of \$4.3 million.

General Fund Budgetary Highlights

The summary table below shows a final budget of \$67.3 million for operating and capital expenditures for fiscal year 2018. The adopted budget was \$63.6 million. No amount was carried forward from the prior year capital projects budget. Budget adjustments during the fiscal year amounted to \$3.7 million.

Adopted Budget	+ Capital Projects Budget Remaining Carry-forward	- Current Year Budget Adjustments	= Final Budget
\$63,602K	\$ -	\$3,691K	\$67,293K

Total expenditures (budgetary basis) for the current fiscal year of \$61.7 million are \$4.3 million more than the prior fiscal year and can be attributed to the capital improvement projects performed by the General Services Division.

Management's Discussion and Analysis (continued)

Capital Assets

The District's capital asset balance, net of accumulated depreciation, for governmental and business-type activities amounts to \$2.6 billion at June 30, 2018. Capital asset components include intangible rights and software, land, buildings, structures and improvements (which include the flood control improvement), machinery and equipment. During fiscal year 2018, the total increase in the District's capital assets was \$195.5 million or 8.2%. Governmental and business-type activities increased by 9.4% and 6.8%, respectively.

Detailed information on the District's capital assets activity for the current fiscal year can be found in Note 6 of this report.

Debt Administration

At the end of the current fiscal year, the District had total long-term debt outstanding of \$855.5 million. This District's long-term obligations outstanding at the end of the fiscal year consisted of the following:

Santa Clara Valley Water District's Outstanding Obligations

(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2018	2017	2018	2017	2018	2017
Certificates of participation	\$ 82,285	\$ 90,945	\$ -	\$ -	\$ 82,285	\$ 90,945
Revenue bonds	-	-	253,570	255,910	253,570	255,910
Revenue bonds-COP	-	-	132,765	138,745	132,765	138,745
Compensated absences	8,786	8,555	5,168	4,990	13,954	13,545
Semitropic water banking	-	-	8,150	4,473	8,150	4,473
Bond Discount	-	-	(147)	(155)	(147)	(155)
Premium on bond issue	-	-	37,587	39,101	37,587	39,101
Premium on refunded debt	13,037	14,584	-	-	13,037	14,584
Claims payable	6,465	5,666	-	-	6,465	5,666
Net pension liability	129,929	113,654	100,278	89,563	230,207	203,217
Other post employment benefits	43,811	(656)	33,814	(516)	77,625	(1,172)
Total	<u>\$ 284,313</u>	<u>\$ 232,748</u>	<u>\$ 571,185</u>	<u>\$ 532,111</u>	<u>\$ 855,498</u>	<u>\$ 764,859</u>

The credit ratings of the District's Watershed Certificates of Participation are AA+ from Fitch, Aa1 from Moody's and AA+ from Standard & Poor's. The credit ratings of the Water Utility Enterprise Fund senior lien obligations (Series 2006B and 2007B) are Aa1 from Moody's and AA- from S&P. The Water Utility Enterprise Fund parity lien obligations (Series 2016ABCD and Series 2017A) are rated Aa1 from Moody's and AA+ from Fitch.

The District's total obligations increased by \$90.6 million during fiscal year 2018. Much of the increase is related to the other post employment benefits liability which went up \$78.8 million as a result of implementing GASB 75 to record the other post employment liability.

Additional information on the District's long-term debt can be found in Note 7 of this report.

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budgets

The District's \$509.9 million budget for fiscal year 2019 will focus on the following initiatives:

- Infrastructure maintenance and construction needs (ensuring dam safety, managing infrastructure for reliability, care of District facilities and assets)
- Funding for capital projects (shortage of federal funding, coordinated planning of permitting efforts, environmental stewardship efforts)
- Advancing the District's interests in countywide stormwater resource planning
- Coyote Creek flood response
- Making key decisions regarding the California Water Fix
- Advancing recycled and purified water efforts
- Finalizing the Fisheries and the Aquatic Habitat Collaborative Effort (FAHCE)
- Pursuing efforts to increase water storage opportunities
- Advancing diversity and inclusion efforts

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the General Accounting Unit at 5750 Almaden Expressway, San Jose, CA 95118, or call (408) 265-2600.



BASIC FINANCIAL STATEMENTS

SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Position

June 30, 2018

(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (Note 3)	\$ 402,144	\$ 197,539	\$ 599,683
Restricted cash and investments (Note 3)	11,914	212	12,126
Receivables (net):			
Accounts	1,533	36,844	38,377
Interest	2,229	-	2,229
Taxes	481	196	677
Prepaid insurance	-	161	161
Deposits and other assets	2,817	9,809	12,626
Internal balances	(8,744)	8,744	-
Capital assets (Note 6):			
Contract water and storage rights, net	-	43,333	43,333
Depreciable, net	689,375	673,106	1,362,481
Nondepreciable	744,489	417,184	1,161,673
Total assets	<u>1,846,238</u>	<u>1,387,128</u>	<u>3,233,366</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	104	454	558
Deferred outflows of resources - pension activities	33,588	26,160	59,748
Deferred outflows of resources - OPEB	7,080	5,465	12,545
Total deferred outflows of resources	<u>40,772</u>	<u>32,079</u>	<u>72,851</u>
LIABILITIES			
Accounts payable	16,228	20,283	36,511
Accrued liabilities	3,356	5,705	9,061
Commercial paper, net of discount (Note 7)	30,000	75,800	105,800
Deposits payable	3,254	9,393	12,647
Accrued interest payable	1,614	-	1,614
Unearned revenue	-	1,207	1,207
Noncurrent liabilities (Note 7):			
Due within one year	13,986	13,493	27,479
Due in more than one year	270,327	557,692	828,019
Total liabilities	<u>338,765</u>	<u>683,573</u>	<u>1,022,338</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activities	4,241	3,320	7,561
Deferred inflows of resources - OPEB	1,321	1,019	2,340
Total deferred inflows of resources	<u>5,562</u>	<u>4,339</u>	<u>9,901</u>
NET POSITION (Note 10)			
Net investment in capital assets	1,344,142	626,514	1,970,656
Restricted:			
Debt service	4,744	212	4,956
Safe, Clean Water - other activities	153,318	-	153,318
WU San Felipe emergency	-	3,040	3,040
WU rate stabilization	-	21,066	21,066
WU state water projects	-	12,778	12,778
Advance water purification	-	1,906	1,906
Supplemental water supply	-	14,677	14,677
Drought reserve	-	5,000	5,000
Unrestricted	40,479	46,102	86,581
Total net position	<u>\$ 1,542,683</u>	<u>\$ 731,295</u>	<u>\$ 2,273,978</u>

See accompanying notes to basic financial statements

SANTA CLARA VALLEY WATER DISTRICT

Statement of Activities
For the Year Ended June 30, 2018
(Dollars in Thousands)

Description	Governmental Activities			Business-Type Activities	Total
	General Government	Watersheds	Interest on Long-term Debt		
Expenses:					
Operations and operating projects	\$ 8,407	\$ 85,780	\$ 3,091	\$ -	\$ 97,278
Water cost of production	-	-	-	229,373	229,373
Program revenues:					
Water charges for services	-	-	-	231,001	231,001
Operating grants and contributions	-	-	-	4,396	4,396
Capital grants and contributions	-	61,190	-	4,350	65,540
Net program revenue (expense)	<u>\$ (8,407)</u>	<u>\$ (24,590)</u>	<u>\$ (3,091)</u>	<u>10,374</u>	<u>(25,714)</u>
General revenues:					
Property taxes (Note 8)				37,417	167,308
Unrestricted investment earnings				1,267	3,744
Miscellaneous				6,428	13,113
Transfers (Note 14)				<u>(8,225)</u>	<u>-</u>
Total general revenues and transfers				<u>36,887</u>	<u>184,165</u>
Change in net position				<u>47,261</u>	<u>158,451</u>
Net position, beginning of year				<u>715,841</u>	<u>2,188,532</u>
Prior period adjustment (Note 15)				<u>(31,807)</u>	<u>(73,005)</u>
Net position, beginning of year, restated				<u>684,034</u>	<u>2,115,527</u>
Net position, end of year				<u>\$ 731,295</u>	<u>\$ 2,273,978</u>

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Balance Sheet
Governmental Funds
June 30, 2018
(Dollars in Thousands)

	<u>Special Revenue Fund</u>	
	General	Watershed & Stream Stewardship
ASSETS		
Cash and investments (Note 3)	\$ 9,213	\$ 146,203
Restricted cash and investments (Note 3)	-	77
Receivables:		
Accounts	10	224
Interest	2,212	-
Taxes	45	436
Deposits and other assets	34	1,736
Total assets	<u>\$ 11,514</u>	<u>\$ 148,676</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 1,215	\$ 5,350
Accrued liabilities	607	450
Commercial papers	-	-
Deposits payable	12	2,294
Total liabilities	<u>1,834</u>	<u>8,094</u>
Fund balances (Note 9):		
Restricted fund balance	-	-
Committed fund balance	3,933	113,673
Assigned fund balance	5,747	26,909
Total fund balances	<u>9,680</u>	<u>140,582</u>
Total liabilities and fund balances	<u>\$ 11,514</u>	<u>\$ 148,676</u>

See accompanying notes to basic financial statements.

<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	
Safe, Clean Water & Natural Flood Protection Program	COP Construction Fund	COP Debt Service	Total Governmental Funds
\$ 210,619	\$ -	\$ -	\$ 366,035
-	5,496	6,341	11,914
1,299	-	-	1,533
-	-	-	2,212
-	-	-	481
947	-	-	2,717
<u>\$ 212,865</u>	<u>\$ 5,496</u>	<u>\$ 6,341</u>	<u>\$ 384,892</u>
\$ 9,152	\$ -	\$ -	\$ 15,717
2,283	-	-	3,340
30,000	-	-	30,000
948	-	-	3,254
<u>42,383</u>	<u>-</u>	<u>-</u>	<u>52,311</u>
170,482	5,496	6,341	182,319
-	-	-	117,606
-	-	-	32,656
<u>170,482</u>	<u>5,496</u>	<u>6,341</u>	<u>332,581</u>
<u>\$ 212,865</u>	<u>\$ 5,496</u>	<u>\$ 6,341</u>	<u>\$ 384,892</u>

SANTA CLARA VALLEY WATER DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2018 (Dollars in Thousands)

Amount reported for governmental activities in the statement of net position are different because:

Fund balances of governmental funds	\$ 332,581
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.	1,413,321
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	33,480
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.	(1,614)
Accrued income for monies held in the restricted bond trust accounts are not available to pay for current period debt payments, and therefore, are not included in the balance sheet of governmental funds.	
Accrued interest income	17
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:	
Certificates of participation	(82,285)
Deferred amount on refunding	104
Net original issue premium	(13,037)
Compensated absences	(8,420)
Net pension liability and related deferrals	(95,371)
Net OPEB liability and related deferrals	(36,093)
Net position of governmental activities	<u>\$ 1,542,683</u>

See accompanying notes to basic financial statements



SANTA CLARA VALLEY WATER DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2018
(Dollars in Thousands)

		<u>Special Revenue Fund</u>
	<u>General</u>	<u>Watershed & Stream Stewardship</u>
Revenues:		
Property taxes (Note 8)	\$ 7,865	\$ 79,538
Benefit assessments (Note 8)	-	14,774
Use of money and property:		
Investment income (Note 5)	20	729
Rental	-	1,609
Reimbursement of capital costs (Note 4)	-	34,159
Other	267	3,999
Total revenues	<u>8,152</u>	<u>134,808</u>
Expenditures:		
Current:		
Operations and operating projects	6,527	51,333
Capital improvement projects	2,973	47,390
Debt service:		
Principal repayment	-	-
Interest and fiscal agent fees	-	8
Total expenditures	<u>9,500</u>	<u>98,731</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,348)</u>	<u>36,077</u>
Other financing sources (uses):		
Transfers in (Note 14)	935	2,660
Transfers out (Note 14)	(2,254)	(17,228)
Total other financing sources (uses)	<u>(1,319)</u>	<u>(14,568)</u>
Net change in fund balances	(2,667)	21,509
Fund balances, beginning of year	<u>12,347</u>	<u>119,073</u>
Fund balances, end of year	<u>\$ 9,680</u>	<u>\$ 140,582</u>

See accompanying notes to basic financial statements.

<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	
Safe, Clean Water & Natural Flood Protection Program	COP Construction Fund	COP Debt Service	Total Governmental Funds
\$ 42,488	\$ -	\$ -	\$ 129,891
-	-	-	14,774
1,296	94	166	2,305
322	-	-	1,931
12,257	-	-	46,416
95	-	-	4,361
<u>56,458</u>	<u>94</u>	<u>166</u>	<u>199,678</u>
13,052	-	-	70,912
92,347	-	-	142,710
-	-	8,660	8,660
437	-	3,973	4,418
<u>105,836</u>	<u>-</u>	<u>12,633</u>	<u>226,700</u>
<u>(49,378)</u>	<u>94</u>	<u>(12,467)</u>	<u>(27,022)</u>
14,835	-	12,577	31,007
-	(3,457)	-	(22,939)
<u>14,835</u>	<u>(3,457)</u>	<u>12,577</u>	<u>8,068</u>
(34,543)	(3,363)	110	(18,954)
205,025	8,859	6,231	351,535
<u>\$ 170,482</u>	<u>\$ 5,496</u>	<u>\$ 6,341</u>	<u>\$ 332,581</u>

SANTA CLARA VALLEY WATER DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Change in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018
(Dollars in Thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	(18,954)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays, net of depreciation.

Capital Outlay		131,575
Depreciation		(10,929)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but they do not require the use of current financial resources. This amount represents the net change in accrued interest expense not reported in governmental funds.

(157)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

Certificates of participation repayment		8,660
Deferred amount on refunding		(63)
Net original issue premium		1,547

Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities.

5,396

Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:

Compensated absences		(220)
Change in net OPEB liability, deferred inflows and outflows		2,362
Change in net pension liability, deferred inflows and outflows		(7,970)
Interest from monies held in restricted bank accounts		(57)

Change in net position of governmental activities	\$	111,190
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See accompanying notes to basic financial statements

SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Position
Proprietary Funds
June 30, 2018
(Dollars in Thousands)

	Business-type Activities			Governmental
	Water	State Water	Total	Activities
	Enterprise Fund	Project Fund	Enterprise Funds	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments (Note 3)	\$ 184,601	\$ 12,938	\$ 197,539	\$ 36,109
Receivables:				
Accounts	36,833	11	36,844	-
Taxes	46	150	196	-
Deposits and other assets	9,809	-	9,809	100
Total current assets	231,289	13,099	244,388	36,209
Non current assets:				
Restricted cash and investments (Note 3)	212	-	212	-
Prepaid insurance on bond issuance	161	-	161	-
Capital assets (Note 6):				
Contract water rights, net	26,334	16,999	43,333	-
Depreciable, net	673,106	-	673,106	13,060
Nondepreciable	417,184	-	417,184	7,483
Total non current assets	1,116,997	16,999	1,133,996	20,543
Total assets	1,348,286	30,098	1,378,384	56,752
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	454	-	454	-
Deferred outflows of resources - pension activities	26,160	-	26,160	1,730
Deferred outflows of resources - OPEB	5,465	-	5,465	364
Total deferred outflows of resources	32,079	-	32,079	2,094
LIABILITIES				
Current liabilities:				
Accounts payable	19,962	321	20,283	511
Accrued liabilities	5,705	-	5,705	16
Commercial paper (Note 7)	75,800	-	75,800	-
Deposits payable	9,393	-	9,393	-
Unearned revenue	1,207	-	1,207	-
Claims payable (Note 13)	-	-	-	1,689
Bonds payable - current (Note 7)	12,296	-	12,296	-
Compensated absence	1,197	-	1,197	85
Total current liabilities	125,560	321	125,881	2,301
Non current liabilities:				
Bonds payable - net of discounts and premiums (note 7)	411,479	-	411,479	-
Claims payable (Note 13)	-	-	-	4,776
Compensated absence	3,971	-	3,971	281
Net pension liability (Note 11)	100,278	-	100,278	6,689
Other post employment benefits liability (Note 12)	33,814	-	33,814	2,255
Other debt	8,150	-	8,150	-
Total non current liabilities	557,692	-	557,692	14,001
Total liabilities	683,252	321	683,573	16,302
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension activities	3,320	-	3,320	252
Deferred inflows of resources - OPEB	1,019	-	1,019	68
Total deferred inflows of resources	4,339	-	4,339	320
NET POSITION (Note 10)				
Net investment in capital assets	609,515	16,999	626,514	20,543
Restricted:				
Debt service	212	-	212	-
San Felipe operations	3,040	-	3,040	-
State water projects	-	12,778	12,778	-
Rate stabilization	21,066	-	21,066	-
Advance water purification	1,906	-	1,906	-
Supplemental water supply	14,677	-	14,677	-
Drought reserve	5,000	-	5,000	-
Unrestricted	37,358	-	37,358	21,681
Total net position	\$ 692,774	\$ 29,777	\$ 722,551	\$ 42,224
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			8,744	
Net position of business-type activities			\$ 731,295	

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Operating revenues:				
Ground water production charges	\$ 97,483	\$ -	\$ 97,483	\$ -
Treated water charges	132,477	-	132,477	-
Surface and recycled water revenue	1,041	-	1,041	-
Charges for services	-	-	-	24,165
Other	4,217	-	4,217	-
Total operating revenues	235,218	-	235,218	24,165
Operating expenses:				
Sources of supply	76,272	28,772	105,044	-
Water treatment	37,772	-	37,772	-
Transmission and distribution:				
Raw water	15,197	-	15,197	-
Treated water	1,631	-	1,631	-
Administration and general	27,789	-	27,789	6,187
Equipment maintenance	-	-	-	7,415
Depreciation and amortization	28,499	944	29,443	2,393
Total operating expenses	187,160	29,716	216,876	15,995
Operating income (loss)	48,058	(29,716)	18,342	8,170
Nonoperating revenues (expenses):				
Property taxes (Note 8)	7,088	30,329	37,417	-
Investment income (Note 5)	1,267	-	1,267	229
Operating grants	4,396	-	4,396	-
Rental income	115	-	115	-
Other	884	1,212	2,096	393
Interest and fiscal agent fees	(16,050)	-	(16,050)	-
Net nonoperating revenues (expenses)	(2,300)	31,541	29,241	622
Income before capital contributions and transfers	45,758	1,825	47,583	8,792
Capital contributions (Note 4)	4,350	-	4,350	-
Transfers in (Note 14)	3,252	-	3,252	157
Transfers out (Note 14)	(11,477)	-	(11,477)	-
Change in net position	41,883	1,825	43,708	8,949
Net position, beginning of year	682,698	27,952	710,650	35,396
Prior period adjustments				
Beginning OPEB liability and deferrals (Note 15)	(31,807)	-	(31,807)	(2,121)
Net position, beginning of year, restated	650,891	27,952	678,843	33,275
Net position, end of year	\$ 692,774	\$ 29,777	\$ 722,551	\$ 42,224

Reconciliation of the Statement of Revenues, Expenses and Change in Net Position to the Statement of Activities:

Amounts reported as business-type activities in the statement of activities are different because:

Net change in net position - enterprise funds	\$ 43,708
Adjustment to the net effect of the current year activity between the internal service funds and the enterprise funds	3,553
Change in net position of business-type activities	<u>\$ 47,261</u>

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2018

(Dollars in Thousands)

	Business-type Activities			Governmental Activities
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:				
Receipts from customers and users	\$ 233,467	\$ (2)	\$ 233,465	\$ 24,275
Payments to suppliers	(114,454)	(28,451)	(142,905)	(12,266)
Payments to employees	(42,480)	-	(42,480)	(2,415)
Receipt/(payment) for interfund services provided/(used)	4,859	-	4,859	-
Net cash provided by (used for) operating activities	81,392	(28,453)	52,939	9,594
Cash flows from noncapital financing activities:				
Property taxes received	7,119	30,489	37,608	-
Operating grant	4,396	-	4,396	-
Well permits, refunds and adjustments	884	1,212	2,096	338
Transfers in from other funds	3,252	-	3,252	157
Transfers out to other funds	(11,477)	-	(11,477)	-
Net cash provided by noncapital financing activities	4,174	31,701	35,875	495
Cash flows from capital and related financing activities:				
Payment on COP/revenue bonds	(9,773)	-	(9,773)	-
Issuance of commercial papers	51,570	-	51,570	-
Capital grants	4,350	-	4,350	-
Interest and fiscal agent fees paid	(17,522)	-	(17,522)	-
Payments for contract water rights	(9,354)	-	(9,354)	-
Acquisition and construction of capital assets	(92,005)	-	(92,005)	(3,447)
Net cash provided by/(used for) capital and related financing activities	(72,734)	-	(72,734)	(3,447)
Cash flows from investing activities:				
Proceeds from sale of investments	23,824	-	23,824	-
Rental income received	115	-	115	-
Interest received on cash and investments	1,267	-	1,267	229
Net cash provided by/(used for) investing activities	25,206	-	25,206	229
Net increase (decrease) in cash and cash equivalents	38,038	3,248	41,286	6,871
Cash and cash equivalents, beginning of year	146,563	9,690	156,253	29,238
Cash and cash equivalents, end of year	\$ 184,601	\$ 12,938	\$ 197,539	\$ 36,109
Cash and cash equivalents are reported on the Statement of Net Position as follows:				
Cash and investments	\$ 184,601	\$ 12,938	\$ 197,539	\$ 36,109
Restricted cash and investments	212	-	212	-
Less cash and investments not meeting the definition of cash equivalents	(212)	-	(212)	-
Cash and cash equivalents, end of year	\$ 184,601	\$ 12,938	\$ 197,539	\$ 36,109
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 48,058	\$ (29,716)	\$ 18,342	\$ 8,170
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation, amortization and asset deletion	28,478	944	29,422	627
Change in operating assets and liabilities:				
(Increase)/decrease in deposits and other assets	(1,300)	-	(1,300)	4
(Increase)/decrease in accounts receivable	(1,751)	(2)	(1,753)	110
Increase/(decrease) in accounts payable	1,362	321	1,683	(296)
Increase/(decrease) in accrued liabilities	(1,412)	-	(1,412)	(14)
Increase/(decrease) in compensated absences	179	-	179	12
Increase/(decrease) in deposits payable	1,319	-	1,319	-
Increase/(decrease) in litigation claims	-	-	-	799
Increase/(decrease) in other post employment benefits payable	2,523	-	2,523	168
Increase/(decrease) in deferred inflows/outflow of resources	(10,458)	-	(10,458)	(706)
Increase/(decrease) in pension liabilities	10,716	-	10,716	720
Increase/(decrease) in payable to Semitropic	3,678	-	3,678	-
Net cash provided (used) by operating activities	\$ 81,392	\$ (28,453)	\$ 52,939	\$ 9,594
Noncash investing, capital, and financing activity:				
Non cash acquisition/disposition of capital assets	\$ -	\$ -	\$ -	\$ 56

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Statement of Assets and Liabilities

Agency Fund

June 30, 2018

(Dollars in Thousands)

ASSETS

Cash and investments (Note 3)	<u>\$ 185</u>
Total assets	<u><u>185</u></u>

LIABILITIES

Deposits payable	<u>185</u>
Total liabilities	<u><u>\$ 185</u></u>

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

Santa Clara Valley Water District (District) is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. The District encompasses all of Santa Clara County.

The District is governed by a seven-member Board of Directors (District Board). Each member is elected from equally divided districts drawn through a formal process. The term of office of a director is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the board of the District by requiring the board to transition to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. The board also would be required to adopt a resolution establishing boundaries of the seven electoral districts. On May 14, 2010, the Board of Directors adopted a resolution that officially set the boundaries of the seven electoral districts. In November 2010, two directors were elected to represent the new electoral districts constituting a new board of seven members. As required by state law, the District must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board of Directors adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

The District has broad powers relating to all aspects of flood control and storm waters within the District, whether or not such waters have their sources within the District. It is also authorized to store and distribute water for use within its jurisdictional boundaries and authorized to provide sufficient water for present or future beneficial use of the lands and inhabitants of the District. The District acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. The District also directly supports the caring for the environment and the community through careful stewardship.

As required by generally accepted accounting principles (GAAP) in the United States of America, the accompanying basic financial statements present the District and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational and financial relationship with the District.

(b) Blended Component Unit

The Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) was established on December 16, 1987 for the purpose of providing assistance to the District in financing the acquisition, construction and improvement of public buildings, works and equipment for the District. Although legally separate from the District, the Corporation is reported as if it were part of the primary government because its sole purpose is to provide financing to the District under the debt issuance documents of the District, and its governing board is the District's governing board. The operations of the Corporation are accounted for in the debt service and capital project funds.

Separate financial statements are not issued for the Corporation.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (District) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from the business-type activity, which rely to a significant extent on fees charged to external parties.

Certain eliminations have been made in regards to interfund activities. All internal balances in the statement of net position have been eliminated except those representing balances between the government activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated. However, transactions between the governmental and business-type activities have not been eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activity of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted net position is available, restricted resources are used for qualified expenses before any unrestricted resources are spent.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including agency funds and the blended component unit. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented.

The District reports the following Governmental Funds:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental functions of the District that are not accounted for through other funds.

The *Special Revenue Type Funds* are used to account for specific revenue sources for which expenditures are restricted by law or regulation or committed by board resolutions to finance particular watershed or safe, clean and natural flood protection functions or activities of the District. The District has the following special revenue type funds:

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

- The *Watershed and Stream Stewardship Fund* is funded by the District's one percent property tax allocation and benefit assessments and used to protect, restore, or enhance the watersheds, streams and natural resources therein. Starting from fiscal year 2008-09, this fund was redefined to consolidate all watershed stewardship activities from a portion of the District's ad valorem property tax allocation.

The Watershed and Stream Stewardship Fund includes the following watershed activities that were based on their geographic boundaries:

- ♦ The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Los Altos Hills, Mountain View, and portions of Cupertino.
 - ♦ The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.
 - ♦ The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamitos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.
 - ♦ The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.
- The *Safe, Clean Water & Natural Flood Protection Program* is used to account for the countywide special parcel tax approved by voters on 11/6/2012, with a sunset date of 6/30/2028. This program replaces the Clean, Safe Creeks and Natural Flood Protection Plan that was approved by voters in November 2000.
 - The *Capital Project Type Funds* are used to account for COP proceeds used for the construction of major capital projects with their respective watersheds. The COP Construction Fund is the District's sole capital project type fund.
 - The *Debt Service Type Funds* are used to account for monies being held for reserve requirements and arbitrage rebate for the District's debt payments. The COP Debt Service Fund is the District's sole debt service type fund.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

The District reports the following Proprietary Funds:

- The *Water Enterprise Fund* accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.
- The *State Water Project Fund* accounts for all revenues and costs associated with the State Water Project.
- The *Internal Service Funds* account for the financing of goods or services provided by one department or agency of the District to other departments or agencies on a cost-reimbursement basis.
 - The *Equipment Fund* accounts for the maintenance and operation of the District's vehicle fleet, heavy construction, and information system equipment.
 - The *Risk Management Fund* accounts for the monies set aside to pay for all claims, judgments, and premium cost.
 - The *Information Technology Fund* accounts for the replacement and maintenance of district-wide capital related information technology projects.

The District reports *Agency Funds* (Fiduciary Fund type) to account for assets held by the District as an agent for private organizations and/or other governments.

- The *Deposit Fund* is used to account for the collection and payment of funds held in trust for specific purposes.

(b) Basis of Accounting

The 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. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

Proprietary funds are reported using the economic resource measurement focus and the accrual basis of accounting and distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water enterprise fund is the sale of water to outside customers and of the District's internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise funds 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 funds *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 nonexchange transactions or ancillary activities.

Agency funds are used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Agency funds do not have a measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

(c) Cash and Investments

While maintaining safety and liquidity, the District maximizes its investment return by pooling its available cash for investment purposes. Interest earnings are apportioned among funds based upon the average monthly cash balance of each fund and are allocated to each fund on a monthly basis.

The District reported investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, and all other investments at fair value. The fair value of investments is based on current market prices.

For purposes of the Statement of Cash Flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased (including restricted investments), and their equity in the cash and investment pool to be cash equivalents.

(d) Inventory

Proprietary fund inventory consists of materials and supplies held for consumption. The cost of all inventory acquired is recorded as an expense at the time of purchase. At the end of the accounting period, the inventory values of materials and supplies on hand are determined using a current cost method which approximates market value. For financial statement purposes inventories are presented under deposits and other assets.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(e) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition cost on the date contributed. Capital assets of governmental activities include pipelines, channel linings, floodwalls, levees, bridge flood proofing, box culverts and re-vegetation. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Water treatment facilities	50 Years
Buildings, structures, and trailers	25 - 50 Years
Flood control projects	30 - 100 Years
Dams, structures, and improvements	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

(f) Amortization of Contract Water Rights

The District has contracted with the State for water deliveries from the State Water Project through calendar year 2035. A portion of the payments under this contract represent reimbursement of capital costs for transportation facilities (the capital cost component). The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(g) Amortization of Water Banking Rights

The District has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides the District a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Water Enterprise Fund has capitalized the cost of the program and amortizes its cost over the 40 year entitlement period using the straight-line method.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(h) Amortization of Water Delivery Rights

The District has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(i) Receivables

Receivables include amounts due from water utility customers as well as amounts due for property taxes and interest on investments. All receivables are shown net of an allowance for doubtful accounts of \$365 thousand.

(j) Accrued Vacation and Sick Leave Pay

It is the policy of the District to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net position.

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon retirement, up to 480 hours of accrued sick leave shall be paid to the eligible employee at the rate of 50% of the equivalent cash value. Upon resignation with ten or more years of service, or upon separation by layoff regardless of service, up to 480 hours of accrued sick leave shall be paid off at the rate of 25% of the cash value.

(k) Bond Premiums, Discounts and Issuance Costs

Water Enterprise and Watershed debt premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Refunding differences associated with debt refinancing are reported as deferred outflows or inflows of resources and amortized over the life of the bonds. Issuance costs are recorded as an expense of the current period.

On the statement of net position and the statement of activities, the premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt. Debt payable are reported net of the applicable bond premiums or discounts. Prepaid insurance associated with the issuance of debts are reported as prepaid expenses.

(l) Accounting for Encumbrances

The District employs encumbrance accounting as a significant aspect of budgetary control. Under encumbrance accounting, purchase orders, contracts and other commitments for expenditure of

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

funds are recorded as assignment of fund balance since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

(m) Net position

The District's fund net position is classified based primarily to the extent to which the District is bound to observe constraints imposed upon the use of the resources. When both restricted and unrestricted resources are available for expenses, the District expends the restricted funds and then the unrestricted funds.

(n) Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(o) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017

(p) Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB's Plan's fiduciary net position have been determined on the same basis as reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(q) Fair Value Measurement

The District has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and Level 3 inputs are significant unobservable inputs.

(r) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

(s) New Pronouncements

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the District's financial reporting process. Current and future new standards which may impact the District include the following:

Current Accounting Pronouncements:

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement has been implemented for Fiscal Year 2017-18.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

for the reporting periods beginning after December 15, 2016, or Fiscal Year 2017-18. This Statement is not applicable to the District.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and Postemployment benefits (pensions and other postemployment benefits (OPEB)). The Statement is effective for the reporting periods beginning after June 15, 2017, or Fiscal Year 2017-18. The District has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or Fiscal Year 2017-18. This Statement is not applicable to the District.

Future Accounting Pronouncements:

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or Fiscal Year 2018-19. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or Fiscal Year 2019-20. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or Fiscal Year 2020-21. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018, or Fiscal Year 2018-19. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or Fiscal Year 2020-21. The District has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objective of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or Fiscal Year 2019-20. The District has not determined the impact of this pronouncement on the financial statements.

(3) CASH AND INVESTMENTS

Total District cash and investments reported on the financial statements at June 30, 2018 are as follows (in thousands):

Statement of Net Position:	
Cash and investments	\$ 599,683
Restricted cash and investments	12,126
Statement of Fiduciary Net Position:	
Cash and investments	185
	<u>\$ 611,994</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Investments

At June 30, 2018, cash and investments based on fair value consist of the following (in thousands):

U.S. Government Agencies	\$ 414,135
U.S. Treasury Obligations	34,045
Medium Term Notes	13,384
Local Agency Investment Fund	64,033
Mutual Funds	61
Supranational Obligations	14,796
Municipal Bonds	18,076
Negotiable Certificates of Deposit	1,420
Money Market Funds	40,524
Total Investments	<u>600,474</u>
Carrying amount of cash	11,520
Total Cash and Investments	<u><u>\$ 611,994</u></u>

As of June 30, 2018, the fair value of the District's investment in the State investment pool (LAIF) is \$64 million in non-restricted cash. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The District is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in LAIF. The pool is not registered with the SEC.

Authorized Investments by the District

The District's Investment Policy and the California Government Code allow the District to invest in the following types of investments, provided the credit ratings of the issuers are acceptable to the District. The following items also identify certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This list does not address the District's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy, when more restrictive.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	(Exempt from disclosure)	None	None
U.S. Government Agency Issues (A)	5 years	(Exempt from disclosure)	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Nonnegotiable Certificates of Deposit	5 years	Satisfactory CRA	5%	\$250,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	5 years	AA-	15%	1.8%
Municipal Obligations	5 years	AA-	15%	1.8%
California Local Agency Investment Fund (B)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	- -
Supranational Obligations	5 years	AA	15%	1.8%

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America and the Tennessee Valley Authority.

(B) LAIF will accept no more than \$65 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of the District's revenue bond resolutions and Installment Purchase Agreement for the 2007B, 2012A, 2016C, 2016D, and 2017A Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, and 2017A, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

As of June 30, 2018, the amount invested in assets held by fiscal agent amounted to \$6.3 million for certificates of participation and \$56.4 thousand for revenue bonds and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

The District has construction and acquisition funds from the 2017A Certificates of Participation (COP) which is used to pay for the capital projects on flood control and watershed improvements authorized by the COP indenture. At June 30, 2018, the balance of this fund is \$5.5 million.

The District has also issued commercial paper to provide for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

indebtedness of the District. At June 30, 2018, the total balance of the taxable and the tax-exempt commercial paper certificate accounts is \$149 thousand. Both account balances were cash transfers from the District to fiscal agent to fund maturing interest payments on commercial papers outstanding.

Restricted Cash and Investments for Watershed Management Projects

The District has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements, the District is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2018, the District's restricted deposits held in escrow for construction of the Guadalupe Watershed project amounted to \$77 thousand.

Authorized Investments by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in instruments which, at the time of such investment, are legal investments under the laws of the State of California, District ordinances, policies, and bond indentures. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations (A)	N/A	N/A
U.S. Agency Securities (B)	N/A	N/A
State Obligations (C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, and bankers acceptances	365 days	A-1
FDIC Insured Deposit (D)	N/A	N/A
Money Market Funds	N/A	AAA
Collateralized Repurchase Agreements (E)	N/A	A-1
Investment Agreements (F)	N/A	AA-
Investment Approved in Writing by the Certificate Insurer (G)	N/A	N/A
Local Agency Investment Fund of the State of CA	N/A	N/A
Supranational Obligations	N/A	AA

(A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

(B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMA's"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA's"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P.

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMC's with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

(F) Investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P.

(G) Any investment approved in writing by the Certificate Insurer.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Interest Rate Risk

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair value of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the District's investments by maturity or earliest call date (in thousands):

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	\$ 304,665	\$ 124,642	\$ 111,352	\$ 68,671
U.S. Government Agencies - Callable	109,470	2,970	34,432	72,068
U.S. Treasury Obligations	34,045	20,992	2,942	10,111
Medium Term Notes	8,524	1,981	1,557	4,986
Medium Term Notes - Callable	4,860	-	-	4,860
Local Agency Investment Fund	64,033	64,033	-	-
Mutual Funds	61	61	-	-
Supranational Obligations	12,820	2,991	2,955	6,874
Supranational Obligations - Callable	1,976			1,976
Municipal Bonds	18,076		3,251	14,825
Negotiable Certificates of Deposit	1,420	718	465	237
Money Market Funds	40,524	40,524	-	-
Total Investments	<u>\$ 600,474</u>	<u>\$ 258,912</u>	<u>\$ 156,954</u>	<u>\$ 184,608</u>

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The following table shows the minimum rating required by the California Government Code, the District's investment policy, or debt agreements and the actual rating as of June 30, 2018 for each investment type as provided by Standard and Poor's (in thousands):

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end				Not Rated
				AAA	AA+	AA	AA-	
U.S. Government Agencies	\$ 414,135	AA-	\$ -	\$ -	\$ 414,135	\$ -	\$ -	\$ -
U.S. Treasury Obligations	34,045	AA-	34,045	-	-	-	-	-
Medium Term Notes	13,384	AA-	-	6,968	4,859	-	-	1,557
Local Agency Investment Fund	64,033	N/A	-	-	-	-	-	64,033
Mutual Funds	61	AAA	-	61	-	-	-	-
Supranational Obligations	14,796	AA	-	14,796	-	-	-	-
Municipal Bonds	18,076	AA-	-	5,355	3,523	7,725	1,473	-
Negotiable Certificates of Deposit	1,420	AA-	-	-	-	-	-	1,420
Money Market Funds	40,524	N/A	-	-	-	-	-	40,524
Total Investments	<u>\$ 600,474</u>		<u>\$ 34,045</u>	<u>\$ 27,180</u>	<u>\$ 422,517</u>	<u>\$ 7,725</u>	<u>\$ 1,473</u>	<u>\$ 107,534</u>

Concentration of Credit Risk

The District's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and District investment policy, whichever is more restrictive. However, the District is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual District Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2018, those investments consisted of the following (in thousands):

Issuer	Investment Type	Reported Amount
Government-Wide		
Federal Home Loan Mortgage Corp.	U.S. Government Agency	\$ 84,428
Federal National Mortgage Association	U.S. Government Agency	86,929
Federal Home Loan Bank	U.S. Government Agency	148,228
Federal Farm Credit Bank	U.S. Government Agency	94,550

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of public agencies' cash on deposit. All of the District's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in trust department of the financial institutions but not in the District's name.

Fair Value Measurement and Application

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as shown below:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and
- Level 3: Unobservable inputs (not applicable to the District).

Shown below is a summary of the fair value hierarchy of the District's investment at fair value on June 30, 2018 (in thousands):

	6/30/2018	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U.S. Government Agencies	\$ 414,135	\$ 414,135	\$ -	\$ -
U.S. Treasury Obligations	34,045	34,045	-	-
Medium Term Notes	13,384	-	13,384	-
Mutual Funds	61	-	61	-
Supranational Obligations	14,796	-	14,796	-
Municipal Bonds	18,076	-	18,076	-
Negotiable Certificates of Deposit	1,420	-	1,420	-
Subtotal - Leveled Investments	<u>495,917</u>	<u>448,180</u>	<u>47,737</u>	<u>-</u>
Local Agency Investment Fund	64,033	-	-	64,033
Money Market Funds	40,524	-	-	40,524
Subtotal - Uncategorized	<u>104,557</u>	<u>-</u>	<u>-</u>	<u>104,557</u>
Total Investments	<u>\$ 600,474</u>	<u>\$ 448,180</u>	<u>\$ 47,737</u>	<u>\$ 104,557</u>

Deposits and withdrawals in the State Investment Pool are made on the basis of \$1 and are not using fair value. Accordingly, the District's investments of \$64 million in LAIF at June 30, 2018 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

(4) REIMBURSEMENT OF CAPITAL COSTS

The District derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following page is a summary of such reimbursements in fiscal year 2018 (in thousands):

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

	Governmental Activities	Business-type Activity
Local Agencies:		
Association of Bay Area Governments	\$ -	\$ 966
City of East Palo Alto	840	-
City of Menlo Park	550	-
City of Mountain View	641	-
City of Palo Alto	267	
San Benito County Water District	-	1,518
San Francisco Public Utility	-	12
San Mateo County	1,430	-
State Agency:		
Department of Water Resources	42,688	1,849
Federal Agency		
US Bureau of Interior, Dept. of Reclamation	-	5
Total	<u>\$ 46,416</u>	<u>\$ 4,350</u>

(5) INVESTMENT INCOME

The District earns interest income from the investment of cash. Generally accepted accounting principles, as discussed in GASB 31, require reporting investment at fair value in the financial statements. Because of this requirement, interest income earned from investing activity during the current fiscal year is adjusted upwards or downwards to reflect the change in fair value of investment.

The following table represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted interest income at June 30, 2018 (in thousands)

	Interest as Reported	GASB 31 Fair Value Adjustment	Unadjusted Interest Income
Fund:			
General	\$ 20	\$ (53)	\$ 73
Watershed & Stream Steward	729	(822)	1,551
Safe, Clean Water	1,296	(1,116)	2,412
COP Debt Service	94	-	95
COP Construction	166	-	165
Water Enterprise	1,268	(1,138)	2,406
Internal Service:			
Equipment	42	(14)	56
Risk Insurance	108	(86)	194
Information Technology	79	(106)	185
Total Interest	<u>\$ 3,802</u>	<u>\$ (3,335)</u>	<u>\$ 7,137</u>

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

6) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows (in thousands):

	Balance July 1, 2017	Additions	Deletions	Transfers / Reclassified	Balance June 30, 2018
Governmental Activities					
Nondepreciable capital assets:					
Land	\$ 164,847	\$ 24,966	\$ -	\$ -	\$ 189,813
Intangibles - easement	17,616	6,400	-	-	24,016
Construction in progress					
Governmental funds	429,209	100,121	-	(6,152)	523,178
Internal service funds	6,022	1,461	-	-	7,483
Total nondepreciable capital assets	<u>617,694</u>	<u>132,948</u>	<u>-</u>	<u>(6,152)</u>	<u>744,490</u>
Depreciable capital assets:					
Buildings	42,007	-	-	-	42,007
Structures and improvements	767,729	-	-	6,152	773,881
Equipment:					
Governmental funds	21,344	88	-	-	21,432
Internal service funds	26,119	3,856	(1,814)	-	28,161
Intangible Software	2,338	-	-	-	2,338
Total depreciable capital assets	<u>859,537</u>	<u>3,944</u>	<u>(1,814)</u>	<u>6,152</u>	<u>867,819</u>
Less accumulated depreciation and amortization					
Buildings	(13,530)	(861)	-	-	(14,391)
Structures and improvements	(119,227)	(8,991)	-	-	(128,218)
Equipment:					
Governmental funds	(18,510)	(609)	-	-	(19,119)
Internal service funds	(14,473)	(2,393)	1,765	-	(15,101)
Intangible - software	(1,148)	(468)	-	-	(1,616)
Total accumulated depreciation and amortization	<u>(166,888)</u>	<u>(13,322)</u>	<u>1,765</u>	<u>-</u>	<u>(178,445)</u>
Net depreciable capital assets	<u>692,649</u>	<u>(9,378)</u>	<u>(49)</u>	<u>6,152</u>	<u>689,374</u>
Total capital assets, net	<u>\$ 1,310,343</u>	<u>\$ 123,570</u>	<u>\$ (49)</u>	<u>\$ -</u>	<u>\$ 1,433,864</u>
Business-type activity					
Nondepreciable capital assets:					
Land	\$ 19,180	\$ -	\$ -	\$ -	\$ 19,180
Intangible - easement	162	-	-	-	162
Construction in progress	306,529	91,668	-	(355)	397,842
Total nondepreciable capital assets	<u>325,871</u>	<u>91,668</u>	<u>-</u>	<u>(355)</u>	<u>417,184</u>
Depreciable capital assets:					
Contract water and storage rights	197,597	8,764	-	-	206,361
Buildings	91,001	-	-	-	91,001
Structures and improvements	870,100	-	-	355	870,455
Equipment	27,660	357	-	(20)	27,997
Total depreciable capital assets	<u>1,186,358</u>	<u>9,121</u>	<u>-</u>	<u>335</u>	<u>1,195,814</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(151,840)	(11,188)	-	-	(163,028)
Buildings	(6,468)	(1,876)	-	-	(8,344)
Structures and improvements	(270,978)	(14,428)	-	-	(285,406)
Equipment	(21,254)	(1,363)	-	20	(22,597)
Total accumulated depreciation and amortization	<u>(450,540)</u>	<u>(28,855)</u>	<u>-</u>	<u>20</u>	<u>(479,375)</u>
Net depreciable capital assets	<u>735,818</u>	<u>(19,734)</u>	<u>-</u>	<u>355</u>	<u>716,439</u>
Total capital assets, net	<u>\$ 1,061,689</u>	<u>\$ 71,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,133,623</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

During fiscal year 2018, new construction in progress increased by \$100.1 million in the governmental activities. The breakdown of additions to the construction in progress was as follows: \$41.2 million to the watersheds, and \$58.9 million to the Safe, Clean Water & Natural Flood Protection Fund. There were 60 in progress and completed projects during the fiscal year with the major projects listed below (in millions):

- \$30.5 - Permanente Creek Bay – Foothill Clean Safe Creek
- \$29.3 - Berryessa Creek, Lower, Penitencia Phase 2
- \$9.8 - San Francisquito Early Implementation
- \$5.6 - Main/Madrone Pipeline Restoration
- \$5.1 - Lower Silver Creek - R4-6 North Babb to Cunningham
- \$1.9 - Lower Penitencia Creek Improvements
- \$1.7 - San Francisco Bay Shoreline Study Economic Impact Area Design and Partial Construction
- \$1.6 - Coyote Creek, Montague to I-280
- \$1.6 - Cunningham Flood Detention
- \$1.5 - Guadalupe River Upper, SPRR-BH 7-12
- \$1.5 - Upper Berryessa Creek Flood Risk Management Project
- \$1.5 - Salt Ponds A5-11 Restoration

New construction in progress amounted to \$91.7 million in the business-type activities. There were 49 in progress and completed projects during the fiscal year, with major projects listed below (in millions):

- \$31.7 - Rinconada Water Treatment Plant Reliability Improvement
- \$21.6 - 10-year Pipeline and Rehabilitation
- \$9.1 - Anderson Dam Seismic Retrofit
- \$4.4 - Calero Dam Seismic Retrofit Design and Construction
- \$3.9 - Pacheco Conduit Rehabilitation
- \$3.3 - Indirect Potable Reuse-Plan C
- \$3.2 - Penitencia Force Main Seismic Retrofit
- \$3.0 - Guadalupe Dam Seismic Retrofit Design and Construction
- \$2.0 - Rinconada Water Treatment Plant Facility Renewal Program Residual Management Modifications
- \$1.3 - Dam Safety Seismic Stability
- \$1.2 - Wolfe Road Recycled Water Facility

Capital asset depreciation and amortization incurred by the primary government for the current fiscal year are as follows (in thousands):

General government	\$ 1,960
Watershed and Stream Stewardship	8,478
Safe, clean water and natural flood protection	491
Capital assets held by the District's internal service funds are charged to the various functions based on their usage of assets.	<u>2,393</u>
Total depreciation expense – governmental activities	<u>\$13,322</u>

Total depreciation and amortization expense – business-type activity	
Water cost of production	<u>\$ 28,855</u>

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

(7) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the District Board of Directors authorized a commercial paper program. The commercial paper program allows the District to finance capital acquisitions while taking advantage of short term rates. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for the District.

On May 15, 2012, the District Board of Directors authorized the execution and delivery of certain agreements in connection with the District's commercial paper program in an aggregate principal amount not to exceed \$100 million.

On January 13, 2015, the District Board of Directors authorized an increase in the commercial paper program to an aggregate principal amount not to exceed \$150 million. The proceeds of the commercial paper may be used for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District.

In fiscal year 2016, a total of \$33.6 million of commercial paper was issued and the proceeds were used to reimburse the District for Water Utility capital project expenses incurred during the fiscal year. The District refunded \$148 million of outstanding commercial paper with long term bonds on March 30, 2016. As of June 30, 2016, all outstanding taxable and tax-exempt commercial paper were fully redeemed with proceeds from the Series 2016A and 2016B Refunding Revenue Bonds.

On December 13, 2016, the District Board of Directors authorized the execution and delivery of up to \$75 million of short-term revolving certificates (Revolver) pursuant to the Certificate Purchase and Reimbursement Agreement with Wells Fargo Bank, National Association. The Revolver has an initial term of three years expiring on January 17, 2020. Effective June 30, 2018, the District terminated its \$75 million revolving line of credit with Wells Fargo Bank without paying an early termination fee. The early termination reflects recent updates to the projected financing needs for the Safe, Clean Water (SCW) program and Water Utility Enterprise (WUE) projects, which show that the existing \$150 million commercial paper program capacity is sufficient to meet the financing needs without the Wells Fargo Bank's \$75 million line of credit. This termination will save the district a minimum of \$190,000 in annual banking fees effective FY 2018-19.

Commercial Paper Program	<u>Authorized</u>	<u>Outstanding Amount</u>
Beginning balance	\$ 225.0	\$ 24.2
Additions	-	81.6
Reductions	(75.0)	-
Ending balance	<u>\$ 150.0</u>	<u>\$ 105.8</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(b) Long-term liabilities

The District's long-term liabilities outstanding consisted of the following (in thousands):

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>
Governmental activities					
Certificates of participation					
2012A Certificates of participation	2024	3% - 5%	52,955	\$ 27,645	\$ 4,105
2017A Certificates of participation	2030	4% - 5%	59,390	54,640	4,610
Compensated absences				8,786	2,035
Claims payable				6,465	1,689
Net pension liability				129,929	-
Other post employment liability				43,811	-
Bond premium				13,037	1,547
Total general long-term obligations				<u>\$ 284,313</u>	<u>\$ 13,986</u>
Business-type activity					
2006B Water revenue bond	2035	5.15%-5.31%	25,570	\$ 18,930	\$ 775
2016A Water revenue bond	2046	5.0%	106,315	106,315	-
2016B Water revenue bond	2046	4.154%-4.354%	75,215	75,215	-
2017A Water revenue bond	2037	3.4% - 3.7%	54,710	53,110	1,700
2007B Water revenue COP bond	2037	5.55%-floating	53,730	39,370	1,390
2016C Water revenue COP bond	2029	4.0% - 5.0%	43,075	41,055	3,010
2016D Water revenue COP bond	2029	1.567%-3.679%	54,970	52,340	3,915
Bond discount				(147)	(8)
Bond premium				37,587	1,514
Compensated absences				5,168	1,197
Net pension liability				100,278	-
Other post employment liability				33,814	-
Semitropic water banking agreement	2035		46,900	8,150	-
Total enterprise funds debt				<u>\$ 571,185</u>	<u>\$ 13,493</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

The following is a summary of changes in long-term liabilities as of June 30, 2018 (in thousands):

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Due Within One Year
Governmental activities:					
2012A COP	\$ 31,555	\$ -	\$ (3,910)	\$ 27,645	\$ 4,105
2017A COP	59,390	-	(4,750)	54,640	4,610
Compensated absences	8,555	5,541	(5,310)	8,786	2,035
Claims payable	5,666	799	-	6,465	1,689
Net pension liability	113,654	16,726	(451)	129,929	451
Other post employment benefits	43,941	2,288	(2,418)	43,811	2,418
Premium on refunded debt	14,584	-	(1,547)	13,037	1,547
Total governmental activities long-term liabilities	<u>\$ 277,345</u>	<u>\$ 25,354</u>	<u>\$ (18,386)</u>	<u>\$ 284,313</u>	<u>\$ 16,855</u>
Business-type activity:					
2006B revenue bonds	\$ 19,670	\$ -	\$ (740)	\$ 18,930	\$ 775
2016A revenue bonds	106,315	-	-	106,315	-
2016B revenue bonds	75,215	-	-	75,215	-
2017A revenue bonds	54,710	-	(1,600)	53,110	1,700
2007B COP revenue bonds	40,700	-	(1,330)	39,370	1,390
2016C COP revenue bonds	43,075	-	(2,020)	41,055	3,010
2016D COP revenue bonds	54,970	-	(2,630)	52,340	3,915
Bond discount on refunding	(155)	-	8	(147)	(8)
Premium on debt issuance	39,101	-	(1,514)	37,587	1,514
Compensated absences	4,990	4,277	(4,099)	5,168	1,197
Net pension liability	89,563	28,274	(17,559)	100,278	17,559
Other post employment benefits	(516)	39,795	(5,465)	33,814	5,465
Semitropic water banking agreement	4,473	3,677	-	8,150	-
Total business-type activity long-term liabilities	<u>\$ 532,111</u>	<u>\$ 76,023</u>	<u>\$ (36,949)</u>	<u>\$ 571,185</u>	<u>\$ 36,517</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

The aggregate maturities of long-term debt are as follows (in thousands):

		<u>Governmental activities</u>		<u>Business-type activity</u>	
	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest and amortization</u>
Bonds payable	2019	\$ 8,715	\$ 3,922	\$ 10,790	\$ 17,581
	2020	8,075	3,486	11,380	17,344
	2021	8,485	3,082	11,850	16,888
	2022	8,860	2,704	12,340	16,409
	2023	9,250	2,308	12,870	15,899
	2024 - 2028	28,190	6,408	73,290	70,751
	2029 - 2033	10,710	810	84,470	52,510
	2034 - 2038	-	-	73,005	32,177
	2039 - 2043	-	-	56,060	17,410
	2044 - 2048	-	-	40,280	3,798
Total bonds payable requirements		<u>\$ 82,285</u>	<u>\$ 22,720</u>	<u>\$ 386,335</u>	<u>\$ 260,767</u>
Add: unamortized premium on issuance		13,037		37,587	
Less: unamortized discount on refunding		-		(147)	
Add: compensated absences		8,786		5,168	
Add: claims payable		6,465		-	
Add: other post employment benefits		43,811		33,814	
Add: net pension liability		129,929		100,278	
Add: semitropic water banking agreement		<u>-</u>		<u>8,150</u>	
Total principal outstanding at June 30, 2018		<u>\$ 284,313</u>		<u>\$ 571,185</u>	

Governmental Activities

The following provides a brief description of the District's debt for governmental activities outstanding as of June 30, 2018:

2012A Certificates of Participation

In November 2012, the District issued \$52,955,000 of Refunding and Improvement Certificates of Participation, Series 2012A. The proceeds of 2012A Certificates of Participation were used to: (1) refinance \$52,360,000 of the 2003A Certificates of Participation; (2) finance the cost of certain flood control improvements; (3) fund a reserve fund; and (4) pay the costs of issuing the 2012A Certificates. The 2012A Certificates are payable from the 1994 Installment Payments, which are payable from, and are secured by a pledge of and lien on, the District Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the District Board on June 23, 1994.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

2017A Certificates of Participation

In March 2017, the District issued \$59,390,000 of Refunding and Improvement Certificates of Participation, Series 2017A. The proceeds of the 2017A Certificates of Participation were used to: (1) refinance the \$5,270,000 outstanding balance of the 2004A Certificates of Participation; (2) refinance the \$54,215,000 outstanding balance of the 2007A Certificates of Participation; (3) finance the cost of certain flood control improvements; and (4) pay the costs of issuing the 2017A Certificates. The 2017A Certificates are payable from the 1994 and 1995 Installment Payments, which are payable from, and are secured by a pledge of and lien on, the district Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the District Board on June 23, 1994.

Claims Payable

The District is self-insured and reports all its risk management activities in its Risk Management Internal Service Fund. Detailed information and calculation of the claims payable account balance are explained in Note 13, Risk Management.

Business-type Activity

The following provides a brief description of the District's debt for business-type activity outstanding as of June 30, 2018:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, the District issued \$99,835,000 of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of \$57,415,000 of the 2006A and 2006B Bonds were used to refinance \$55,265,000 of the remaining 2000A and 2000B and the proceeds of \$42,420,000 of 2006A and 2006B were used to repay approximately \$40,900,000 of commercial paper notes. In March 2016, the District issued Series 2016A Water System Refunding Revenue Bonds to refund all 2006A outstanding principal.

2016A/B Water Systems Refunding Revenue Bonds

In March 2016, the District issued \$181,530,000 of Water Systems Refunding Revenue Bonds comprising of Series 2016A for \$106,315,000 and Taxable Series B for \$75,215,000, pursuant to the Water Utility Parity System Master Resolution (16-10). Proceeds of the 2016A Revenue Bonds, along with the original issue premium, were used to refinance all the currently outstanding Water Utility System Refunding Revenue Bonds Series 2006A and repay \$73,040,000 of outstanding tax-exempt commercial paper notes. Proceeds of the 2016B Revenue Bonds were used to repay \$75,000,000 of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of the District to pay principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on the District's Water Utility System Revenues.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

2017A Water System Utility Refunding Revenue Bonds

In May 2017, the District issued \$54,710,000 of Water Systems Refunding Revenue Bonds to refund the \$64.75 million outstanding balance of the Water Utility System Revenue Certificates of Participation Series 2007A and pay costs of issuance of the 2017A Bonds. The obligation of the District to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on the District's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10) approved by the Board on February 23, 2016, as amended.

2007B Water Utility Revenue Certificates of Participation

In October 2007, the District issued \$131,000,000 of Water Utility Revenue Certificates of Participation Bonds, Series 2007A and Taxable Series 2007B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of the 2007A and 2007B bonds were used to finance capital construction projects in the Water Utility Enterprise. The District funded the 2007A Debt Reserve Fund by purchasing a surety. The 2007A issuance was \$77,270,000 fixed rate bonds with a 30 year maturity. The 2007B issuance of \$53,730,000 are floating rate notes based on the three month LIBOR rate plus 32 basis points with a 30 year maturity. The District has pledged its net water utility revenues to secure the quarterly debt service payments for the 2007B issuance.

2016C/D Water Utility Revenue Certificates of Participation

In March 2016, the District issued \$98,045,000 of Water Utility Systems Improvement Projects Revenue Certification of Participation Bonds Series 2016 for \$43,075,000 and Taxable Series 2016D for \$54,970,000, pursuant to the Water Utility Parity System Master Resolution (16-10). Proceeds of the 2016C/D bonds, along with the original issue premium will be used to finance capital construction projects in the Water Utility Enterprise and costs of issuance.

Semitropic Water Banking Agreement

In December 1995, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2018, the District has \$8.2 million outstanding liability related to water storage and banking rights.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized and are charged to the different funds as part of the direct benefit rate. The compensated absences liability for the year is recognized in the District's various enterprise funds and on the governmental activities column in the statement of net position.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Compliance with Bond Covenants

Resolutions associated with the District's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. The District believes it is in compliance with all significant covenants, limitations, and restrictions.

Revenues Pledged

The District has pledged future flood control system revenues to repay \$82.3 million in long-term debt outstanding as of June 30, 2018, that was issued to finance the cost of flood control improvements. The certificates of participation (COPs) are payable from installment payments that are secured by flood control system revenues and are payable through fiscal years 2024 (2012A) and 2030 (2017A). The total principal and interest remaining to be paid on the combined debt is \$105 million. A ten-year comparison of flood control system revenues to related debt service titled "Flood Control System Historical Operating Results – Combined Statements of Revenues and Debt Service Coverage – Last Ten Fiscal Years" can be found in the Statistical Section.

The District has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay \$386.3 million in long-term debt outstanding as of June 30, 2018, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2046. Total principal outstanding and interest costs remaining to be paid on the combined debt is \$647.1 million.

Additionally, \$105.8 million in commercial paper certificates was outstanding as of June 30, 2018 through the District's \$150 million commercial paper program. The commercial paper certificates are secured by a \$150 million letter of credit issued by MUFG Bank, Ltd. and, to the extent that proceeds from draws on the bank letter of credit are not sufficient, tax and revenue anticipation notes issued by the District to the District's Public Facilities Financing Corporation. The obligation of the District to make payments on the notes is a general obligation of the District. The District has additionally pledged net water utility system revenues, on a subordinate basis to long-term debt, to payments on the notes. A ten-year comparison net water utility system revenues to related debt service titled "Revenue Bond Coverage – Last Ten Fiscal Years" can be found in the Statistical Section.

(8) PROPERTY TAXES AND BENEFIT ASSESSMENTS

The District derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of two categories: (1) a 1 percent tax allocation; and (2) voter approved levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks & Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

In November 2012, the voters overwhelmingly approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax. The Safe, Clean Water program builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

by the voters in 2000. The Safe, Clean Water program replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The Safe, Clean Water special parcel tax will provide an estimated total of \$723 million of revenue for operations and capital projects. The program will be funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2018, the budget includes \$42.5 million of special parcel tax for this program.

Property tax and benefit assessment revenues recorded for the year ended June 30, 2018 are as follows (in thousands):

	General Fund	Special Revenue Funds	Water Enterprise Fund
Property taxes:			
1% tax allocation	\$ 7,865	\$ 79,538	\$ 7,088
Special parcel tax	-	42,488	-
Voter approved indebtedness:			
State water	-	-	30,329
Total taxes	7,865	122,026	37,417
Benefit assessments	-	14,774	-
Total property taxes and benefit assessments	<u>\$ 7,865</u>	<u>\$ 136,800</u>	<u>\$ 37,417</u>

The County is responsible for the assessment, collection, and apportionment of property taxes for the District. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). The District is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

The District has elected to participate in the "Teeter Plan" offered by the County whereby the District receives 100 percent of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes.

(9) FUND BALANCES

In the fund financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned or unassigned based primarily to the extent to which the District is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- Non-spendable fund balance includes net resources that cannot be spent because they are either a) not spendable because of their form, or b) must be maintained intact pursuant to legal or contractual requirements.
- Restricted fund balance includes amounts that are subject to limitations imposed by either: a) creditors, grantors, contributors or laws and regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

- Committed fund balance includes spendable resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the District Board, through adopted resolutions. Those constraints remain binding unless the District Board removes or changes in the same manner to previously commit those resources. These District Board's actions must occur prior to June 30th of the applicable fiscal year.
- Assigned fund balance includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The intent can be established or changed at the discretion of the District Board, or an official designated for that purpose, the Chief Executive Officer, in accordance with the provisions of the Governance Policies of the Board, Policy No. EL-5, *Purchasing and Contracts*.
- Unassigned fund balance represents residual net resources that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

Spending Prioritization in Using Available Resources

When an expense is incurred for purposes for which both restricted resources and unrestricted resources fund balance are available, the District considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the District's flow assumption is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The various fund balances are established by actions of the Board of Directors and can be increased, reduced or eliminated by similar actions with the exception of encumbrances on the assigned fund balance, which can be reduced or eliminated without the action of the Board of Directors. The District's reserves amounts are reviewed annually to ensure compliance with the District's reserve policy. Changes to the restricted, committed and assigned reserves are presented to the Board of the Directors for review and approval.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Detailed schedule of fund balances as of June 30, 2018 is as follows (in thousands):

	General	Watershed & Stream Steward	Safe, Clean Water & Natural Flood Protection Program	COP Construction	COP Debt Service	Total Govern- mental Funds
Restricted Fund Balance:						
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 6,341	\$ 6,341
Debt Service Proceeds	-	-	-	5,496	-	5,496
SCW-Current Authorized Capital Projects	-	-	170,482	-	-	170,482
Total restricted fund balance	-	-	170,482	5,496	6,341	182,319
Committed Fund Balance:						
Operating & Capital	3,434	74,689	-	-	-	78,123
Current Authorized Capital Projects	500	38,984	-	-	-	39,484
Total committed fund balance	3,934	113,673	-	-	-	117,607
Assigned Fund Balance:						
Encumbrances	5,746	26,909	-	-	-	32,655
Total assigned fund balance	5,746	26,909	-	-	-	32,655
 Total fund balances	 \$ 9,680	 \$ 140,582	 \$ 170,482	 \$ 5,496	 \$ 6,341	 \$ 332,581

(10) NET POSITION

The proprietary funds financial statements utilize a net position presentation. Net position is categorized as follows: (1) invested capital assets (net of related debt), (2) restricted and (3) unrestricted.

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net position – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net position – This category represents net position of the District, not restricted for any project or other purpose.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Below is the detailed schedule of the proprietary funds' net position as of June 30, 2018
(in thousands):

	Water Enterprise Fund	State Projects Fund	Equipment Fund	Risk Management Fund	Information Technology Fund
Restricted Net Position					
San Felipe Emergency Reserve	\$ 3,040	\$ -	\$ -	\$ -	\$ -
Debt Service Reserve	212	-	-	-	-
Rate Stabilization	21,066	-	-	-	-
Advanced Water Purification Center	1,906	-	-	-	-
Supplemental Water Supply Reserve	14,677	-	-	-	-
Drought Reserve	5,000	-	-	-	-
State Water Project	-	12,778	-	-	-
Total restricted net position	<u>45,901</u>	<u>12,778</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unrestricted Net Position					
Operating & Capital	20,307	-	3,702	-	-
Currently Authorized Projects	42,010	-	-	-	11,464
Property Self-Insurance/Catastrophic	-	-	-	8,732	-
Encumbrances	83,708	-	433	100	1,778
Reserve for Restricted Assets	-	-	-	-	2,716
Net pension liability	(76,513)	-	(3,056)	(1,987)	(97)
Net other post employment benefit liability	(32,154)	-	(1,027)	(838)	(239)
Total unrestricted net position	<u>37,358</u>	<u>-</u>	<u>52</u>	<u>6,007</u>	<u>15,622</u>
Net investment in capital assets	<u>609,515</u>	<u>16,999</u>	<u>9,878</u>	<u>2</u>	<u>10,663</u>
Net Position	<u>\$ 692,774</u>	<u>\$ 29,777</u>	<u>\$ 9,930</u>	<u>\$ 6,009</u>	<u>\$ 26,285</u>

(11) EMPLOYEES' RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the agent multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and District's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

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 credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statutes and may be amended by the District's governing board.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Prior to	3/19/2012 to	On or after
Hire date	3/19/2012	12/31/2012	1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + .92%*	7.0% + 1.92%*	6.75%
Required employer contribution rates	9.985% plus \$11,525,000 prepayment for prior unfunded service cost		
* Member additional contribution towards District's CalPERS cost per negotiated agreement with the bargaining units			

Employees Covered – As of the most recent CalPERS annual valuation report, dated June 30, 2017, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	732
Active employees	743

Contributions

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

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

For the year ended June 30, 2018, contributions to the plan were \$19.7 million. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All funds with payroll charges contribute to the actuarially determined contribution.

Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 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, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return ⁽¹⁾	7.15%
Mortality rate table ⁽²⁾	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.
⁽¹⁾ Net of pension plan investment and administrative expenses; includes inflation	
⁽²⁾ 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.	

The actuarial methods and assumptions used for the June 30, 2016 valuation were derived from the 2014 experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under "Forms and Publications".

Discount Rate

In 2017, the discount rate was reduced from 7.65% to 7.15%. The updated discount rate will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contribution on time and as scheduled on all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Current Strategic Allocation	Real Return Years 1 – 10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

⁽¹⁾An expected inflation of 2.5% used for this period.

⁽²⁾An expected inflation of 3.0% used for this period.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Beginning Balance	\$ 711,593,432	\$ 508,377,503	\$ 203,215,929
Changes Recognized for the Measurement Period:			
Service Cost	15,752,291	-	15,752,291
Interest on Total Pension Liability	53,109,673	-	53,109,673
Changes of Assumptions	44,289,025	-	44,289,025
Difference between Expected and Actual Experience	(4,716,605)	-	(4,716,605)
Net Plan to Plan Resource Movement	-	370	(370)
Contribution from Employer	-	19,055,019	(19,055,019)
Contribution from Employees	-	6,624,798	(6,624,798)
Net Investment Income	-	56,514,065	56,514,065
Benefit Payments, including Refunds of Employee Contribution	(32,498,706)	(32,498,706)	-
Administrative expense	-	(750,585)	750,585
Net Changes	75,935,678	48,944,961	26,990,717
Ending Balance	\$ 787,529,110	\$ 557,322,464	\$ 230,206,646

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District, calculated using the current discount rate, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1%	Current Discount	Discount Rate +1%
	6.15%	7.15%	8.15%
Plan Net Pension Liability/(Assets)	\$ 337,530,299	\$ 230,206,646	\$ 141,463,542

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Pension Plan Fiduciary Net Position

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

Pension Expenses and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2018, the District recognized pension expense of \$33.2 million. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Pension contribution subsequent to measurement date	\$ 19,746,343	\$ -
Changes in assumptions	32,634,018	(2,543,134)
Differences between actual and expected experience	-	(5,017,601)
Net difference between projected and actual earnings on plan investments	7,367,346	-
Total	<u>\$ 59,747,707</u>	<u>\$ (7,560,735)</u>

\$19.7 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction from the net pension liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ending June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ 6,850,179
2020	18,256,516
2021	11,441,246
2022	(4,107,312)
Total	<u>\$ 32,440,629</u>

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

12) OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The District provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. The District must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Benefits Provided

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<u>Classified</u> Employee Association (AFSCME Local 101) – Engineers Society (IFPTE-Local 21) Professional Managers Association (IFPTE – Local 21)	Retired prior to July 1, 1988		Fixed amount of \$165 per month.
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree.
	Retired from July 1, 1990 or later and hired prior to December 30, 2006	10 years	100% medical premium for retiree.
		15 years	100% medical premium for retiree plus one eligible dependent.
	Retired from July 1, 1990 or later and hired between December 30, 2006 and March 1, 2007	10 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
		15 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
		20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Unclassified At Will	Retired prior to July 1, 1988		Fixed amount of \$165 per month.
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree.
	Retired from July 1, 1990 through June 18, 1995	10 years	100% medical premium for retiree.
		15 years	100% medical premium for retiree plus one eligible dependent.
	Retired from June 19, 1995 through October 21, 1996	10 years	100% medical premium for retiree.
		15 years	100% medical premium for retiree plus one eligible dependent.
		25 years	100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents.
	Retired from October 22, 1996 or later and hired prior to December 30, 2006	10 years	100% medical premium for retiree.
		15 years	100% medical, dental, and vision coverages for the retiree plus one eligible dependent.
		25 years	100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents.
	Hired on or after December 30, 2006 and prior to March 1, 2007	10 years	Medical coverage is provided for retiree. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
		15 years	Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<u>Unclassified</u> At Will	Hired on or after December 30, 2006 and prior to March 1, 2007	15 years (con't)	to active employees or retirees, whichever is less.
		25 years	Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
		20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retirees who are Medicare eligible must enroll themselves in Medicare when they reach the eligibility date for Medicare. Their Medicare eligible dependents who are enrolled in the District's health plan must also enroll in Medicare upon their eligibility date. The District reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

After an evaluation of the cost savings realized in implementing the Medicare enrollment plan since August 2007, the District decided to expand the Medicare enrollment requirement to all retirees and their eligible dependents that are enrolled in the District's medical plan. As of July 1, 2009, all Medicare eligible retirees and their eligible dependents were required to enroll in Medicare. The District reimburses the Medicare Part B penalty charged by the Social Security Administration to the retirees/dependents due to late enrollment.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

The District provides the unclassified group of retirees \$50,000 life insurance upon retirement with a five-year phase out in declining increments of \$10,000 per year after retirement.

Employees Covered – As of the most recent OPEB annual valuation report, dated June 30, 2017, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	711
Active employees	741

Contributions

On June 24, 2008, the District's Board of Directors adopted a resolution approving the agreement and election of the District to prefund OPEB through CalPERS under its California Employer's Retiree Benefit Trust (CERBT) Program. The Board of Directors approved the reallocation of \$17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years' funding, pursuant to the annual budget approved by the Board of Directors, was made at the beginning of each fiscal year through fiscal year 2016-17. On September 9, 2008, the District joined CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees' Retirement System, P. O. Box 942703, Sacramento, CA 94229-2703.

OPEB and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining groups. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's total contribution to the plan amounted to \$12.5 million. All funds with payroll charges contribute to the actuarially determined contribution.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Net OPEB Liability

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

Discount Rate	7.28%
Inflation	3%
Salary Increases	3.25%
Investment Rate of Return	7.28%
Mortality Rate	Derived from the CalPERS study of Miscellaneous Public Agency experience
Pre-retirement Turnover ⁽¹⁾	Derived from the CalPERS study of Miscellaneous Public Agency experience
Healthcare Trend Rate ⁽²⁾	6% grading to ultimate 4% for medical and flat 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 long-term, expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Strategy 1 Allocation	Real Return ⁽¹⁾
Global Equity	59.0%	5.98%
Fixed Income	25.0%	2.62%
Global Real Estate (REITs)	8.0%	5.00%
Treasury Inflation Protected Securities (TIPS)	5.0%	1.46%
Commodities	3.0%	2.87%

(1) These expected long term real rates of return come from a geometric representation of returns that assume a general inflation rate of 2.92%.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Discount Rate

The discount rate of 7.28% is the expected long-term rate of return on District assets using investment strategy #1 within the CERBT. The projected cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in OPEB Liability

The following table shows the changes in net OPEB liability recognized over the measurement period:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c) = (a) - (b)
Beginning balance	\$ 167,805,300	\$ 84,500,500	\$ 83,304,800
Changes Recognized for the Measurement Period:			
Service Cost	2,913,500	-	2,913,500
Interest Cost	12,017,600	-	12,017,600
Contributions	-	11,471,200	(11,471,200)
Benefit Payments	(8,471,200)	(8,471,200)	-
Non-Benefit Related Admin Expenses from Plan Trusts	-	(44,900)	44,900
Expected Investment Return	-	6,259,202	(6,259,202)
Investment Experience (Loss)/Gain	-	2,924,898	(2,924,898)
Net Changes within FY2017/18	6,459,900	12,139,200	(6,679,300)
Ending balance	\$ 174,265,200	\$ 96,639,700	\$ 77,625,500

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, calculated using the current discount rate, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1%	Current Discount	Discount Rate +1%
Net OPEB Liability	\$ 98,887,100	\$ 77,625,500	\$ 59,870,500

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District, if it were calculated using health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease	Current Rates	1% Increase
Net OPEB Liability	<u>\$ 58,681,800</u>	<u>\$ 77,625,500</u>	<u>\$ 100,460,700</u>

OPEB Plan Fiduciary Net Position

Detailed information about the District's OPEB plan fiduciary net position is available in separately issued CalPERS financial reports.

OPEB Expense and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2018, the District recognized OPEB credit of \$4.4 million. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contribution subsequent to measurement date	\$ 12,546,137	\$ -
Net difference between projected and actual earnings on plan investments	-	(2,339,918)
Total	<u>\$ 12,546,137</u>	<u>\$ (2,339,918)</u>

\$12.5 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction from the net OPEB liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year ending June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (584,980)
2020	(584,980)
2021	(584,980)
2022	(584,978)
Total	<u>\$ (2,339,918)</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(13) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District reports all of its risk management activities in its Risk Management Internal Service Fund.

The District's deductibles and maximum coverage are as follows (in thousands):

<u>Coverage Descriptions</u>	<u>Deductibles</u>	<u>Commercial Insurance Coverage</u>
General liability	\$2,000	\$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	300,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2018, the liability for self-insurance claims was \$6,465,000. This liability is the District's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Changes in the reported liability since June 30, 2018 are as follows (in thousands):

	<u>General Liability</u>	<u>Workers' Compensation</u>	<u>Total</u>
Claims payable at June 30, 2016	\$ 3,316	\$ 3,418	\$ 6,734
Current year premiums, incurred claims and changes in estimates	(278)	(406)	(684)
Claim payments	(51)	(333)	(384)
Claims payable at June 30, 2017	<u>2,987</u>	<u>2,679</u>	<u>5,666</u>
Current year premiums, incurred claims and changes in estimates	584	677	1,261
Claim payments	(84)	(378)	(462)
Claims payable at June 30, 2018	<u>\$ 3,487</u>	<u>\$ 2,978</u>	<u>\$ 6,465</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

(14) TRANSFERS IN AND OUT

Transfers are used to: 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) move debt proceeds held in the construction fund to the funds incurring the construction expense.

In the year ended June 30, 2018, the following transfers occurred between funds:

- \$99 thousand was transferred from the Water Enterprise Fund to the General Fund to support the drought emergency response project
- \$836 thousand was transferred from the Watershed and Stream Stewardship funds for small capital improvements and drought induced tree removal projects
- \$2.7 million was transferred from the individual Zone funds to the Watershed Fund for the benefit assessment collections
- \$3.5 million was transferred from the COP Construction Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to fund certain projects
- \$11.4 million was transferred from the Water Enterprise Fund to the Safe, Clean Water and Natural Flood Protection Program Fund for the Main and Madrone capital project
- \$12.6 million was transferred from the General and Watershed funds to the COP Debt Service Fund to pay debt service payments
- \$1.6 million was transferred each from the General Fund and Watershed Fund to the Water Enterprise Fund for the Open Space credit
- \$157 thousand was transferred from the General Fund to the Information Technology Fund to fund the Vena software

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Interfund transfers for the year ended June 30, 2018, is as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Water Enterprise	\$ 99
	Watershed and Stream Stewardship	836
Watershed & Stream Stewardship	Lower Peninsula Watershed	679
	West Valley Watershed	472
	Guadalupe Watershed	847
	Coyote Watershed	662
Safe, Clean Water Fund	COP Construction Fund	3,457
Safe, Clean Water Fund	Water Enterprise	11,378
COP Debt Service Fund	General Fund	471
	Lower Peninsula Watershed	3,351
	West Valley Watershed	1,814
	Guadalupe Watershed	3,692
	Coyote Watershed	3,249
Water Enterprise	General Fund	1,626
	Watershed & Stream Stewardship	1,626
Information Technology Fund	General Fund	157
Total interfund transfers		<u>\$ 34,416</u>

15) PRIOR PERIOD ADJUSTMENT

In fiscal year 2018, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Other Post Employment Benefits*, as of July 1, 2017. The impact of the implementation on the beginning net position is as follows:

<u>Net Position</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Beginning balance	\$ 1,472,691	\$ 715,841	\$ 2,188,532
Pre GASB75 OPEB asset close out	(656)	(516)	(1,172)
Deferred outflows of resources	6,475	4,997	11,472
GASB75 OPEB liability	(47,017)	(36,288)	(83,305)
Beginning balance, restated	<u>\$ 1,431,493</u>	<u>\$ 684,034</u>	<u>\$ 2,115,527</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

<u>Net Position</u>	Water Utility Fund	Internal Service Funds	Total
Beginning balance	\$ 715,841	\$ 35,396	\$ 751,237
Pre GASB75 OPEB asset close out	(516)	(34)	(550)
Deferred outflows of resources	4,997	333	5,330
GASB75 OPEB liability	(36,288)	(2,420)	(38,708)
Beginning balance, restated	<u>\$ 684,034</u>	<u>\$ 33,275</u>	<u>\$ 717,309</u>

16) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2018, governmental funds had encumbrances of approximately \$96.5 million, while proprietary funds had open purchase commitments of approximately \$85.8 million related to new or existing contracts and agreements. These encumbrances are only commitments for the expenditure of funds and do not represent actual expenditures or liabilities.

At June 30, 2018, detailed encumbrances of the governmental and proprietary funds are as follows:

Fund	Fund Balances		
	Governmental Assigned	Proprietary Unrestricted	Total
General Fund	\$ 5,747	\$ -	\$ 5,747
Watershed and Stream Stewardship Funds	26,909		26,909
Safe, Clean Water & Natural Flood Protection	63,869		63,869
Water Enterprise Fund	-	83,529	83,529
Equipment Fund	-	433	433
Risk Management Fund	-	100	100
Information Technology Fund	-	1,778	1,778
Total	<u>\$ 96,525</u>	<u>\$ 85,840</u>	<u>\$ 182,365</u>

(b) San Felipe Project Water Deliveries

The District has contracted with the U.S. Department of the Interior (USDI) for water deliveries from the Central Valley Project. The contract requires the District to operate and maintain Reach 1, Reach 2, and Reach 3 of the San Felipe Division facilities of the USDI.

During fiscal year 2017, the District amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007 through July 2016 are \$7,466,867. The semi-

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

annual payments starting January 2017 is \$7,742,285. The amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

The total commitment, including applicable interest, of the repayment contract was \$440,492,081. The remaining commitment as of June 30, 2018 was \$267,927,891.

(c) Participation Rights in Storage Facilities

In December 1995, the District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The District's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering Tier 1 water. The agreement terminates in December 2035.

The District pays the program capital costs when storing and recovering Tier 1 water. As of June 30, 2018, the District has paid \$38.7 million towards the base fee obligation of this agreement. During the first 10 years, the District has a reservation for the full 35 percent allocation; by January 1, 2006, if the District's contributions towards the program capital costs did not equal \$46.9 million the District's permanent storage allocation would have been reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District currently has a storage allocation of 350,000 acre-feet. As of June 30, 2018, the District has 256,725 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$26.4 million has been recorded through fiscal year 2018.

(17) CONTINGENCIES

(a) Litigation

It is normal for a public entity like the District, with its size and activities, to be a defendant, co-defendant, or cross-defendant in court cases in which money damages are sought. Discussed below are all pending litigations that the District is aware of which are significant and may have a potentially impact on the financial statements.

Great Oaks Water Company v. Santa Clara Valley Water District

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

On February 3, 2010, the Honorable Kevin Murphy issued Judgment After Trial and decided that the District owes Great Oaks a refund of groundwater charges in the amount of \$4,623,096 plus interest

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

at 7% per annum. The award of pre-judgment interest as of December 1, 2009, amounted to \$1,285,524. Judge Murphy also awarded post-judgment interest at the rate of \$886.62 per day until the date of the entry of judgment. Judge Murphy also decided that the District owes Great Oaks damages in the amount of \$1,306,830. Recovery of this damages amount is in the alternative to the award of refund described above. The District appealed this decision to the Sixth District Court of Appeals.

During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, the District recorded a liability in the amount of \$5,930,000, which includes the Judgment After Trial decision amount plus interest in fiscal year 2008-09. The District recorded \$160,000 in Fiscal Year 2009-10, \$324,000 in Fiscal Year 2010-11, \$325,000 in Fiscal Year 2011-12, and \$324,000 in Fiscal Years 2012-13 and 2013-14 as liability for the post-judgment interest from January 1, 2010 through June 30, 2014 at the rate of \$886.62 per day. No further interest was booked after the favorable judgement on March 26, 2015 by the Sixth District Court of Appeals, which is discussed further below.

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

On April 10, 2015, the District and Great Oaks each filed their separate petitions for rehearing with the Court of Appeal, which were granted on April 24, 2015. On August 12, 2015, the Court of Appeal again reversed in full the judgment of the trial court in the Great Oaks case, leaving intact the substantive findings from its prior opinion. On August 27, 2015, Great Oaks again filed its petition for rehearing. On September 10, 2015, the Court of Appeal, without requiring any reply by the District granted Great Oaks petition for rehearing. On December 8, 2015, the Court of Appeal again reversed in full the judgment of the trial court in the Great Oaks case. Based on the recent court decisions, the total liability of \$7.4 million previously recognized was reversed in fiscal year 2017.

Great Oaks has filed refund actions for subsequent years of annual groundwater charges, all of which are currently stayed (Santa Clara Superior Court Case Nos. 107-CV-087884; 108-CV-119465; 108-CV-123064; 109-CV-146018; 110-CV-178947; 111-CV-205462; 112-CV-228340; 113-CV-249349; 115-CV-281385; 16-CV-292097; 17-CV-308140; and 18-CV-327641).

On November 8, 2018, the Sixth District Court of Appeal issued its latest opinion in the Great Oaks versus District case, reaffirming that Great Oaks failed to prove that the District's 2005-06 groundwater charges were legally flawed. Regardless of this recent Court decision, Great Oaks may attempt to retry its 2005 case based on new principles.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa Golf Club, et al v. Santa Clara Valley Water District

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

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

The District filed its petition for review in the California Supreme Court on January 19, 2016, and on March 23, 2016 review was granted, however it was placed on hold pending resolution of the City of Buenaventura v. United Water Conservation District (UWCD) case which argued in September of 2017. On December 5, 2017, the Supreme Court released a decision in the UWCD case, and unanimously decided that Proposition 210 does not apply to UWCD's groundwater charges. However, the Supreme Court did determine that Proposition 26 applied to ground water charges; thus the District's groundwater charges are also likely subject to Proposition 26's requirements. Meanwhile, the District awaits further direction from the Supreme Court in light of its decision in the UWCD case. The District cannot predict the nature or extent of proceedings of how the Great Oaks case will be handled by the Supreme Court.

The District is currently reviewing its estimates of potential liability with respect to this case as well as other cases filed by Great Oaks and other plaintiffs or potential claimants which have either been stayed or are subject to tolling agreements.

(b) Grants and Subventions

The District has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

(c) Central Valley Project

On June 7, 1977, the District entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service provides for both agricultural operation and maintenance (O&M) and municipal and industrial (M&I) water deliveries to the District up to a total maximum annual entitlement of 152,500 acre-feet per year. The contract specified initial water rates for O&M and M&I water service and provided for periodic adjustments for the respective water rates in accordance with prevailing CVP water rate policies commencing in the year 1993 for the in-basin M&I rate component; 1996 for the agricultural O&M rate component; 2001 for the full agricultural water rate; and 2008 for the out-of-basin M&I rate component. The methodology of CVP water rate setting has historically recovered current year operating costs and the applicable construction costs over 50 years.

The District's initial CVP water rates were determined based on 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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

CVP water rate policies. These policies, coupled with the terms of the original contract, resulted in the District facing significant increases for repayment of the San Felipe Division.

In compliance with the Central Valley Improvement Act (CVPIA), the District entered into negotiations, along with all other CVP contractors, with the U.S. Bureau of Reclamation for contract renewal. Because of concerns related to litigation challenging the renewal process, the District entered into an amended contract. The amendment maintained the basic provisions of the original contract, implemented provisions of CVPIA, and allowed the establishment of a fixed repayment for the San Felipe Division facilities.

(d) Perchlorate

In 2003, perchlorate released from the Olin Corporation facility at Tennant Avenue in Morgan Hill was discovered in groundwater in much of the Llagas Subbasin in South County, impacting many water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. Due to ongoing remediation by Olin and managed recharge by the District, both the plume size and number of wells impacted have been reduced. As of June 2018, perchlorate is present above the Maximum Contaminant Level (MCL) in fewer than 10 domestic water supply wells. The perchlorate plume exceeding the MCL extends south from the Tennant Avenue site for about 3 miles. Olin's remedial efforts have included on-site soil removal and groundwater treatment as well as off-site plume remediation.

(e) President's Day Flood Event

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

The District has received 420 claims with respect to the flooding along Coyote Creek. The aggregate stated value of these claims is approximately \$3,000,000. Eighteen lawsuits alleging damage from the Coyote Creek flood event have been filed against the District in Santa Clara County Superior Court. The District is evaluating all claims and lawsuits and cannot predict the outcomes or financial impacts of these or any future claims and lawsuits with respect to the Coyote flood event. The District intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek.

(18) SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 21, 2018.

On July 24, 2018, the California Water Commission announced that the Pacheco Reservoir Expansion Project will be awarded \$484.55 million under Proposition I, the full amount requested. This award will fund half of the cost of the total cost estimate of \$969 million. The District, along with

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

its project partners San Benito County Water District and Pacheco Pass Water District, will also pursue Federal funds. The remainder will be paid through local water rates over the several decades. This project would expand Pacheco Reservoir's capacity to provide for increased emergency water supplies, improved water quality, and ecosystems benefits throughout the region and the Sacramento-San Joaquin Delta.

**Required
Supplementary
Information**

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Changes In Net Pension Liability and Related Ratios
June 30, 2018
Last 10 Years*

	2015	2016	2017	2018
Total pension liability				
Service cost	\$ 14,351,245	\$ 13,735,953	\$ 13,764,288	\$ 15,752,291
Interest on total pension liability	46,261,670	48,842,236	51,160,517	53,109,673
Differences between expected and actual experience	-	(184,479)	(3,173,782)	(4,716,605)
Changes in assumptions	-	(12,079,891)	-	44,289,025
Benefit payments, including refunds of employee contributions	(25,004,849)	(27,800,233)	(30,428,304)	(32,498,706)
Net change in pension liability	35,608,066	22,513,586	31,322,719	75,935,678
Total pension liability, beginning	622,149,061	657,757,127	680,270,713	711,593,432
Total pension liability, ending (a)	<u>\$ 657,757,127</u>	<u>\$ 680,270,713</u>	<u>\$ 711,593,432</u>	<u>\$ 787,529,110</u>
Plan fiduciary net position				
Contributions - employer	\$ 13,804,460	\$ 15,157,939	\$ 17,044,538	\$ 19,055,019
Contributions - employee	9,036,853	6,242,234	6,567,551	6,624,798
Net investment income	75,675,314	11,478,076	2,752,954	56,514,065
Benefits payment	(25,004,849)	(27,800,233)	(30,428,304)	(32,498,706)
Net plan to plan resource movement	-	-	370	370
Administrative expense	-	(566,550)	(312,496)	(750,585)
Net change in fiduciary net position	73,511,778	4,511,466	(4,375,387)	48,944,961
Plan fiduciary net position, beginning	434,729,646	508,241,424	512,752,890	508,377,503
Plan fiduciary net position, ending (b)	<u>\$ 508,241,424</u>	<u>\$ 512,752,890</u>	<u>\$ 508,377,503</u>	<u>\$ 557,322,464</u>
 Net pension liability, ending (a - b)	 <u>\$ 149,515,703</u>	 <u>\$ 167,517,823</u>	 <u>\$ 203,215,929</u>	 <u>\$ 230,206,646</u>
 Plan fiduciary net position as a percentage of total pension liability	 77.27%	 75.37%	 71.44%	 70.77%
Covered payroll	\$ 77,885,844	\$ 78,009,731	\$ 79,663,661	\$ 84,110,908
Net pension liability as a percentage of covered payroll	191.97%	214.74%	255.09%	273.69%
Discount rate	7.50%	7.65%	7.65%	7.15%

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 4 years are shown.

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Employer Pension Contributions

June 30, 2018

Last 10 Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	\$ 13,948,105	\$ 16,532,182	\$ 18,568,910	\$ 19,746,343
Contributions in relation to the actuarially determined contribution	<u>(13,948,105)</u>	<u>(16,532,182)</u>	<u>(18,568,910)</u>	<u>(19,746,343)</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ⁽¹⁾	\$ 78,009,731	\$ 79,663,661	\$ 84,110,908	\$ 86,634,235
Contribution as a percentage of covered payroll	17.88%	20.75%	22.08%	22.79%

⁽¹⁾ The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net pension liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 4 years are shown.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Changes In Net OPEB Liability and Related Ratios
June 30, 2018
Last 10 Years*

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 2,913,500
Interest on total OPEB liability	12,017,600
Benefits payment	<u>(8,471,200)</u>
Net change in OPEB liability	6,459,900
Total OPEB liability, beginning	<u>167,805,300</u>
Total OPEB liability, ending (a)	<u><u>\$174,265,200</u></u>
 Plan fiduciary net position	
Contributions	\$ 11,471,200
Benefits payment	(8,471,200)
Net investment income	6,259,202
Investment return - differences between expected and actual experience	2,924,898
Administrative expense	<u>(44,900)</u>
Net change in fiduciary net position	12,139,200
Plan fiduciary net position, beginning	<u>84,500,500</u>
Plan fiduciary net position, ending (b)	<u><u>\$ 96,639,700</u></u>
 Net OPEB liability, ending (a - b)	 <u><u>\$ 77,625,500</u></u>
 Plan fiduciary net position as a percentage of total OPEB liability	 55.46%
Covered payroll	\$ 79,663,700
Net OPEB liability as a percentage of covered payroll	97.44%
Discount rate	7.28%

* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 1 year is shown.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Employer Other Post Employment Benefit Contributions
June 30, 2018
Last 10 Years*

	<u>2018</u>
Actuarially determined contribution	\$ 9,546,137
Contributions in relation to the actuarially determined contribution	<u>(12,546,137)</u>
Contribution Deficiency / (Excess)	<u><u>\$ (3,000,000)</u></u>
Covered payroll ⁽¹⁾	\$ 82,053,611
Contribution as a percentage of covered payroll	15.29%

⁽¹⁾ The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net OPEB liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 1 year is shown.

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Budgeted Governmental Funds For the Year Ended June 30, 2018 (Dollars in Thousands)

	General Fund			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 7,102	\$ 7,102	\$ 7,865	\$ 763
Use of money and property:				
Investment income	80	80	20	(60)
Rental	-	-	-	-
Reimbursement of capital costs	-	-	-	-
Other	-	-	267	267
Total revenues	<u>7,182</u>	<u>7,182</u>	<u>8,152</u>	<u>970</u>
Expenditures:				
Operating budget:				
Operations and operating projects	61,426	62,011	58,749	3,262
Debt service:				
Principal repayment	118	118	118	-
Interest and fiscal charges	<u>354</u>	<u>354</u>	<u>353</u>	<u>1</u>
Total operating budget	<u>61,898</u>	<u>62,483</u>	<u>59,220</u>	<u>3,263</u>
Capital budget:				
Capital improvement projects	<u>1,704</u>	<u>4,810</u>	<u>2,495</u>	<u>2,315</u>
Total expenditures	<u>63,602</u>	<u>67,293</u>	<u>61,715</u>	<u>5,578</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(56,420)</u>	<u>(60,111)</u>	<u>(53,563)</u>	<u>6,548</u>
Other financing sources (uses):				
Intra-district overhead reimbursement	56,444	56,444	51,061	(5,383)
Transfers in	453	453	935	482
Transfers out	<u>(1,626)</u>	<u>(1,783)</u>	<u>(1,783)</u>	<u>-</u>
Total other financing sources	<u>55,271</u>	<u>55,114</u>	<u>50,213</u>	<u>(4,901)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	<u>\$ (1,149)</u>	<u>\$ (4,997)</u>	<u>(3,350)</u>	<u>\$ 1,647</u>
Reconciliation of GAAP and budgetary basis:				
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			\$ (2,660)	
Capital improvement projects			(1,085)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			3,821	
Capital improvement projects			607	
Fund Balances, beginning of year			<u>12,347</u>	
Fund Balances, end of year			<u>\$ 9,680</u>	

See accompanying notes to required supplementary information

Watershed & Stream Stewardship				Safe, Clean Water & Natural Flood Protection			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 73,638	\$ 73,638	\$ 79,538	\$ 5,900	\$ 42,510	\$ 42,510	\$ 42,488	\$ (22)
783	783	729	(54)	1,670	1,670	1,296	(374)
1,336	1,336	1,609	273	-	-	322	322
28,000	28,000	34,159	6,159	19,158	19,158	12,257	(6,901)
233	2,403	3,999	1,596	-	-	95	95
103,990	106,160	120,034	13,874	63,338	63,338	56,458	(6,880)
53,374	53,374	51,890	1,484	15,122	15,679	12,005	3,674
-	-	-	-	-	-	-	-
-	-	-	-	2,417	2,417	437	1,980
53,374	53,374	51,890	1,484	17,539	18,096	12,442	5,654
27,386	44,000	25,207	18,793	56,088	123,405	83,095	40,310
80,760	97,374	77,097	20,277	73,627	141,501	95,537	45,964
23,230	8,786	42,937	34,151	(10,289)	(78,163)	(39,079)	39,084
-	-	-	-	-	-	-	-
2,572	2,572	2,660	88	14,849	14,849	14,835	(14)
(1,900)	(1,900)	(2,462)	(562)	-	-	-	-
672	672	198	(474)	14,849	14,849	14,835	(14)
\$ 23,902	\$ 9,458	43,135	\$ 33,677	\$ 4,560	\$ (63,314)	(24,244)	\$ 39,070
		\$ (2,044)				\$ (2,642)	
		(31,815)				(36,132)	
		2,601				1,595	
		9,632				26,880	
		119,073				205,025	
		\$ 140,582				\$ 170,482	

SANTA CLARA VALLEY WATER DISTRICT

Notes to Required Supplementary Information For the Year Ended June 30, 2018

The District annually adopts a budget in June to be effective July 1 for the ensuing fiscal year. Annual appropriated budgets are adopted for the general fund, special revenue funds, and for all proprietary funds. The COP construction and COP debt service funds are not budgeted.

Legal budgetary (expenditure) control is established at the fund level, further controlled within the fund at the category level. The categories are defined as the operating budget (operations and maintenance, debt service, and operating projects) and the capital budget (capital improvement projects) in the budget and actual budgetary basis schedules. The amounts stated therein as proposed expenditures become appropriations to the various District organization units. The Board may amend the budget by motion during the fiscal year. The District Chief Executive Officer is authorized to transfer appropriations within budget categories by fund. All unencumbered appropriations for operations and maintenance, operating projects and debt service lapse at fiscal year-end. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated. Unexpended appropriations for capital projects are carried forward until project completion or termination.

The budget process is based upon accounting for certain transactions on a basis other than the Generally Accepted Accounting Principles (GAAP) basis. The results of operations are presented in the budget and actual schedules in accordance with the budgetary basis to provide a meaningful comparison with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

- Certain accruals (primarily accrued vacation and sick leave pay) are excluded from the budgetary basis because such amounts are budgeted on a cash basis.
- Year-end encumbrances are recognized as expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until incurred.
- Certain budgeted debt service expenditures in special revenue funds are recorded as operating transfers out on a GAAP basis.
- Intra-district overhead reimbursement on a budgetary basis is reflected as a reimbursement of expenditures on a GAAP basis.

Reported budget amounts reflect the annual budget as originally adopted and as subsequently amended by the District Board of Directors. The budget amounts are based on estimates of the District's expenditures/expenses and the proposed means of financing them. The final budget of capital improvement projects includes budget adjustments related to capital projects' period year balance forward. Actual expenditures for capital items, as in the case of special revenue funds, may vary significantly from budget due to the timing of such expenditures.



**Supplemental
Information**

Schedule of Revenues, Expenditures and Change in Fund Balances – Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Funds

Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Fund

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balances Selected Watershed Activities Within the Watershed and Stream Stewardship Fund For the Year Ended June 30, 2018 (Dollars in Thousands)

	Lower Peninsula Watershed	West Valley Watershed
Revenues:		
Benefit assessments (Note 8)	\$ 4,033	\$ 2,287
Total revenues	<u>4,033</u>	<u>2,287</u>
Expenditures:		
Debt service:		
Principal repayments	2,335	1,260
Interest and fiscal charges	<u>1,019</u>	<u>555</u>
Total expenditures	<u>3,354</u>	<u>1,815</u>
Excess (deficiency) of revenues over (under) expenditures	<u>679</u>	<u>472</u>
Other financing sources (uses):		
Transfers out (Note 14)	<u>(679)</u>	<u>(472)</u>
Total other financing sources (uses)	<u>(679)</u>	<u>(472)</u>
Net change in fund balances	-	-
Fund balances, beginning of year	-	-
Fund balances, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Guadalupe Watershed	Coyote Watershed	Total
\$ 4,540	\$ 3,914	\$ 14,774
4,540	3,914	14,774
2,621	2,091	8,307
1,072	1,161	3,807
3,693	3,252	12,114
847	662	2,660
(847)	(662)	(2,660)
(847)	(662)	(2,660)
-	-	-
-	-	-
\$ -	\$ -	\$ -

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Selected Watershed Activities
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Lower Peninsula Watershed			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Benefit assessments	\$ 4,038	\$ 4,038	\$ 4,033	\$ (5)
Total revenues	<u>4,038</u>	<u>4,038</u>	<u>4,033</u>	<u>(5)</u>
Expenditures:				
Debt service:				
Principal repayment	2,335	2,335	2,335	-
Interest and fiscal charges	<u>1,026</u>	<u>1,026</u>	<u>1,019</u>	<u>7</u>
Total expenditures	<u>3,361</u>	<u>3,361</u>	<u>3,354</u>	<u>7</u>
Excess (deficiency) of revenues over (under) expenditures	<u>677</u>	<u>677</u>	<u>679</u>	<u>2</u>
Other financing sources (uses):				
Transfers out	<u>(677)</u>	<u>(677)</u>	<u>(679)</u>	<u>(2)</u>
Total other financing sources (uses)	<u>(677)</u>	<u>(677)</u>	<u>(679)</u>	<u>(2)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

West Valley Watershed				Guadalupe Watershed			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 2,266	\$ 2,266	\$ 2,287	21	\$ 4,579	\$ 4,579	\$ 4,540	\$ (39)
<u>2,266</u>	<u>2,266</u>	<u>2,287</u>	<u>21</u>	<u>4,579</u>	<u>4,579</u>	<u>4,540</u>	<u>(39)</u>
1,260	1,260	1,260	-	2,621	2,621	2,621	-
<u>595</u>	<u>595</u>	<u>555</u>	<u>40</u>	<u>1,101</u>	<u>1,101</u>	<u>1,072</u>	<u>29</u>
<u>1,855</u>	<u>1,855</u>	<u>1,815</u>	<u>40</u>	<u>3,722</u>	<u>3,722</u>	<u>3,693</u>	<u>29</u>
<u>411</u>	<u>411</u>	<u>472</u>	<u>61</u>	<u>857</u>	<u>857</u>	<u>847</u>	<u>(10)</u>
<u>(411)</u>	<u>(411)</u>	<u>(472)</u>	<u>(61)</u>	<u>(857)</u>	<u>(857)</u>	<u>(847)</u>	<u>10</u>
<u>(411)</u>	<u>(411)</u>	<u>(472)</u>	<u>(61)</u>	<u>(857)</u>	<u>(857)</u>	<u>(847)</u>	<u>10</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
Selected Watershed Activities Contained
Within the Watershed and Stream Stewardship Fund
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Coyote Watershed			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Benefit Assessments	\$ 3,895	\$ 3,895	\$ 3,914	\$ 19
Total revenues	<u>3,895</u>	<u>3,895</u>	<u>3,914</u>	<u>19</u>
Expenditures:				
Debt service:				
Principal repayment	2,091	2,091	2,091	-
Interest and fiscal charges	<u>1,176</u>	<u>1,176</u>	<u>1,161</u>	<u>15</u>
Total expenditures	<u>3,267</u>	<u>3,267</u>	<u>3,252</u>	<u>15</u>
Excess (deficiency) of revenues over (under) expenditures	<u>628</u>	<u>628</u>	<u>662</u>	<u>34</u>
Other financing sources (uses):				
Transfers out	<u>(628)</u>	<u>(628)</u>	<u>(662)</u>	<u>(34)</u>
Total other financing sources (uses)	<u>(628)</u>	<u>(628)</u>	<u>(662)</u>	<u>(34)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Water Enterprise and State Water Project Funds

**Schedules of Revenues, Expenses and Change in Fund Net Position
Budget and Actual**

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual Water Enterprise and State Water Project Funds For the Year Ended June 30, 2018 (Dollars in Thousands)

	Water Enterprise Fund			
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 6,510	\$ 6,510	\$ 7,088	\$ 578
Intergovernmental services	1,189	1,189	4,396	3,207
Ground water production charges	78,943	78,943	97,483	18,540
Treated water charges	133,875	133,875	132,477	(1,398)
Surface and recycled water revenue	2,424	2,424	1,041	(1,383)
Investment income	820	820	1,267	447
Capital reimbursements	2,688	4,188	4,350	162
Other	1,114	1,114	5,216	4,102
Total revenues	<u>227,563</u>	<u>229,063</u>	<u>253,318</u>	<u>24,255</u>
Expenses:				
Current:				
Operations and operating projects	142,718	144,683	146,529	(1,846)
Debt Service:				
Principal repayment	8,420	8,420	8,320	100
Interest and fiscal charges	26,236	26,236	17,397	8,839
Capital outlay:				
Capital improvement projects	118,907	146,648	124,899	21,749
Total expenses	<u>296,281</u>	<u>325,987</u>	<u>297,145</u>	<u>28,842</u>
Excess (deficiency) of revenues over (under) expenses	<u>(68,718)</u>	<u>(96,924)</u>	<u>(43,827)</u>	<u>53,097</u>
Other financing (uses):				
Transfers in	3,252	3,252	3,252	-
Transfers out	<u>(10,817)</u>	<u>(10,817)</u>	<u>(11,477)</u>	<u>(660)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenses	<u>\$ (76,283)</u>	<u>\$ (104,489)</u>	<u>\$ (52,052)</u>	<u>\$ 52,437</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(28,498)	
Capitalized expenditures			92,025	
Debt principal and GAAP basis accruals for interest payable			9,667	
GAAP basis expenses and other liabilities			5,676	
Expenses of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(8,355)	
Capital improvement projects			(38,156)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			10,533	
Capital improvement projects			51,043	
Net position, beginning of year			682,698	
Prior Period Adj - GASB 75 and capital asset reclass			<u>(31,807)</u>	
Net position, end of year			<u>\$ 692,774</u>	

State Water Project Fund				Total			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 26,000	\$ 26,000	\$ 30,329	\$ 4,329	\$ 32,510	\$ 32,510	\$ 37,417	\$ 4,907
-	-	-	-	1,189	1,189	4,396	3,207
-	-	-	-	78,943	78,943	97,483	18,540
-	-	-	-	133,875	133,875	132,477	(1,398)
-	-	-	-	2,424	2,424	1,041	(1,383)
-	-	-	-	820	820	1,267	447
-	-	-	-	2,688	4,188	4,350	162
1,000	1,000	1,212	212	2,114	2,114	6,428	4,314
<u>27,000</u>	<u>27,000</u>	<u>31,541</u>	<u>4,541</u>	<u>254,563</u>	<u>256,063</u>	<u>284,859</u>	<u>28,796</u>
28,288	28,288	27,539	\$ 749	171,006	172,971	174,068	(1,097)
-	-	-	-	8,420	8,420	8,320	100
-	-	-	-	26,236	26,236	17,397	8,839
-	-	-	-	118,907	146,648	124,899	21,749
<u>28,288</u>	<u>28,288</u>	<u>27,539</u>	<u>749</u>	<u>324,569</u>	<u>354,275</u>	<u>324,684</u>	<u>29,591</u>
<u>(1,288)</u>	<u>(1,288)</u>	<u>4,002</u>	<u>5,290</u>	<u>(70,006)</u>	<u>(98,212)</u>	<u>(39,825)</u>	<u>58,387</u>
1,288	1,288	-	(1,288)	4,540	4,540	3,252	(1,288)
-	-	-	-	(10,817)	(10,817)	(11,477)	(660)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,002</u>	<u>\$ 4,002</u>	<u>\$ (76,283)</u>	<u>\$ (104,489)</u>	<u>\$ (48,050)</u>	<u>\$ 56,439</u>
		(944)				(29,442)	
		-				92,025	
		-				9,667	
		-				5,676	
		(1,233)				(9,588)	
		-				(38,156)	
		-				10,533	
		-				51,043	
		27,952				710,650	
		-				<u>(31,807)</u>	
		<u>\$ 29,777</u>				<u>\$ 722,551</u>	

Internal Service Funds

The Internal Service Funds are similar to Enterprise Funds, except that services are rendered to other District units rather than to District customers. This fund type consists of the Equipment Fund, Risk Management Fund, and Information Technology Fund.

Equipment Fund - the fund is used to account for the maintenance and operation of the District's fleet vehicles and heavy construction equipment. Financing is provided through rental charges to operations based upon usage.

Risk Management Fund – the fund is used to account for the monies set aside to pay for all claims, judgment and premium costs. Financing is provided through premiums charged to District operations.

Information Technology Fund – the fund is used to account for the maintenance and replacement of district-wide capital related information technology projects. Financing is provided through rental charges to operations based upon usage.

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Net Position

Internal Service Funds

June 30, 2018

(Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
ASSETS				
Current assets:				
Cash and investments (Note 3)	\$ 3,498	\$ 15,577	\$ 17,034	\$ 36,109
Receivables - other	40	-	-	40
Inventory	60	-	-	60
Total current assets	<u>3,598</u>	<u>15,577</u>	<u>17,034</u>	<u>36,209</u>
Noncurrent assets:				
Capital assets (Note 6)				
Nondepreciable assets (Construction in progress)	-	-	7,483	7,483
Depreciable assets	20,328	18	7,814	28,160
Accumulated depreciation	(10,450)	(16)	(4,634)	(15,100)
Total noncurrent assets	<u>9,878</u>	<u>2</u>	<u>10,663</u>	<u>20,543</u>
Total assets	<u>13,476</u>	<u>15,579</u>	<u>27,697</u>	<u>56,752</u>
Deferred outflows of resources - pension activities	801	695	234	1,730
Deferred outflows of resources - OPEB	161	147	56	364
Deferred outflows of resources	<u>962</u>	<u>842</u>	<u>290</u>	<u>2,094</u>
LIABILITIES				
Current liabilities:				
Accounts payable	88	73	350	511
Accrued liabilities	1	13	2	16
Claims payable (Note 13)	-	1,689	-	1,689
Compensated absence (Note 7)	53	31	1	85
Total current liabilities	<u>142</u>	<u>1,806</u>	<u>353</u>	<u>2,301</u>
Non current liabilities:				
Claims payable (Note 13)	-	4,776	-	4,776
Net Pension liability (Note 11)	2,953	2,706	1,030	6,689
Other post employment benefits liability (Note 12)	996	912	347	2,255
Compensated absence (Note 7)	177	101	3	281
Total non current liabilities	<u>4,126</u>	<u>8,495</u>	<u>1,380</u>	<u>14,001</u>
Total liabilities	<u>4,268</u>	<u>10,301</u>	<u>1,733</u>	<u>16,302</u>
Deferred inflows of resources - pension activities	210	83	(41)	252
Deferred inflows of resources - OPEB	30	28	10	68
Deferred inflows of resources	<u>240</u>	<u>111</u>	<u>(31)</u>	<u>320</u>
NET POSITION (Note 10)				
Net investment in capital assets	9,878	2	10,663	20,543
Unrestricted	52	6,007	15,622	21,681
Total net position	<u>\$ 9,930</u>	<u>\$ 6,009</u>	<u>\$ 26,285</u>	<u>\$ 42,224</u>

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Revenues, Expenses and

Changes in Fund Net Position

Internal Service Funds

For the Year Ended June 30, 2018

(Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
Operating revenues:				
Vehicle service charges	\$ 4,927	\$ -	\$ -	\$ 4,927
Computer equipment use charges	-	-	12,199	12,199
Self-insurance service charges	-	7,039	-	7,039
Total operating revenues	4,927	7,039	12,199	24,165
Operating expenses:				
Administration and general	-	6,187	-	6,187
Equipment maintenance	3,925	-	3,490	7,415
Depreciation and amortization	1,559	1	833	2,393
Total operating expenses	5,484	6,188	4,323	15,995
Operating Income (loss)	(557)	851	7,876	8,170
Nonoperating revenues:				
Investment income (Note 5)	42	108	79	229
Gain on sale of capital assets	234	59	-	293
Other	-	100	-	100
Total nonoperating revenues	276	267	79	622
Other financing sources (uses)				
Transfer in	-	-	157	157
Total other financing sources (uses)	-	-	157	157
Change in net position	(281)	1,118	8,112	8,949
Net position, beginning of year	11,149	5,749	18,498	35,396
GASB75 adjustment	(938)	(858)	(325)	(2,121)
Net position, end of year	\$ 9,930	\$ 6,009	\$ 26,285	\$ 42,224

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2018

(Dollars in Thousands)

	Equipment	Risk Management	Information Technology	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 5,007	\$ 7,069	\$ 12,199	\$ 24,275
Payments to suppliers	(5,635)	(4,289)	(2,342)	(12,266)
Payments to employees	(931)	(1,011)	(473)	(2,415)
Net cash provided (used) by operating activities	(1,559)	1,769	9,384	9,594
Cash flows from noncapital financing activities:				
Other receipts	238	100	-	338
Transfers in - capital project reimbursement	-	-	157	157
Net cash provided by noncapital financing activities	238	100	157	495
Cash flows from capital and related financing activities:				
Acquisition and disposal of capital assets	(728)	59	(2,778)	(3,447)
Net cash (used) by capital and related financing activities	(728)	59	(2,778)	(3,447)
Cash flows from investing activities:				
Interest received on cash and investments	42	108	79	229
Net increase/(decrease) in cash and cash equivalents	(2,007)	2,036	6,842	6,871
Cash and cash equivalents, beginning of year	5,505	13,541	10,192	29,238
Cash and cash equivalents, end of year	\$ 3,498	\$ 15,577	\$ 17,034	\$ 36,109
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (557)	\$ 851	\$ 7,876	\$ 8,170
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	(206)	-	833	627
Change in operating assets and liabilities:				
Decrease/(increase) in accounts receivable	80	30	-	110
Decrease/(increase) in deposits and other assets	4	-	-	4
Increase/(decrease) in accounts payable	(222)	(83)	9	(296)
Increase/(decrease) in accrued liabilities	1	13	(28)	(14)
Increase/(decrease) in compensated absences	5	5	2	12
Increase/(decrease) in claims payable	-	799	-	799
Increase/(decrease) in GASB68 Retirement payable	(451)	375	796	720
Increase/(decrease) in OPEB/GASB75 payable	74	68	26	168
Increase/(decrease) in def inflows/outflows of resources	(287)	(289)	(130)	(706)
Net cash used for operating activities	\$ (1,559)	\$ 1,769	\$ 9,384	\$ 9,594

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenses and Changes in Fund Net Position - Budget and Actual Internal Service Funds For the Year Ended June 30, 2018 (Dollars in Thousands)

	Equipment			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 36	\$ 36	\$ 42	\$ 6
Vehicle service charges	4,930	4,930	4,927	(3)
Computer equipment use charges	-	-	-	-
Gain on sale of fixed assets	102	102	234	132
Self-insurance service charges	-	-	-	-
Other	-	-	-	-
Total revenues	<u>5,068</u>	<u>5,068</u>	<u>5,203</u>	<u>135</u>
Expenditures:				
Current:				
Operations and operating projects	4,934	4,934	3,848	1,086
Capital equipment acquisition	1,545	1,545	982	563
Total expenditures	<u>6,479</u>	<u>6,479</u>	<u>4,830</u>	<u>1,649</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,411)</u>	<u>(1,411)</u>	<u>373</u>	<u>(1,514)</u>
Other financing sources (uses):				
Transfer in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	<u>\$ (1,411)</u>	<u>\$ (1,411)</u>	<u>373</u>	<u>\$ (1,514)</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(1,559)	
Capitalized expenditures			2,538	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(6)	
Capital improvement projects			(1,702)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			8	
Capital improvement projects			67	
Net position, beginning of year			11,149	
Prior period adjustment - GASB75			(938)	
Net position, end of year			<u>\$ 9,930</u>	

Risk Management				Information Technology			
Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget Positive (Negative)
\$ 81	\$ 81	\$ 108	\$ 27	\$ 30	\$ 30	\$ 79	\$ 49
-	-	-	-	-	-	-	-
-	-	-	-	12,226	12,226	12,199	(27)
-	-	59	59	-	-	-	-
7,843	7,843	7,039	(804)	-	-	-	-
-	-	100	100	-	-	-	-
<u>7,924</u>	<u>7,924</u>	<u>7,306</u>	<u>(618)</u>	<u>12,256</u>	<u>12,256</u>	<u>12,278</u>	<u>22</u>
8,625	8,625	6,260	2,365	122	122	802	(680)
-	-	-	-	12,672	16,833	5,543	11,290
<u>8,625</u>	<u>8,625</u>	<u>6,260</u>	<u>2,365</u>	<u>12,794</u>	<u>16,955</u>	<u>6,345</u>	<u>10,610</u>
<u>(701)</u>	<u>(701)</u>	<u>1,046</u>	<u>(2,983)</u>	<u>(538)</u>	<u>(4,699)</u>	<u>5,933</u>	<u>(10,588)</u>
-	-	-	-	-	157	157	-
-	-	-	-	-	157	157	-
<u>\$ (701)</u>	<u>\$ (701)</u>	1,046	<u>\$ (2,983)</u>	<u>\$ (538)</u>	<u>\$ (4,542)</u>	6,090	<u>\$ (10,588)</u>
		(1)				(833)	
		-				2,779	
		-				(1)	
		-				(1,521)	
		73				43	
		-				1,555	
		5,749				18,498	
		(858)				(325)	
		<u>\$ 6,009</u>				<u>\$ 26,285</u>	

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenses and
Changes in Fund Net Position - Budget and Actual (Continued)
Internal Service Funds
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Total			Variance with
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 147	\$ 147	\$ 229	\$ 82
Vehicle service charges	4,930	4,930	4,927	(3)
Computer equipment use charges	12,226	12,226	12,199	(27)
Gain on sale of fixed assets	102	102	293	191
Self-insurance service charges	7,843	7,843	7,039	(804)
Other	-	-	100	100
Total revenues	<u>25,248</u>	<u>25,248</u>	<u>24,787</u>	<u>(461)</u>
Expenditures:				
Current:				
Operations and operating projects	13,681	13,681	10,910	2,771
Capital equipment acquisition	14,217	18,378	6,525	11,853
Total expenditures	<u>27,898</u>	<u>32,059</u>	<u>17,435</u>	<u>14,624</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,650)</u>	<u>(6,811)</u>	<u>7,352</u>	<u>(15,085)</u>
Other financing sources (uses):				
Transfer in	-	157	157	-
Total other financing sources (uses)	<u>-</u>	<u>157</u>	<u>157</u>	<u>-</u>
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	<u>\$ (2,650)</u>	<u>\$ (6,654)</u>	<u>7,509</u>	<u>\$ (15,085)</u>
Reconciliation of GAAP and budgetary basis:				
Depreciation and amortization expense not budgeted			(2,393)	
Capitalized expenditures			5,317	
Expenditures of prior year encumbrances recognized on the GAAP basis:				
Operations and operating projects			(7)	
Capital improvement projects			(3,223)	
Current year encumbrances recognized on the budgetary basis:				
Operations and operating projects			124	
Capital improvement projects			1,622	
Net position, beginning of year			35,396	
Prior period adjustment - GASB75			(2,121)	
Net position, end of year			<u>\$ 42,224</u>	

Agency Fund

Agency fund type is used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds.

Deposit Fund - The fund is used to account for the collection and payment of expenditures for funds held in trust for specific restricted purposes.

SANTA CLARA VALLEY WATER DISTRICT
Combining Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2018
(Dollars in Thousands)

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<u>Deposit Fund</u>				
Assets:				
Cash and investments (Note 3)	\$ 196	\$ 43	\$ (54)	\$ 185
Total assets	<u>\$ 196</u>	<u>\$ 43</u>	<u>\$ (54)</u>	<u>\$ 185</u>
Liabilities:				
Accounts payable	\$ 15	\$ 24	\$ (39)	\$ -
Deposits payable	181	37	(33)	185
Total liabilities	<u>\$ 196</u>	<u>\$ 61</u>	<u>\$ (72)</u>	<u>\$ 185</u>

Capital Assets Used in the Operation of Governmental Activities

Capital assets consist of land, improvements to land, buildings, equipment and intangibles that are used in operations and that have initial useful lives extending beyond a single reporting period.

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Activities
Schedule By Source
June 30, 2018
(Dollars in Thousands)

Governmental activities capital assets:

Land	\$ 189,813
Buildings	42,007
Structures and improvements	773,882
Equipment	49,591
Construction in process	530,661
Intangibles:	
Easements	24,016
Computer Software	2,338
Total governmental funds capital assets	\$ 1,612,308

Investments in governmental activities capital assets by source:

General fund	\$ 89,623
Special revenue funds:	
Watershed & Stream Stewardship	1,121,336
Safe, Clean Water & Natural Flood Protection	365,706
Internal service funds	35,643
Total governmental funds capital assets	\$ 1,612,308

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Activities
Schedule By Function and Activity
June 30, 2018
(Dollars in Thousands)

	Function and Activity	Land	Structures and		Equipment	Construction in Progress	Intangibles		Total
			Buildings	Improvements			Easements	Software	
100	CEO Support Operations								
102	Chief Executive Office	\$ -	\$ -	\$ -	\$ 379	\$ -	\$ -	\$ -	\$ 379
130	Public Affairs	-	-	-	17	-	-	-	17
200	Watershed Operations								
210	Chief Operating Office	-	-	-	5,199	-	-	-	5,199
210	Watershed Management Division								
215	Watershed Business Management	-	-	-	107	-	-	-	107
230	Watershed Planning	-	-	-	38	-	-	-	38
250	Lower Peninsula/West Valley Mgmt.	-	-	-	162	-	-	-	162
270	Guadalupe Watershed Mgmt.	-	-	-	415	-	-	-	415
290	Coyote & Uvas/Llagas Mgmt.	-	-	-	47	-	-	-	47
310	Capital Program Services Division								
340	Capital Program Services Departments	-	-	-	440	-	-	-	440
410	Water Utility Enterprise Operations								
410	Chief Operating Office	-	-	-	139	-	-	-	139
420	Water Utility Enterprise	-	-	-	202	-	-	-	202
600	Administration								
602	Chief Administrative Office	-	-	-	230	-	-	-	230
670	Financial Services Division								
610	Office of Administrative Services	-	-	-	52	-	-	-	52
670	Business And Finance Program	-	-	-	1,670	-	-	-	1,670
710	Information Management Division								
715	Information Management Division	-	-	-	194	-	-	-	194
720	Information Mgmt. Support Departments	-	-	-	9,052	-	-	-	9,052
810	General Services Division								
815	Technical Services Division	-	-	-	12	-	-	-	12
820	Technical Services Support Division	-	-	-	1,231	-	-	-	1,231
765	Records and Library	-	-	-	168	-	-	-	168
820	Warehouse Services	-	-	-	3,933	-	-	-	3,933
885	Equipment Management	-	-	-	16,865	-	-	-	16,865
910	Human Resources Program								
660	Human Resources Program	-	-	-	61	-	-	-	61
Other:									
	District-wide property	189,813	42,007	773,882	8,978	530,661	24,016	2,338	1,571,695
	Total capital assets	<u>\$ 189,813</u>	<u>\$ 42,007</u>	<u>\$ 773,882</u>	<u>\$ 49,591</u>	<u>\$530,661</u>	<u>\$ 24,016</u>	<u>\$ 2,338</u>	<u>\$1,612,308</u>

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Activities
Schedule of Changes By Function and Activity
For the Year Ended June 30, 2018
(Dollars in Thousands)

		Governmental Capital Assets			Governmental Capital Assets
	Function and Activity	June 30, 2017	Additions	Deductions	June 30, 2018
100	CEO Support Operations				
102	Chief Executive Office	\$ 379	\$ -	\$ -	\$ 379
130	Public Affairs	17	-	-	17
200	Watershed Operations				
202	Chief Operating Office	5,199	-	-	5,199
210	Watershed Management Division				
215	Watershed Business Management	107	-	-	107
230	Watershed Planning	38	-	-	38
250	Lower Peninsula/West Valley Mgmt.	162	-	-	162
270	Guadalupe Watershed Mgmt.	415	-	-	415
290	Coyote & Uvas/Llagas Mgmt.	47	-	-	47
310	Capital Program Services Division				
340	Capital Program Services Departments	329	111	-	440
410	Water Utility Enterprise Operations				
410	Chief Operating Office	139	-	-	139
420	Water Utility Enterprise	202	-	-	202
600	Administration				
602	Chief Administrative Office	230	-	-	230
670	Financial Services Division				
610	Office of Administrative Services	52	-	-	52
670	Business And Finance Program	1,670	-	-	1,670
710	Information Management Division				
715	Information Management Division	194	-	-	194
720	Information Mgmt. Support Departments	7,734	1,318	-	9,052
810	General Services Division				
815	Technical Services Division	12	-	-	12
820	Technical Services Support Division	1,213	18	-	1,231
765	Records and Library	168	-	-	168
820	Warehouse Services	4,855	-	(922)	3,933
885	Equipment Management	15,219	2,538	(892)	16,865
910	Human Resources Program				
660	Human Resources Program	61	-	-	61
	Other:				
	District-wide property	1,438,788	132,907	-	1,571,695
		<u>\$ 1,477,230</u>	<u>\$ 136,892</u>	<u>\$ (1,814)</u>	<u>\$ 1,612,308</u>



Comprehensive Annual Financial Report

Statistical Section



Statistical Section



Comprehensive Annual Financial Report

Statistical Section



Statistical Section

SANTA CLARA VALLEY WATER DISTRICT

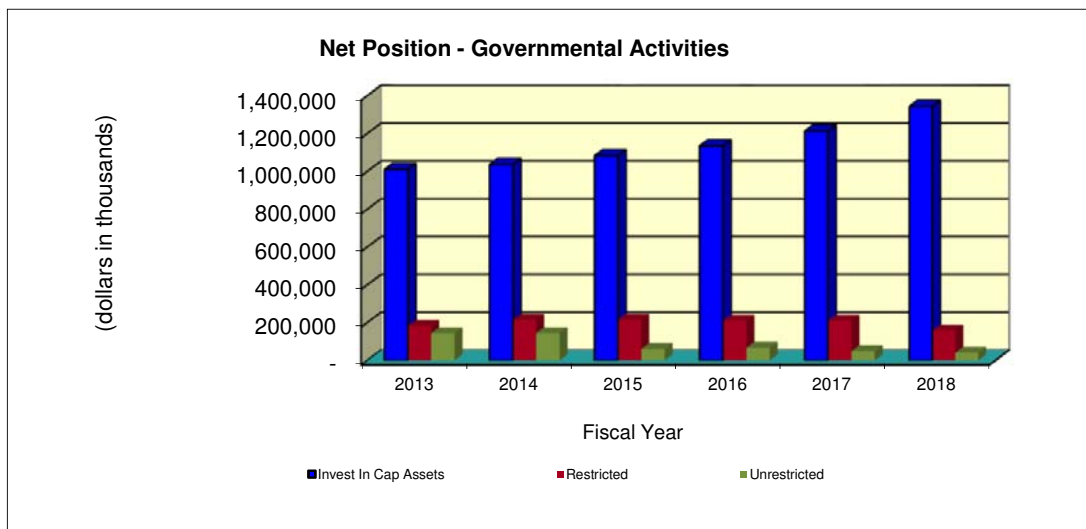
Statistical Section

This part of the District's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the District's overall financial health.

<u>Contents</u>	Page
Financial Trends These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	134
Revenue Capacity These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.	142
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.	149
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	154
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	156

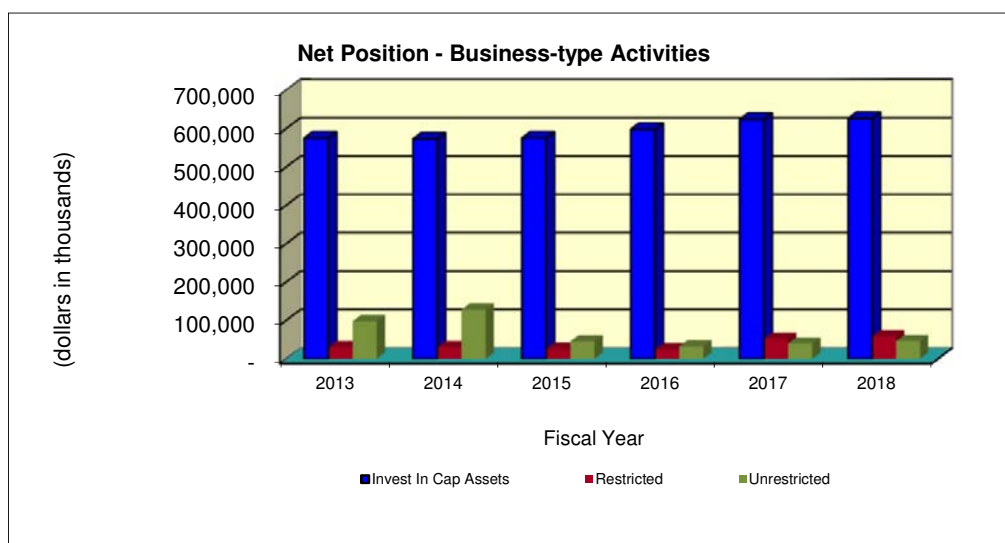
Santa Clara Valley Water District
Net Position by Component
Government-wide
Last Ten Fiscal Years
(dollars in thousands)

	2009	2010	2011	2012
Governmental activities				
Net Investment in capital assets	\$ 834,814	\$ 866,291	\$ 915,118	\$ 964,394
Restricted	5,502	145,370	157,221	166,845
Unrestricted	264,074	146,800	141,640	142,289
Total governmental activities net position	\$1,104,390	\$1,158,461	\$1,213,979	\$1,273,528
Business-type activities				
Net Investment in capital assets	\$ 514,102	\$ 518,237	\$ 524,557	\$ 554,316
Restricted	22,824	22,944	26,824	28,082
Unrestricted	98,288	95,656	92,661	86,716
Total business-type activities net position	\$ 635,214	\$ 636,837	\$ 644,042	\$ 669,114
Primary government				
Net Investment in capital assets	\$1,348,916	\$1,384,528	\$1,439,675	\$1,518,710
Restricted	28,326	168,314	184,045	194,927
Unrestricted	362,362	242,456	234,301	229,005
Total primary government net position	\$1,739,604	\$1,795,298	\$1,858,021	\$1,942,642



Source: Santa Clara Valley Water District, General Accounting Unit

2013	2014	2015	2016	2017	2018
\$1,011,082	\$1,036,853	\$1,083,571	\$1,135,593	\$1,213,840	\$1,344,142
182,760	214,652	214,991	210,198	209,873	158,062
143,971	144,210	60,731	66,407	48,978	40,479
<u>\$1,337,813</u>	<u>\$1,395,715</u>	<u>\$1,359,293</u>	<u>\$1,412,198</u>	<u>\$1,472,691</u>	<u>\$1,542,683</u>
\$ 575,683	\$ 573,410	\$ 575,873	\$ 598,075	\$ 623,828	\$ 626,514
30,131	30,019	26,087	24,552	52,118	58,679
97,652	127,889	45,429	32,191	39,895	46,102
<u>\$ 703,466</u>	<u>\$ 731,318</u>	<u>\$ 647,389</u>	<u>\$ 654,818</u>	<u>\$ 715,841</u>	<u>\$ 731,295</u>
\$1,586,765	\$1,610,263	\$1,659,444	\$1,733,668	\$1,837,668	\$1,970,656
212,891	244,671	241,078	234,750	261,991	216,741
241,623	272,099	106,160	98,598	88,873	86,581
<u>\$2,041,279</u>	<u>\$2,127,033</u>	<u>\$2,006,682</u>	<u>\$2,067,016</u>	<u>\$2,188,532</u>	<u>\$2,273,978</u>



Santa Clara Valley Water District
Changes in Net Position
Government-wide
Last Ten Fiscal Years
(dollars in thousands)

	2009	2010	2011
Expenses			
Governmental activities:			
General government:	\$ 12,602	\$ 9,317	\$ 9,954
Watersheds	45,440	51,841	54,562
Interest on long-term debt	8,269	7,841	7,476
Total governmental activities expenses	66,311	68,999	71,992
Business-type activities:			
Water enterprise	168,753	155,145	155,389
Total primary government expenses	<u>\$ 235,064</u>	<u>\$ 224,144</u>	<u>\$ 227,381</u>
Program Revenues			
Governmental activities:			
Capital grants and contributions	\$ 20,072	\$ 23,690	\$ 38,578
Business-type activities:			
Charges for services	136,356	120,264	121,347
Operating grants and contributions	3,923	1,696	1,458
Capital grants and contributions	-	1,602	10,443
Total business-type activities program revenues	140,279	123,562	133,248
Total primary government program revenues	<u>\$ 160,351</u>	<u>\$ 147,252</u>	<u>\$ 171,826</u>
 Net (expense)/revenue			
Governmental activities	\$ (46,239)	\$ (45,309)	\$ (33,414)
Business-type activities	(28,474)	(31,583)	(22,141)
Total primary government net expense	<u>\$ (74,713)</u>	<u>\$ (76,892)</u>	<u>\$ (55,555)</u>
 General Revenues and Other Changes in Net Position			
Governmental activities:			
Property taxes	\$ 87,425	\$ 86,852	\$ 86,217
Unrestricted investment earnings	12,897	7,098	3,337
Miscellaneous	3,457	5,161	2,189
Transfers	(6,539)	269	(2,811)
Total governmental activities	97,240	99,380	88,932
Business-type activities:			
Property taxes	21,372	24,241	23,181
Unrestricted investment earnings	8,245	3,787	1,779
Miscellaneous	4,602	5,447	1,575
Transfers	6,539	(269)	2,811
Total business-type activities	<u>\$ 40,758</u>	<u>\$ 33,206</u>	<u>\$ 29,346</u>
 Changes in Net Position			
Governmental activities	\$ 51,001	\$ 54,071	\$ 55,518
Business-type activities	12,284	1,623	7,205
Total primary government	<u>\$ 63,285</u>	<u>\$ 55,694</u>	<u>\$ 62,723</u>

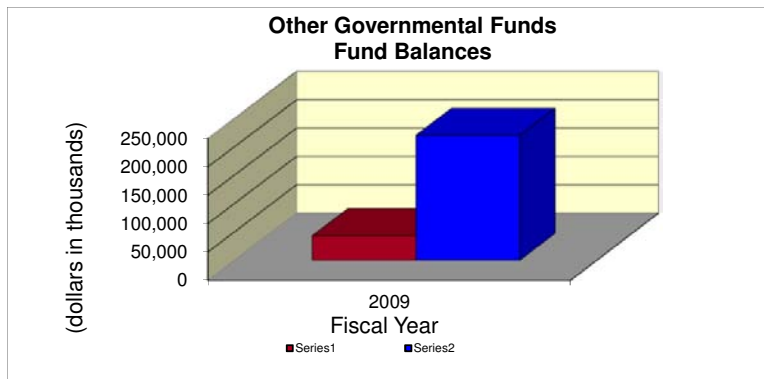
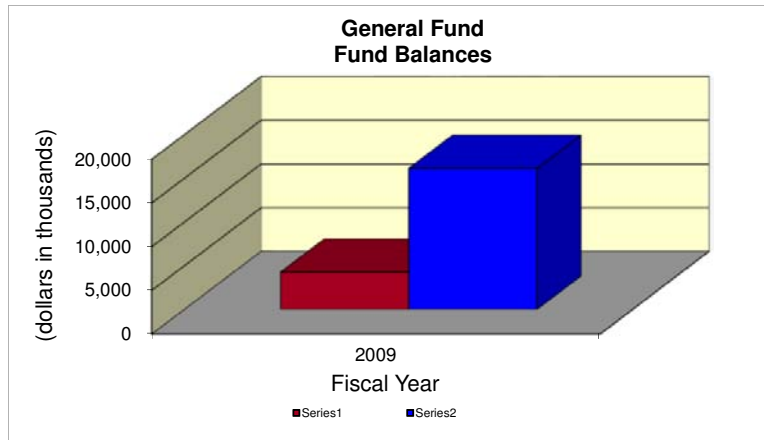
Source: Santa Clara Valley Water District, General Accounting Unit

2012	2013	2014	2015	2016	2017	2018
\$ 5,408	\$ 6,404	\$ 6,916	\$ 20,399	\$ 5,940	\$ 9,339	\$ 8,407
50,292	51,735	61,302	56,758	57,745	69,166	85,780
7,034	7,971	6,116	5,753	5,977	4,271	3,091
62,734	66,110	74,334	82,910	69,662	82,776	97,278
158,888	161,609	173,767	186,281	207,282	199,631	229,373
\$ 221,622	\$ 227,719	\$ 248,101	\$ 269,191	\$ 276,944	\$ 282,407	\$ 326,651
\$ 32,611	\$ 34,935	\$ 25,761	\$ 17,822	\$ 19,426	\$ 16,608	\$ 61,190
141,783	155,718	172,374	154,819	151,235	190,896	231,001
1,111	980	1,232	2,149	2,074	2,037	4,396
11,803	4,610	3,532	847	3,177	17,527	4,350
154,697	161,308	177,138	157,815	156,486	210,460	239,747
\$ 187,308	\$ 196,243	\$ 202,899	\$ 175,637	\$ 175,912	\$ 227,068	\$ 300,937
\$ (30,123)	\$ (31,175)	\$ (48,573)	\$ (65,088)	\$ (50,236)	\$ (66,168)	\$ (36,088)
(4,191)	(301)	3,371	(28,466)	(50,796)	10,829	10,374
\$ (34,314)	\$ (31,476)	\$ (45,202)	\$ (93,554)	\$ (101,032)	\$ (55,339)	\$ (25,714)
\$ 88,247	\$ 92,746	\$ 100,568	\$ 107,643	\$ 114,418	\$ 123,325	\$ 129,891
2,253	3,509	3,777	3,728	5,004	1,186	2,477
2,453	2,934	2,568	3,013	3,592	4,052	6,685
(3,281)	(3,729)	272	11,406	(19,873)	(1,902)	8,225
89,672	95,460	107,185	125,790	103,141	126,661	147,278
22,327	24,200	26,989	27,701	30,535	44,786	37,417
1,082	1,163	1,624	1,621	2,925	979	1,267
2,573	5,561	3,283	3,113	4,892	2,527	6,428
3,281	3,729	(272)	(11,406)	19,873	1,902	(8,225)
\$ 29,263	\$ 34,653	\$ 31,624	\$ 21,029	\$ 58,225	\$ 50,194	\$ 36,887
\$ 59,549	\$ 64,285	\$ 58,612	\$ 60,702	\$ 52,905	\$ 60,493	\$ 111,190
25,072	34,352	34,995	(7,437)	7,429	61,023	47,261
\$ 84,621	\$ 98,637	\$ 93,607	\$ 53,265	\$ 60,334	\$ 121,516	\$ 158,451

Santa Clara Valley Water District
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

Data prior to GASB 54 implementation

	2009
General Fund	
Reserved	\$ 4,257
Unreserved	16,117
Total general fund	<u>\$ 20,374</u>
All other governmental funds	
Reserved, reported in	
Special revenue funds	\$ 21,897
Capital project fund	12,618
Debt service fund	8,623
Unreserved, reported in:	
Special revenue funds	220,252
Capital project fund	-
Total all other governmental funds	<u>\$ 263,390</u>

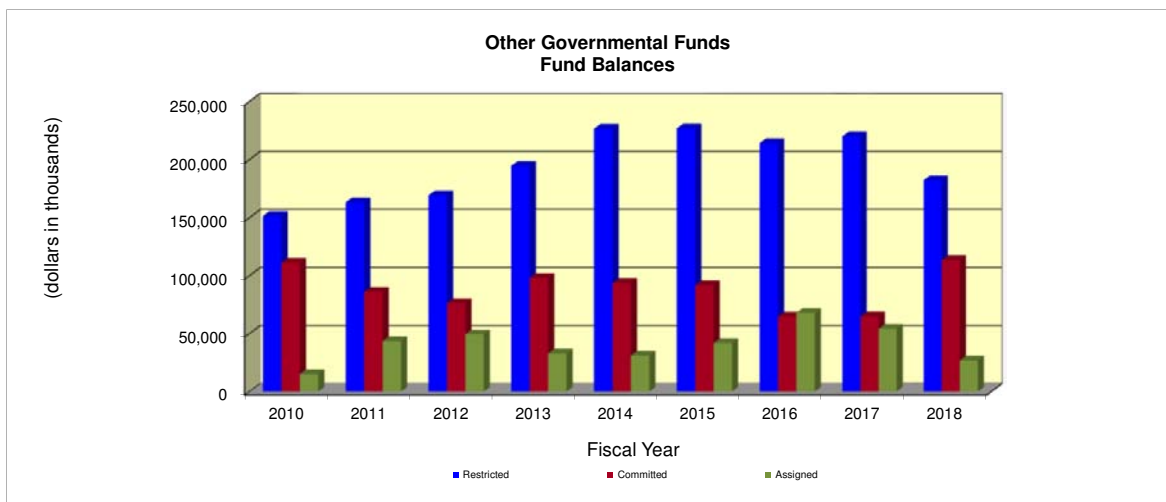
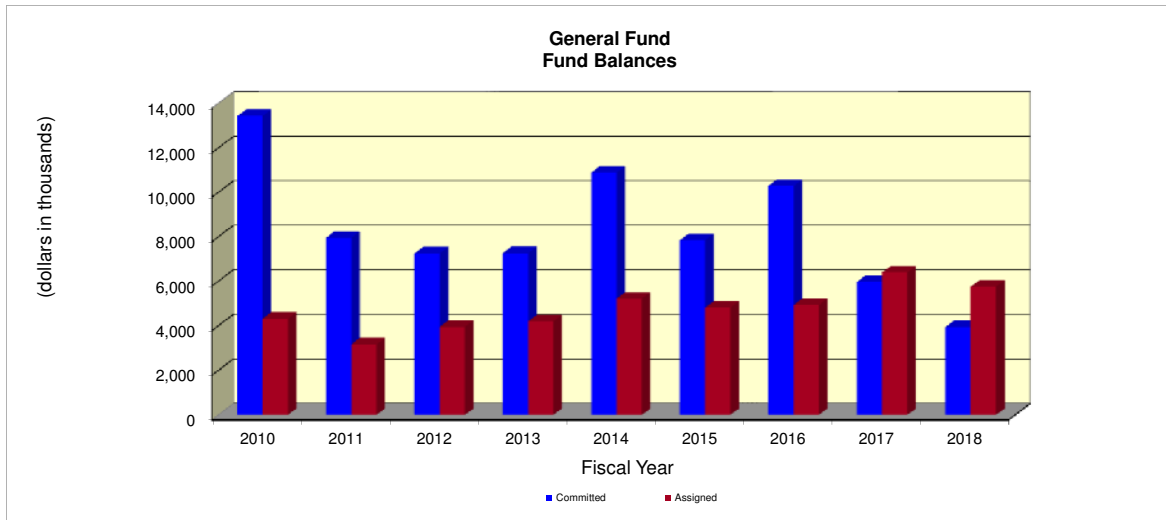


Source: Santa Clara Valley Water District, General Accounting Unit

Santa Clara Valley Water District
Fund Balances of Governmental Funds (continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

Data incorporating GASB 54 implementation

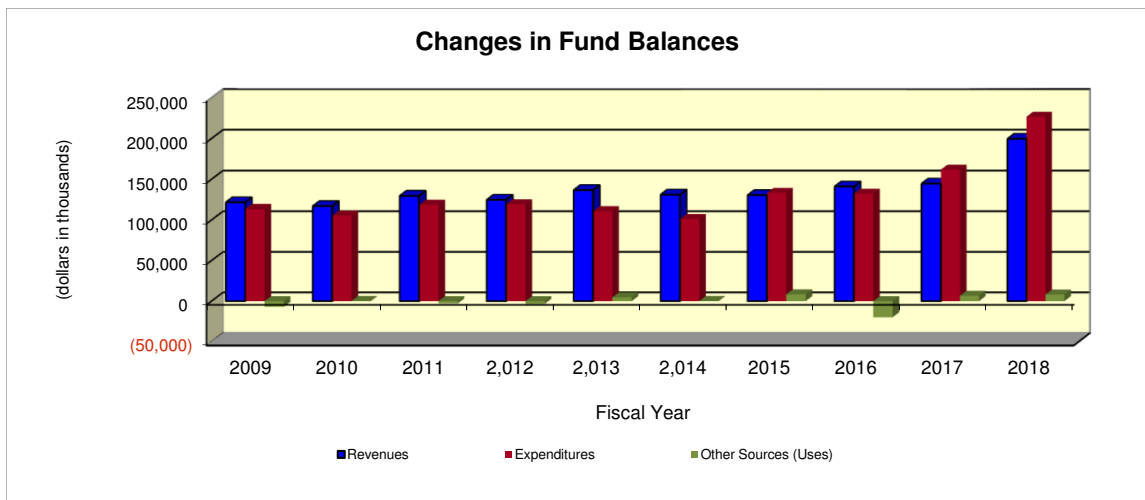
	Restated 2010	Restated 2011	2012	2013	2014	2015	2016	2017	2018
General Fund									
Committed	\$ 13,429	\$ 7,945	\$ 7,244	\$ 7,257	\$ 10,882	\$ 7,842	\$ 10,274	\$ 5,962	\$ 3,933
Assigned	4,308	3,157	3,941	4,187	5,210	4,809	4,924	6,385	5,747
Total general fund	\$ 17,737	\$ 11,102	\$ 11,185	\$ 11,444	\$ 16,092	\$ 12,651	\$ 15,198	\$ 12,347	\$ 9,680
All other governmental funds									
Restricted	\$ 151,614	\$ 163,372	\$ 169,294	\$ 194,662	\$ 226,493	\$ 226,770	\$ 214,078	\$ 220,115	\$ 182,319
Committed	111,338	86,183	76,465	98,134	93,683	91,817	64,851	64,898	113,673
Assigned	15,215	43,486	49,510	32,815	31,076	41,916	67,969	54,175	26,909
Total all other governmental funds	\$ 278,167	\$ 293,041	\$ 295,269	\$ 325,611	\$ 351,252	\$ 360,503	\$ 346,898	\$ 339,188	\$ 322,901



Source: Santa Clara Valley Water District, General Accounting Unit

Santa Clara Valley Water District
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

	2009	2010	2011	2012
Revenues				
Property taxes	\$ 87,425	\$ 82,372	\$ 86,217	\$ 88,247
Benefit assessments	19,255	19,226	19,091	19,131
Use of money and property:				
Investment income	11,475	6,565	2,860	1,621
Rental	1,300	1,312	1,388	1,416
Reimbursement of capital costs	1,311	4,480	19,487	13,480
Other	1,012	3,167	701	922
Total Revenues	121,778	117,122	129,744	124,817
Expenditures				
Operations and operating project	57,710	46,998	53,778	51,353
Capital improvement projects	39,188	41,727	48,478	51,394
Debt Service:				
Principal repayment	8,715	9,045	9,280	9,720
Interest and fiscal charges	7,931	7,509	7,158	6,758
Total expenditures	113,544	105,279	118,694	119,225
Excess of revenues over (under) expenditures	8,234	11,843	11,050	5,592
Other financing sources (uses)				
Transfers in	32,604	30,589	20,950	24,375
Transfers out	(39,613)	(30,292)	(23,761)	(27,656)
Proceeds from issuance of debt	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources (uses)	(7,009)	297	(2,811)	(3,281)
Net change in fund balances	\$ 1,225	\$ 12,140	\$ 8,239	\$ 2,311
Debt service as a percentage of non-capital expenditures	22.2%	25.6%	23.2%	23.0%

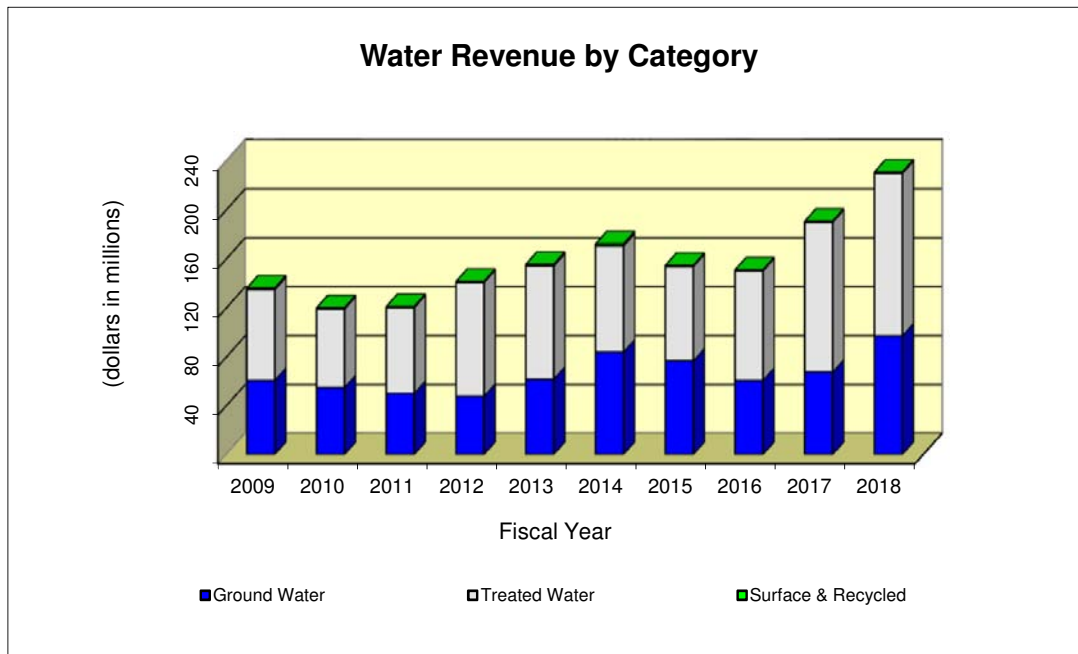


Source: Santa Clara Valley Water District, General Accounting Unit

2013	2014	2015	2016	2017	2018
\$ 97,226	\$ 100,568	\$ 107,643	\$ 114,418	\$ 123,325	\$ 129,891
19,178	16,143	16,074	14,683	14,790	14,774
1,785	2,556	2,505	3,747	956	2,305
1,423	1,609	1,684	1,759	1,817	1,931
15,757	9,618	1,748	4,743	1,818	46,416
1,415	728	911	1,782	1,971	4,361
<u>136,784</u>	<u>131,222</u>	<u>130,565</u>	<u>141,132</u>	<u>144,677</u>	<u>199,678</u>
49,198	50,426	65,425	57,725	67,511	70,912
44,809	36,866	53,984	61,876	81,597	142,710
10,935	8,055	8,355	7,630	8,020	8,660
5,919	5,858	5,497	5,084	4,743	4,418
<u>110,861</u>	<u>101,205</u>	<u>133,261</u>	<u>132,315</u>	<u>161,871</u>	<u>226,700</u>
<u>25,923</u>	<u>30,017</u>	<u>(2,696)</u>	<u>8,817</u>	<u>(17,194)</u>	<u>(27,022)</u>
21,190	34,362	30,054	26,528	17,436	31,007
(24,919)	(34,090)	(21,548)	(46,403)	(19,338)	(22,939)
52,955	-	-	-	68,932	-
(53,495)	-	-	-	(60,397)	-
<u>4,678</u>	<u>272</u>	<u>8,506</u>	<u>(19,875)</u>	<u>6,633</u>	<u>8,068</u>
<u>\$ 30,601</u>	<u>\$ 30,289</u>	<u>\$ 5,810</u>	<u>\$ (11,058)</u>	<u>\$ (10,561)</u>	<u>\$ (18,954)</u>
25.7%	18.8%	13.0%	13.4%	15.0%	13.7%

Santa Clara Valley Water District
Water Revenue by Category
Last Ten Fiscal Years
(dollars in thousands)

Fiscal Year	Ground Water Revenue	Treated Water Revenue	Surface & Recycled Water Revenue	Total Water Revenue
2009	\$ 61,103	\$ 74,012	\$ 1,241	\$ 136,356
2010	55,189	64,157	918	120,264
2011	50,384	70,135	828	121,347
2012	48,030	92,904	849	141,783
2013	62,084	92,359	1,275	155,718
2014	84,308	86,386	1,680	172,374
2015	77,095	76,799	925	154,819
2016	61,128	89,375	732	151,235
2017	67,937	122,212	747	190,896
2018	97,483	132,477	1,041	231,001



Source: Santa Clara Valley Water District, Wells & Water Production Unit

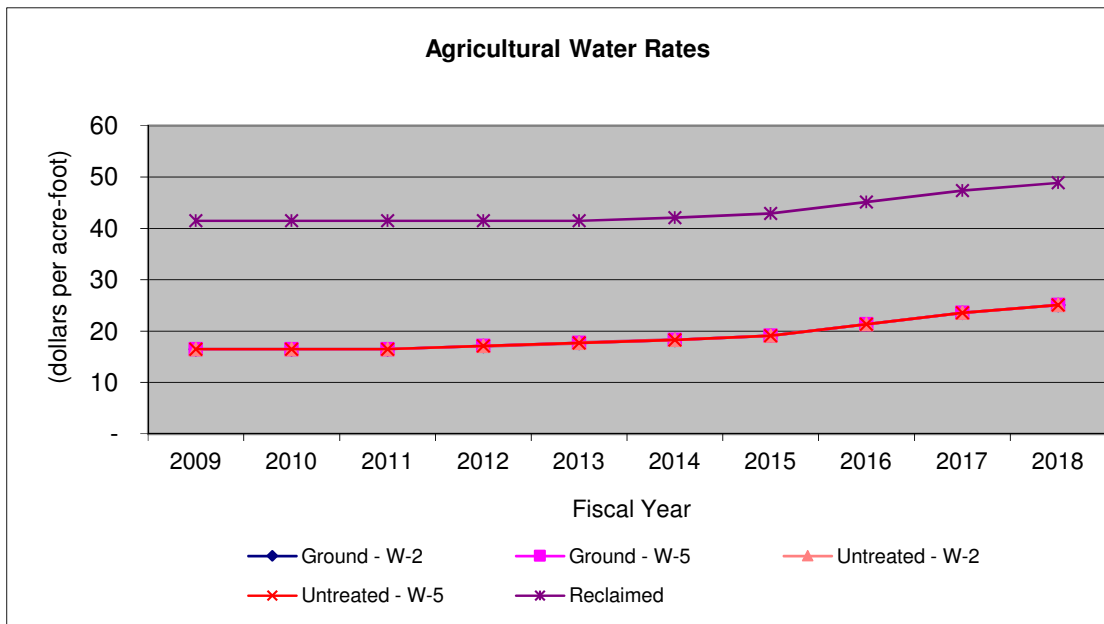
Santa Clara Valley Water District
Principal Water Revenue Customers
Current year and Nine years ago
(dollars in thousands)

Water Customer	Fiscal Year 2018			Fiscal Year 2009		
	Water Revenue	Rank	Percent of Total Water Revenue	Water Revenue	Rank	Percent of Total Water Revenue
San Jose Water Company	\$ 131,849	1	57.08%	\$ 78,095	1	57.27%
City of Santa Clara	20,027	2	8.67%	10,558	2	7.74%
California Water Service Co.	15,239	3	6.60%	8,561	4	6.28%
San Jose City Water	15,292	4	6.62%	9,864	3	7.23%
City of Sunnyvale	11,016	5	4.77%	6,262	5	4.59%
Great Oaks Water Company	7,446	6	3.22%	4,705	6	3.45%
City of Milpitas	4,035	7	1.75%	2,396	8	1.76%
City of Gilroy	3,344	8	1.45%	2,452	7	1.80%
City of Cupertino	3,292	9	1.43%	2,088	10	1.53%
City of Morgan Hill	2,956	10	1.28%	2,233	9	1.64%
Total	<u>\$ 214,496</u>		<u>92.87%</u>	<u>\$ 127,214</u>		<u>93.29%</u>
Total Water Sales	<u>\$ 231,001</u>			<u>\$ 136,356</u>		

Source: Santa Clara Valley Water District, Revenue Management Unit

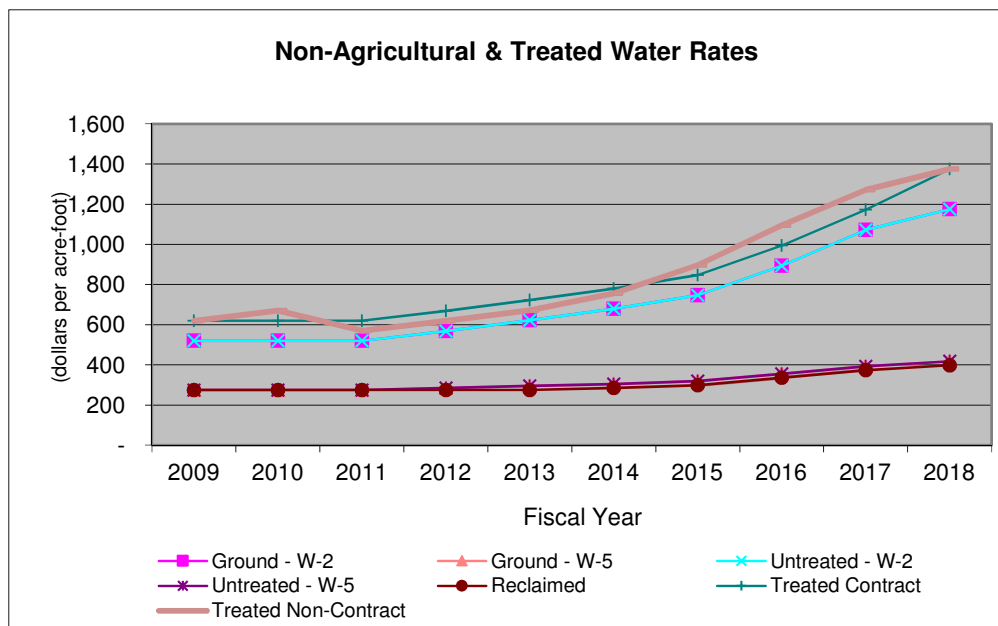
Santa Clara Valley Water District
Water Enterprise Rates Summary
Last Ten Fiscal Years
(rates in dollars per acre-foot)

Fiscal Year	Groundwater Rates				Treated Water Rates	
	Zone W-2		Zone W-5		Contract	Non Contract
	AG	Non-AG	AG	Non-AG		
2009	16.50	520.00	16.50	275.00	620.00	620.00
2010	16.50	520.00	16.50	275.00	620.00	670.00
2011	16.50	520.00	16.50	275.00	620.00	570.00
2012	17.10	569.00	17.10	285.00	669.00	619.00
2013	17.70	622.00	17.70	295.00	722.00	672.00
2014	18.30	680.00	18.30	305.00	780.00	755.00
2015	19.14	747.00	19.14	319.00	847.00	897.00
2016	21.36	894.00	21.36	356.00	994.00	1,094.00
2017	23.59	1,072.00	23.59	393.00	1,172.00	1,272.00
2018	25.09	1,175.00	25.09	418.00	1,375.00	1,375.00



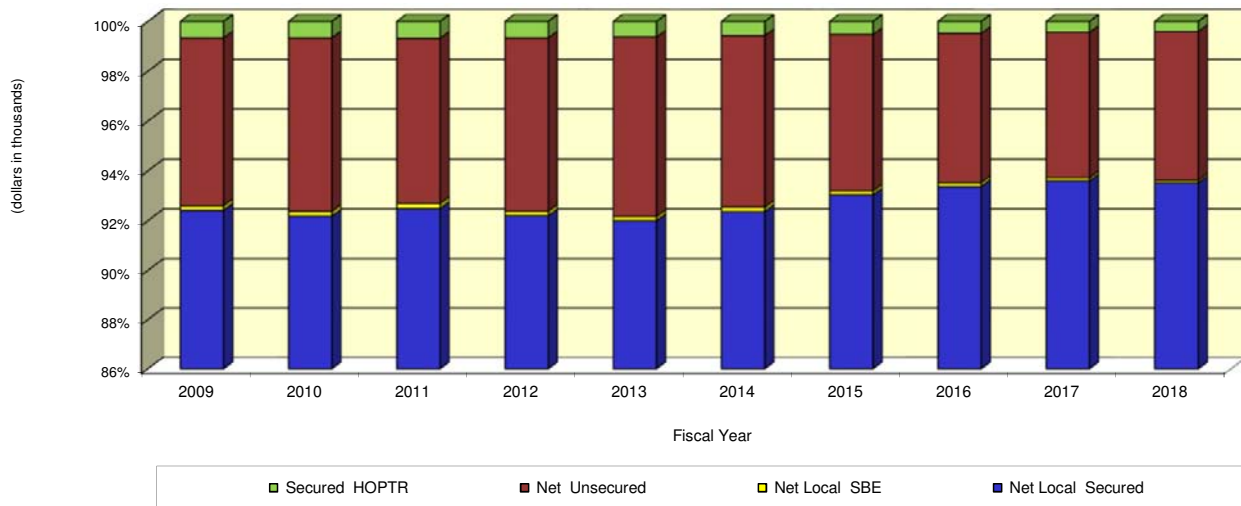
Source: Santa Clara Valley Water District, Wells & Water Production Unit

Untreated Water Rates				Reclaimed Water Rates	
Zone W-2		Zone W-5			
AG	Non-AG	AG	Non-AG	AG	Non-AG
16.50	520.00	16.50	275.00	41.50	275.00
16.50	520.00	16.50	275.00	41.50	275.00
16.50	520.00	16.50	275.00	41.50	275.00
17.10	569.00	17.10	285.00	41.50	275.00
17.70	622.00	17.70	295.00	41.50	275.00
18.30	680.00	18.30	305.00	42.10	285.00
19.14	747.00	19.14	319.00	42.94	299.00
21.36	894.00	21.36	356.00	45.16	336.00
23.59	1,072.00	23.59	393.00	47.38	373.00
25.09	1,175.00	25.09	418.00	48.88	398.00



Santa Clara Valley Water District
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(dollars in thousands)

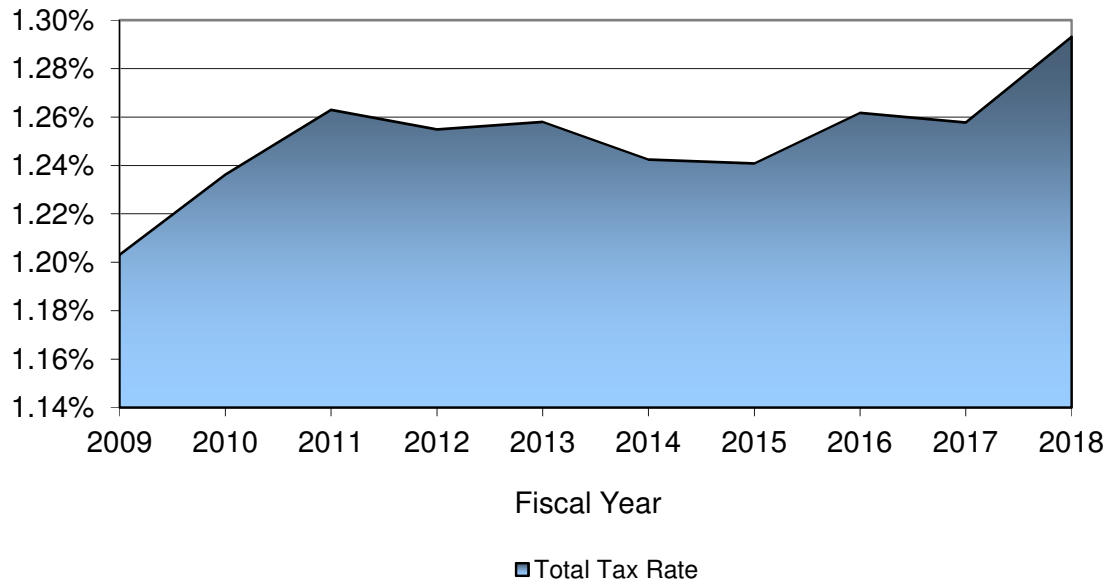
Fiscal Year	Net Local Secured	SBE	Total Secured	Net Unsecured	Total (a)	Exempt Valuation Secured		Total (c) = (a+b)	District Direct Rate (d)	Total District Direct Tax (c x d)
						HOPTR	(b)			
2009	\$ 279,767,066	\$ 554,935	\$ 280,322,001	\$ 20,381,412	\$ 300,703,413	\$ 2,005,174		\$ 302,708,587	0.0061%	\$ 18,465.22
2010	279,623,760	602,948	280,226,708	21,112,122	301,338,830	2,007,990		303,346,820	0.0074%	22,447.66
2011	274,020,130	595,208	274,615,338	19,652,921	294,268,259	2,007,881		296,276,140	0.0072%	21,331.88
2012	275,581,705	557,469	276,139,174	20,791,740	296,930,914	1,978,658		298,909,572	0.0064%	19,130.21
2013	283,903,536	525,302	284,428,838	22,225,683	306,654,521	1,951,818		308,606,339	0.0069%	21,293.84
2014	308,939,519	596,002	309,535,521	23,021,092	332,556,613	1,920,733		334,477,346	0.0070%	23,413.41
2015	332,220,200	577,096	332,797,296	22,417,252	355,214,548	1,891,373		357,105,921	0.0065%	23,211.88
2016	362,318,558	594,415	362,912,973	23,239,529	386,152,502	1,874,832		388,027,334	0.0057%	22,117.56
2017	392,058,176	524,128	392,582,304	24,439,939	417,022,243	1,850,004		418,872,247	0.0086%	36,023.01
2018	420,616,061	476,901	421,092,962	26,855,499	447,948,461	1,824,379		449,772,840	0.0062%	27,885.92



Source: County of Santa Clara Property Tax Apportionment Division

Santa Clara Valley Water District
Property Tax Rates-Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	Basic County Wide Levy	County	Cities	Santa Clara Valley Water District	Schools and Other Districts	Total Tax Rate
2009	1.0000%	0.0388%	0.0323%	0.0061%	0.1259%	1.2031%
2010	1.0000%	0.0388%	0.0326%	0.0074%	0.1574%	1.2362%
2011	1.0000%	0.0388%	0.0350%	0.0072%	0.1820%	1.2630%
2012	1.0000%	0.0388%	0.0334%	0.0064%	0.1763%	1.2549%
2013	1.0000%	0.0388%	0.0316%	0.0069%	0.1807%	1.2580%
2014	1.0000%	0.0388%	0.0279%	0.0070%	0.1687%	1.2424%
2015	1.0000%	0.0388%	0.0253%	0.0065%	0.1702%	1.2408%
2016	1.0000%	0.0388%	0.0223%	0.0057%	0.1949%	1.2617%
2017	1.0000%	0.0388%	0.0207%	0.0086%	0.1896%	1.2577%
2018	1.0000%	0.0597%	0.0186%	0.0062%	0.2087%	1.2932%



Source: County of Santa Clara, Department of Finance (tax rate area 17-028)

Santa Clara Valley Water District
Principal Property Tax Payers
Current year and Nine years ago
(Dollars in thousands)

Taxpayer	Fiscal Year 2018 ⁽²⁾			Fiscal Year 2009 ⁽³⁾		
	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Taxable Assessed Value	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Taxable Assessed Value
Leland Stanford Jr, University	\$ 6,021,731	1	1.34%			
Campus Holdings Inc.	3,076,342	2	0.68%			
Google Inc.	2,882,945	3	0.64%			
Sobrato Interests	1,644,207	4	0.37%	\$ 1,474,453	4	0.49%
Cisco Technology Inc.	1,639,015	5	0.36%	1,542,814	2	0.51%
Essex Portfolio LP	1,587,614	6	0.35%			
Apple Computer Inc.	1,560,726	7	0.35%	698,082	10	0.23%
Forty Niners SC Stadium Company LLC	1,108,535	8	0.25%			
The Irvine Company	1,096,130	9	0.24%			
Lockheed Missiles and Space Co. Inc.	967,780	10	0.22%			
M West Propco	926,150	11	0.21%			
Intel Corporation	895,112	12	0.20%	926,415	7	0.31%
Applied Materials Inc.	709,214	13	0.16%	754,969	8	0.25%
San Jose Water Works	700,191	14	0.16%			
River View Apartments LLC	662,486	15	0.15%			
Blackhawk Development				1,892,577	1	0.63%
Pacific Gas & Electric Co.				1,486,202	3	0.49%
Silicon Valley Developers, LLC				1,163,573	5	0.38%
Berg, Mission West, et al				1,088,024	6	0.36%
AT & T Corporation				739,194	9	0.24%
Total	<u>\$ 25,478,178</u>		<u>5.68%</u>	<u>\$ 11,766,303</u>		<u>3.89%</u>
Net Assessed Value of Taxable Property	<u>\$ 449,772,840</u>			<u>\$ 302,708,587</u>		

⁽¹⁾ Includes taxable properties only.

⁽²⁾ Source: California Municipal Statistics, Inc.

⁽³⁾ Source: Santa Clara County Tax Collector's Office

Santa Clara Valley Water District
Computation of District Act Debt Margin
June 30, 2018
(Dollars in Thousands)

Authorized short-term debt under authority of District Act Section 25.6	\$ 8,000
Outstanding short-term debt under Section 25.6, June 30, 2018	<u>-</u>
District Act Section 25.6 debt margin on short-term debt	<u><u>\$ 8,000</u></u>

Note:

The Santa Clara Valley Water District's debt issuance practices are governed by the provisions of California law and Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act). The District Act sets the limit on short term debt obligations (maturity of less than five years) at \$8,000,000.

The District may also issue short term notes under the tax and revenue anticipation note statute included in the California Government Code (sections 53850-53858). Under the tax and revenue anticipation note statute, the District may issue notes, provided the principal and interest are not to exceed 85% of the uncollected revenues of the District on the date such notes are issued (and subject to certain other limitations including a 15 month maturity provision). Section 53851 provides that the tax and revenue anticipation note statute is separate authority for the District to issue notes and any amount borrowed under the tax and revenue anticipation note statute is not limited by any other provision of law.

The District has elected to issue notes under the tax and revenue anticipation note statute to support the commercial paper program because it allows a larger amount of notes to be issued even though there is a shorter limitation on maturities.

The District is in compliance with its District Act and the debt issuance provisions of California law.

Santa Clara Valley Water District
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	Governmental Activities		Business-type Activities	
	General Obligation Bonds	Certificate of Participation	General Obligation Bonds	Revenue Bonds/ Certificate of Participation
2009	\$ -	\$ 161,238	\$ 1,390	\$ 222,470
2010	-	151,294	910	217,992
2011	-	142,112	405	213,307
2012	-	132,494	-	208,418
2013	-	131,199	-	201,780
2014	-	122,392	-	201,547
2015	-	117,117	-	191,490
2016	-	108,393	-	440,089
2017	-	105,529	-	443,602
2018	-	95,322	-	423,775

Source: Santa Clara Valley Water District, General Accounting Unit

Total Primary Government	Percentage of Personal Income	Per Capita
\$ 385,098	0.3718%	\$ 207
370,196	0.3609%	197
355,824	0.3180%	188
340,912	0.2788%	179
332,979	0.2549%	181
323,939	0.2283%	173
308,607	0.2154%	163
548,482	0.3163%	284
549,131	0.3135%	283
519,097	0.2934%	265

Santa Clara Valley Water District
Computation of Direct and Overlapping Debt
June 30, 2018

2017-18 Assessed Valuation

449,772,840,000

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

	<u>Total Debt-06/30/2018</u>	<u>% Applicable</u> ⁽¹⁾	District's Share of <u>Debt-06/30/2018</u>
Santa Clara County	\$ 1,012,400,000	100%	\$ 1,012,400,000
Foothill-DeAnza Community College District	633,997,978	100%	633,997,978
San Jose-Evergreen Community College District	509,525,599	100%	509,525,599
West Valley-Mission Community College District	495,110,000	99.009%	490,203,460
Other Community College Districts	367,526,074	0.053-75.679%	68,942,604
Gilroy Unified School District	213,611,154	100%	213,611,154
Palo Alto Unified School District	298,433,689	100%	298,433,689
San Jose Unified School District	523,594,025	100%	523,594,025
Santa Clara Unified School District	706,105,000	100%	706,105,000
Other Unified School Districts	278,709,746	1.227-100%	252,653,679
Campbell Union High School District	210,265,000	100%	210,265,000
East Side Union High School District	846,517,422	100%	846,517,422
Fremont Union High School District	433,280,088	100%	433,280,088
Other High School Districts	215,723,375	0.606-100%	152,886,073
Campbell School District	176,094,922	100%	176,094,922
Cupertino Union School District	270,528,688	100%	270,528,688
Evergreen School District	146,541,562	100%	146,541,562
Franklin McKinley School District	98,613,698	100%	98,613,698
Los Altos School District	57,145,000	100%	57,145,000
Los Gatos Union School District	85,175,000	100%	85,175,000
Moreland School District	107,897,251	100%	107,897,251
Oak Grove School District	181,283,201	100%	181,283,201
Sunnyvale School District	193,580,820	100%	193,580,820
Other School Districts	664,219,319	4.667-100%	658,658,352
City of Gilroy	28,745,000	100%	28,745,000
City of Palo Alto	62,140,000	100%	62,140,000
City of San Jose	342,770,000	100%	342,770,000
City of Saratoga	9,100,000	100%	9,100,000
Saratoga Fire Protection District	2,951,159	100%	2,951,159
El Camino Hospital District	127,800,000	100%	127,800,000
City Community Facilities Districts	45,595,000	100%	45,595,000
City of San Jose Special Assessment Bonds	10,670,000	100%	10,670,000
Other City 1915 Act Bonds (Estimated)	33,271,978	100%	33,271,978
Mid-peninsula Regional Open Space District	93,350,000	69.301%	64,692,484
Santa Clara Valley Water District Benefit Assessment District	82,285,000	100%	82,285,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 9,137,954,885

Ratios to the 2017-18 Assessed Valuation

Direct Debt	0.02%
Total Direct and Overlapping Tax and Assessment Debt	2.03%

OVERLAPPING GENERAL FUND DEBT:

	<u>Total Debt-06/30/2018</u>	<u>% Applicable</u> ⁽¹⁾	District's Share of <u>Debt-06/30/2018</u>
Santa Clara County General Fund Obligations	\$ 590,242,965	100%	\$ 590,242,965
Santa Clara County Pension Obligations	357,547,175	100%	357,547,175
Santa Clara County Office of Education Certificates of Participation	4,985,000	100%	4,985,000
Foothill-De Anza Community College District General Fund Obligations	28,803,859	100%	28,803,859
San Jose-Evergreen Community College District OPEB	47,450,000	100%	47,450,000
Gavilan Joint Community College District General Fund Obligations	13,915,000	75.679%	10,530,733
West Valley - Mission Community College District General Fund Obligations	63,060,000	99.009%	62,435,075
Gilroy Unified School District Certificates of Participation	25,955,000	100%	25,955,000
Other Unified School District General Fund Obligations	39,420,000	100%	39,420,000
East Side Union High School District Benefit Obligations	28,860,000	100%	28,860,000
Other Union High School District General Fund Obligations	1,916,143	0.606-100%	16,054,489
Alum Rock Union School District Certificates of Participation	20,460,000	100%	20,460,000
Other School District General Fund Obligations	51,143,941	21.777-100%	50,845,911
City of Cupertino Certificates of Participation	31,520,000	100%	31,520,000
City of Gilroy Certificates of Participation	39,250,000	100%	39,250,000
City of San Jose General Fund Obligations	504,505,000	100%	504,505,000
City of Santa Clara General Fund Obligations	18,645,000	100%	18,645,000
City of Sunnyvale General Fund Obligations	16,465,000	100%	16,465,000
Other City General Fund Obligations	27,146,695	100%	27,146,695
Santa Clara County Vector Control District Certificates of Participation	2,470,000	100%	2,470,000
Mid-peninsula Regional Park District General Fund Obligations	123,040,600	69.301%	85,268,366
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$ 2,008,860,268
Less: Santa Clara County supported general fund obligations			406,885,666
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$ 1,601,974,602

OVERLAPPING TAX INCREMENT DEBT: \$ 1,933,497,000 100% \$ 1,933,497,000

TOTAL DIRECT DEBT

TOTAL GROSS COMBINED OVERLAPPING DEBT \$ 82,285,000
TOTAL NET COMBINED OVERLAPPING DEBT \$ 12,998,027,153
\$ 12,591,141,487

GROSS COMBINED TOTAL DEBT

NET COMBINED TOTAL DEBT \$ 13,080,312,153 ⁽²⁾
\$ 12,673,426,487

⁽¹⁾ The percent of overlapping debt applicable to the Water District is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the Water District divided by the district's total taxable assessed value.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to the 2017-18 Assessed Valuation

Total Direct Debt	Ratio
Gross Combined Total Debt	0.02%
Net Combined Total Debt	2.91%
	2.82%

Ratio to Redevelopment Incremental Valuation (\$46,381,945,020)

Total Overlapping Tax Increment Debt 4.17%

Source: California Municipal Statistics, Inc.

Santa Clara Valley Water District
Revenue Bond Coverage
Last Ten Fiscal Years
(Dollars in Thousands)

Fiscal Year	Adjusted Revenue	Adjusted Operating Expense	Senior Obligations ⁽¹⁾					Parity Obligation ⁽²⁾			Senior/Parity/Subordinate Obligation ⁽³⁾		
			Net Revenue Available for Senior	Principal	Interest	Senior Debt Service Requirement	Coverage Factor	Net Revenue Available for Parity	Parity Debt Service Requirement	Coverage Factor	Net Revenue Available for All	Subordinate Obligation Debt Service Requirement	Coverage Factor
			Debt Service					Debt Service			Debt Service		
			(A)			(B)	(C=A/B)	(D=A-B)	(E)	(F=D/E)	(G=A)	(H)	(I=G/(B+E+H))
2009	156,579	105,535	51,044	2,345	9,480	11,825	4.32	-	-	-	-	-	-
2010	135,810	102,564	33,246	4,814	8,446	13,260	2.51	-	-	-	-	-	-
2011	133,676	108,093	25,583	5,020	8,019	13,039	1.96	-	-	-	-	-	-
2012	154,750	111,505	43,245	5,230	7,945	13,175	3.28	-	-	-	-	-	-
2013	171,066	111,120	59,946	6,973	7,596	14,569	4.11	-	-	-	-	-	-
2014	182,295	118,158	64,137	7,002	7,523	14,525	4.42	-	-	-	-	-	-
2015	154,696	130,915	23,781	7,456	7,501	14,957	1.59	-	-	-	-	-	-
2016	182,404	141,367	41,037	3,948	6,066	10,014	4.10	31,023	2,072	14.97	41,037	185	3.34
2017 ⁽⁴⁾	207,899	130,278	77,621	3,830	4,827	8,657	8.97	68,964	12,447	5.54	77,621	-	3.68
2018	254,177	172,427	81,750	2,070	1,793	3,863	21.16	77,887	21,213	3.67	81,750	358	3.21

Source: Santa Clara Valley Water District General Accounting Unit

In July 1994, the District refunded its outstanding water revenue bonds and restructured its debt covenants under a Senior Master Resolution (94-58, as amended by 06-80) governing the issuance of all Water Utility System Senior debt obligations, including the method of calculating Senior Debt Service coverage ratio.

In February 2016, the District Board adopted the Water Utility Parity System Master Resolution (16-10) governing issuance of all Water Utility System Parity debt obligations, calculating the method of calculating Parity Debt Service coverage ratio.

Prescribed by the aforementioned Master Resolutions, operating revenues and expenses include adjustments which relate primarily to intergovernmental revenues, depreciation and amortization, other post employment benefits, and compensated absences and claims.

(1) The senior obligation minimum debt service coverage requirement is 1.25, per the Water Utility Senior Master Resolution (94-58, as amended by 06-80).

(2) The parity obligation minimum debt service coverage requirement is 1.25, per the Parity Master Resolution (16-10).

(3) The senior/parity/subordinate obligation minimum debt service coverage requirement is 1.10, per the Water Utility Senior Master Resolution (94-58, as amended by 06-80).

(4) Fiscal year 2016-17 debt service coverage calculations were adjusted to correct overstated interest payments previously reported under the Senior Obligations, and adjustments for financing fees.

Santa Clara Valley Water District
Demographic and Economic Statistics
For Santa Clara County
Last Ten Fiscal Years

Fiscal Year	Population ⁽¹⁾	Personal Income (in \$000) ⁽²⁾	Per Capita Personal Income (in \$000)	Change In Consumer Price Index ⁽³⁾	School Enrollment ⁽⁴⁾	Total Employment ⁽⁵⁾	Unemployment Rate ⁽⁵⁾
2009	1,857,621	\$ 103,568,953	\$ 55.754	0.2%	261,945	787,700	11.8%
2010	1,880,876	102,589,854	54.544	1.1%	265,544	879,100	11.3%
2011	1,890,909	111,880,131	59.167	1.1%	266,267	798,200	9.9%
2012	1,899,567	122,259,021	64.362	0.9%	270,109	794,236	8.5%
2013	1,842,254	130,624,491	70.905	1.4%	273,701	865,900	6.8%
2014	1,868,558	141,873,705	75.927	3.0%	276,175	879,500	5.4%
2015	1,889,638	143,292,442	75.831	2.3%	276,689	993,400	3.7%
2016	1,927,888	173,428,896	75.069	2.7%	274,948	996,800	4.0%
2017	1,938,180	175,163,185	75.417	3.5%	273,264	992,900	3.8%
2018	1,956,598	176,914,817	90.420	3.9%	272,132	1,035,600	2.7%

Source: ⁽¹⁾ State of California - Department of Finance, Demographics & Research Unit.

⁽²⁾ U.S. Department of Commerce - Bureau of Economic Analysis;
actual data available up to 2016;personal income data for 2017 & 2018 are preliminary
and assumes a 1% increase from prior year.

⁽³⁾ U.S. Department of Labor - Bureau of Labor Statistics - San Francisco Bay Region

⁽⁴⁾ State of California - Department of Education and Santa Clara County Office of Education

⁽⁵⁾ State of California - Employment Development Department

Santa Clara Valley Water District
Principal Employers
Current Year and Nine Years ago
(unaudited)

Company or Organization	Fiscal Year 2018			Fiscal Year 2009		
	Employees ⁽²⁾	Rank	Percentage of Total County Employment	Employees ⁽³⁾	Rank	Percentage of Total County Employment
Apple Computer	25,000	1	2.41%	10,000	2	1.27%
Google, Inc. / Alphabet	20,000	2	1.93%			
County of Santa Clara	17,800	3	1.72%			
Stanford University	16,919	4	1.63%			
Cisco Systems, Inc.	14,120	5	1.36%	13,000	1	1.65%
Facebook Inc.	14,000	6	1.35%			
Kaiser Permanente	12,500	7	1.21%			
Stanford Health Care	10,034	8	0.97%	5,500	4	0.70%
Tesla Motors Inc.	10,000	9	0.97%			
Santa Clara Valley Medical Center	9,130	10	0.88%	3,500	10	0.44%
University of California Santa Cruz	8,800	11	0.85%			
Intel Corp	8,450	12	0.82%	5,000	5	0.63%
Safeway	7,887	13	0.76%			
Oracle Corp.	6,581	14	0.64%			
City of San Jose	6,159	15	0.59%			
Lockheed Martin Space Systems				8,000	3	1.02%
Maxim Integrated Products, Inc.				4,706	6	0.60%
Fujitsu				4,500	7	0.57%
Applied Materials				4,100	8	0.52%
Hewlett-Packard Co,				4,000	9	0.51%
Total	<u>187,380</u>		<u>18.09%</u>	<u>62,306</u>		<u>7.91%</u>
Total County Employment ⁽¹⁾	<u>1,035,600</u>			<u>787,700</u>		

Source: ⁽¹⁾ State of California - Employment Development Department

⁽²⁾ Silicon Valley Business Journal, July 27, 2018

⁽³⁾ Rich's Everyday Sales Prospecting Directory - Santa Clara County

Santa Clara Valley Water District
Full-time Equivalent District Employees by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Office of the CEO	13	12	11	10	10	10	10	10	11	11
Office of the District Counsel	11	11	9	9	9	9	9	9	10	10
Community & Government Relations	20	20	7	8	8	8	8	18	23	27
County-Wide Watershed Management	122	119	117	105	98	98	98	112	109	109
Capital Programs	152	145	143	126	117	112	115	118	112	112
Water Utility Operations	43	43	43	43	43	43	43	43	43	43
Water Supply	11	11	11	11	11	11	11	11	11	11
Water Conservation	10	10	10	10	10	10	10	10	11	11
Surface & Groundwater Management	34	34	34	34	34	34	34	36	33	33
Water Quality	22	22	22	22	22	22	22	22	28	28
Control Systems	11	11	11	11	11	11	11	11	14	14
Water Utility Maintenance	23	23	23	23	23	23	23	23	28	28
Treated Water Operations	36	36	36	36	36	36	36	38	44	44
Raw Water Operations	25	25	25	25	25	25	25	28	37	37
Administrative & Business Management	11	11	11	8	8	8	8	8	11	11
Clerk of the Board	10	12	12	12	12	12	12	12	14	14
Organizational Training & Development	10	6	6	6	6	6	6	6	4	4
Business Support Services	18	16	16	16	16	16	16	16	16	16
Library & Records	5	5	6	6	6	6	6	6	5	5
Budget Office	4	8	8	8	8	8	8	8	7	7
Accounting	18	18	18	18	18	16	18	18	17	17
Information & Systems Management	42	43	43	39	39	39	39	39	36	36
Technical Services	3	3	3	3	3	3	3	3	3	3
Wells & Water Production	20	20	18	18	18	18	18	18	18	18
Real Estate & Right-of-Way	8	8	8	8	8	8	8	9	10	10
Equipment Management	12	12	12	12	12	12	12	12	12	12
Warehouse & Inventory Control	7	7	6	6	6	6	6	6	5	5
Facilities Maintenance	15	15	15	15	15	15	15	15	15	15
Purchasing	9	9	9	9	9	9	9	10	10	10
Permits	16	16	16	16	16	13	16	16	14	14
Contracts Administration	6	6	5	4	4	4	4	5	5	5
Human Resources & Benefits	21	21	21	21	21	19	21	21	18	18
Health & Safety	6	6	6	6	6	10	6	6	10	10
Total	<u>774</u>	<u>764</u>	<u>741</u>	<u>704</u>	<u>688</u>	<u>680</u>	<u>686</u>	<u>723</u>	<u>744</u>	<u>748</u>

Source: Santa Clara Valley Water District, Human Resources & Benefits Unit

Santa Clara Valley Water District
Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
District Well Ordinance Program										
New Wells	846	583	775	541	443	513	407	424	321	410
Destroyed Wells	620	663	653	531	502	744	1,504	1,167	945	463
Well Permits	2,047	1,564	1,626	1,740	1,265	1,697	2,285	1,799	1,546	1,272
Well Inspections	1,685	1,286	1,517	1,350	1,080	1,398	2,092	1,848	1,687	1,093
Watershed Management										
Miles of Vegetation Removed/Managed	187	185	175	241	221	206	177	164	116	168
Cubic Yards of Sediment Removed	7,383	17,409	15,623	32,456	21,456	34,596	4,129	3,929	83,792	34,881
Miles of Bank Erosion Protection	1.4	-	1.8	0.5	1.1	2.1	0.2	1.2	0.5	0.5
Laboratory Services Unit										
Water Samples Tested (approx.)	119,190	99,385	132,638	111,265	158,082	170,055	169,182	178,934	179,252	156,347
Water Quality Violations	-	-	-	-	-	-	-	-	-	-
Water Measurement Program										
Meter Reads/Site Visits	7,418	5,934	5,981	5,939	6,019	5,964	5,908	5,934	5,489	6,264
Meter Repairs/Preventative Maintenance	342	302	328	316	313	272	201	323	301	307
Backflow Device Tests	200	190	170	151	177	159	203	153	149	227
Community Projects Review										
Permits Issued	213	217	229	220	257	201	220	289	228	177
Land Development Review Requests	1,336	1,080	1,030	964	865	940	843	45	124	749
Underground Service Alerts	39,079	27,782	28,651	37,348	46,599	53,782	58,871	12,118	8,042	8,529
Requests for Flood Zone Information	109	91	90	70	72	51	24	92	26	18
Environmental Impact Reports Reviewed	130	115	107	55	33	65	68	32	56	53
Water Resource Protec. Ordinance Violations	136	121	125	234	193	184	130	220	163	186
Human Resources										
Permanent Positions Hired	19	20	13	17	21	31	54	150	112	133
Temporary Workers Employed	54	49	121	112	140	247	134	276	259	122
Employment Applications Processed	952	1,163	1,000	2,685	1,524	4,236	5,746	5,621	5,847	5,668
Health & Safety										
Ergonomic Assessments	62	46	44	36	39	38	42	46	44	47
Confined Space Assessments	193	210	247	117	139	261	147	204	120	223
Employee Safety Committee Meetings	11	12	10	11	9	11	12	12	12	11
Projects Managed by Type:										
Capital Projects	179	178	138	129	126	131	160	165	121	130
Operating Projects	67	56	46	48	43	36	35	39	23	29
Operations Projects	400	373	354	365	396	394	415	409	358	351

Source: Santa Clara Valley Water District, various government departments

Santa Clara Valley Water District
Flood Control System
Historical Operating Results
Combined Statement of Revenues and Debt Service Coverage
Last Ten Fiscal Years
(Dollars in Thousands)

	2009	2010	2011	2012
Flood Control System Revenues:				
Benefit assessment, gross ¹	\$ 19,450	\$ 19,420	\$ 19,284	\$ 19,324
Property tax	50,660	45,010	47,567	48,457
Investment income	5,137	2,671	1,099	560
Rental income	1,159	1,137	1,139	1,210
Other	903	1,045	564	798
Total Flood Control System Revenue	<u>\$ 77,309</u>	<u>\$ 69,283</u>	<u>\$ 69,653</u>	<u>\$ 70,349</u>
Debt Service:				
2003A Certificates of participation ²	\$ 7,533	\$ 7,433	\$ 6,958	\$ 6,018
2004A Certificates of participation ^{3/4}	2,304	2,488	2,395	2,285
2007A Certificates of participation ³	5,759	5,757	5,761	5,759
2012A Certificates of participation	-	-	-	-
2017A Certificates of participation ⁴	-	-	-	-
Total Debt Service	<u>\$ 15,596</u>	<u>\$ 15,678</u>	<u>\$ 15,114</u>	<u>\$ 14,062</u>
Coverage	4.96	4.42	4.61	5.00

¹ The benefit assessment presented on the Statement of Revenues, Expenditures and Changes in Fund Balances are net of collection fees. For the purpose of the Flood Control System Debt Service Coverage, collection fees are excluded. Therefore, the benefit assessments presented above have been increased by:

FY2018 - \$ 148
FY2017 - \$ 149
FY2016 - \$ 149
FY2015 - \$ 162
FY2014 - \$ 163
FY2013 - \$ 194
FY2012 - \$ 193
FY2011 - \$ 193
FY2010 - \$ 194
FY2009 - \$ 195

In accordance with voter authorizations, benefit assessments are set at 1.25 of gross debt service allocable to flood control projects starting during Fiscal Year 2001.

Source: Santa Clara Valley Water District, General Accounting Unit

2013	2014	2015	2016	2017 ⁵	2018
\$ 19,372	\$ 16,306	\$ 16,236	\$ 14,832	\$ 14,939	\$ 14,922
55,647	57,631	62,887	68,005	74,806	79,538
249	985	889	1,303	317	729
1,208	1,338	1,403	1,474	1,527	1,609
1,327	687	596	1,210	1,870	3,999
<u>\$ 77,803</u>	<u>\$ 76,947</u>	<u>\$ 82,011</u>	<u>\$ 86,824</u>	<u>\$ 93,459</u>	<u>\$ 100,797</u>
\$ 1,141	\$ -	\$ -	\$ -	\$ -	\$ -
2,380	1,398	1,349	1,109	1,111	-
5,757	5,761	5,762	5,757	5,760	-
6,443	6,111	6,101	5,294	5,297	5,295
-	-	-	-	-	6,866
<u>\$ 15,721</u>	<u>\$ 13,270</u>	<u>\$ 13,212</u>	<u>\$ 12,160</u>	<u>\$ 12,168</u>	<u>\$ 12,161</u>
4.95	5.80	6.21	7.14	7.68	8.29

² The 2003A debt service payments are shown net of interest credit applied to the payment fund.

³ The 2004A and 2007A Certificates were refunded by the 2017A Certificates.

⁴ The 2004A and 2017A debt service payments excludes the portion paid by the District General Fund as this portion of debt service was not payable from benefit assessments (see Flood Control Master Resolution 94-60).

⁵ The Fiscal Year 2017 debt service coverage calculation was adjusted above to correct overstated debt service previously reported.

Santa Clara Valley Water District
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

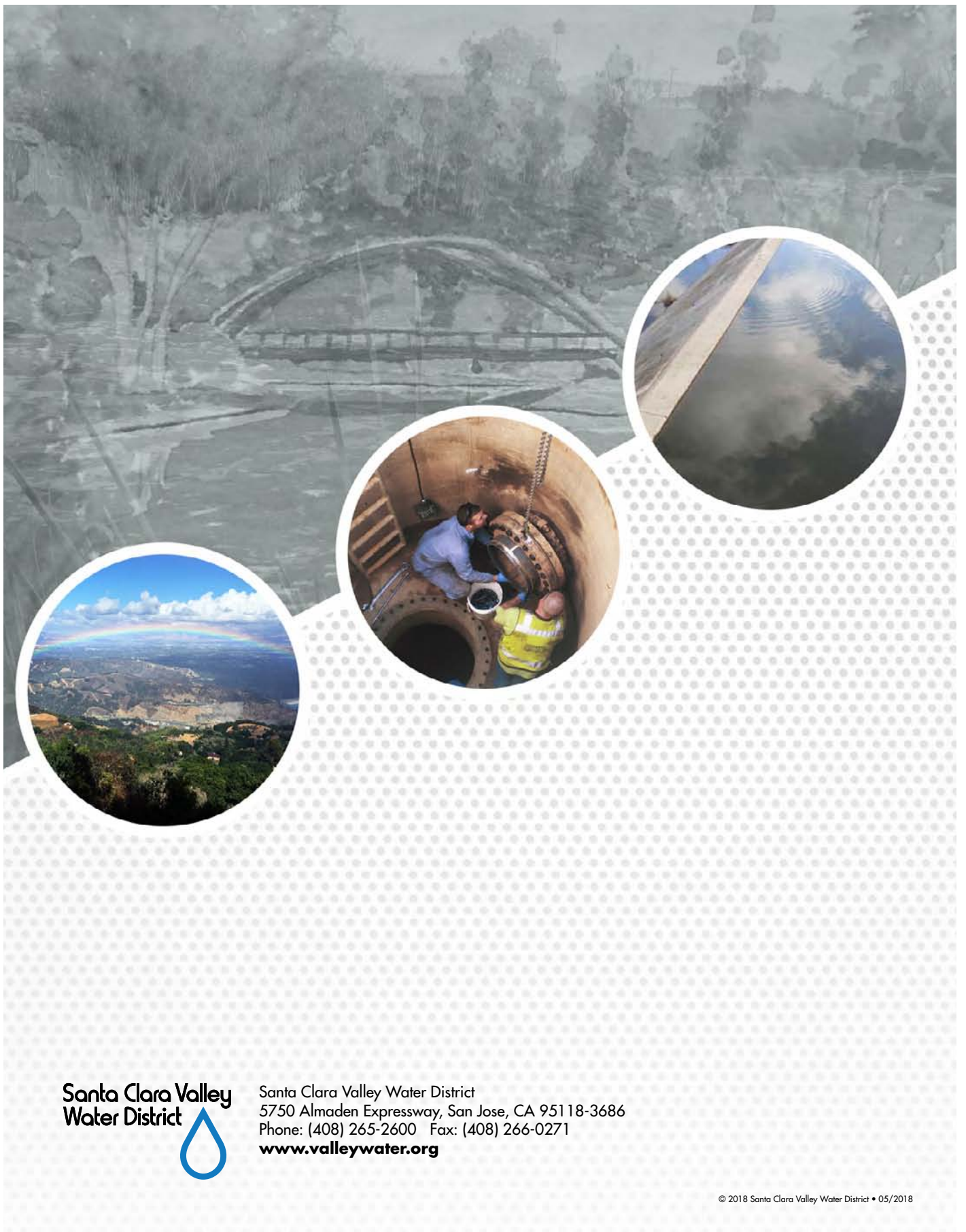
Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Water Utility Enterprise										
Acres of groundwater recharge ponds	393	393	393	393	393	393	393	393	393	393
Miles of canals	17	17	17	17	17	17	17	17	17	17
Miles of pipeline	143	143	143	144	144	144	144	144	144	144
Miles of tunnels	8	8	8	8	8	8	8	8	8	8
Number of treatment plants	3	3	3	4	4	4	4	4	4	4
Number of pumping stations	5	5	5	5	5	5	5	5	5	5
Number of treated water reservoirs	1	1	1	1	1	1	1	1	1	1
Water Utility Operations										
Process Control Instrumentation	987	1071	1128	1,161	1,406	1,680	1,443	1,493	1,548	1,534
Mechanical Drives	50	54	54	54	72	61	56	73	58	61
Chemical Mixers	86	87	87	87	89	111	95	95	92	88
Electrical Motors	375	381	407	432	452	512	439	455	468	464
Power Distribution Equipment	618	640	736	913	1,248	1,673	1,140	1,155	1,089	859
Pumps	469	475	496	515	547	601	515	518	517	518
Utility Vaults & Structures	958	1019	1050	1,051	1,062	1,095	1,114	1,340	1,156	1,122
Chemical & Water Storage Tanks	169	170	179	192	199	176	174	203	168	173
Valves	950	994	1059	1,070	1,613	1,702	1,600	1,676	1,695	1,710
Valve Operators	492	524	577	579	799	869	783	782	781	782
Generators	21	23	23	26	25	27	25	29	29	27
Flow Meters	256	258	271	296	381	387	347	377	399	360
Electric Drives	152	152	160	170	173	208	165	162	172	183
Blowers & Compressors	167	168	164	174	146	208	188	185	184	181
Miscellaneous Equipment	315	429	459	467	477	3,306	1,441	1,350	1,356	1,322
Watersheds										
Miles of creeks and rivers managed for flood control	700	700	700	700	700	700	700	700	700	800 +*
Number of reservoirs	10	10	10	10	10	10	10	10	10	10
Total District reservoir capacity (acre-feet)	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415
Acres of Wildlife Habitat Restored	N/A	N/A	N/A	N/A	569	569	326	326	310	364
Fleet Equipment										
Class I Passenger Vehicles	204	202	190	190	185	186	182	184	179	178
Class II Heavy Duty Trucks	72	78	79	78	82	84	87	82	90	94
Class III Tractors, Const. Equip., Generators, Forklifts	26	25	25	26	24	27	26	26	21	26
Class IV Misc. Small Tools & Engines	520	597	648	643	655	474	506	506	534	478

Source: Santa Clara Valley Water District, various government departments

* There are more than 800 miles of creeks in Santa Clara County (SC Co.). SCVWD owns 278 miles of streams in SC Co. Only a portion of these have been modified with flood protection projects. Those are the streams that are maintained by SCVWD.

Santa Clara Valley
Water District





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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS

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

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.

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms defined in the Indenture and in the Water Utility Parity System Master Resolution, will for all purposes of the Indenture and of any indenture supplemental thereto and of any certificate, opinion or other document therein mentioned, have the meanings therein 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.

Authorized Representative. The term “Authorized Representative” means the Chief Executive Officer of the District, 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 the District (excluding members of the Board of Directors of the District), 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 the District mean a written certificate, direction, request or requisition signed in the name of the District 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 will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

Closing Date. The term “Closing Date” means the date on which the 2019 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 Series 2019B 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 Series 2019B 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 Series 2019B Bond to be redeemed.

Comparable Treasury Price. The term “Comparable Treasury Price” means, with respect to any applicable optional Redemption Date for a particular Series 2019B 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 the District and U.S. Bank National Association, as dissemination agent, relating to the 2019 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 the District and related to the authorization, issuance, sale and delivery of the 2019 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 2019 Bonds and any other cost, charge or fee in connection with the original issuance of the 2019 Bonds.

Costs of Issuance Fund. The term “Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

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 2019 Bonds.

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

District. The term “District” 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.

Event of Default. The term “Event of Default” means any of the events specified in the Indenture.

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 the Indenture of Trust, dated as of March 1, 2019, by and between the District 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 the District, each of whom is independent of the District 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 the District, and who, or each of whom:

- (1) is in fact independent and not under domination of the District;
- (2) does not have any substantial interest, direct or indirect, with the District; and
- (3) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

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 the District 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 the Indenture.

Interest Payment Date. The term “Interest Payment Date” means each June 1 and December 1, commencing June 1, 2019.

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.

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 the District delivered to and accepted by the Depository on or prior to delivery of the 2019 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 the District delivered to and accepted by the Depository.

Manager. The term “Manager” means the Chief Executive Officer of the District (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 the District (excluding members of the Board of Directors of the District), or the Chief Financial Officer.

Minimum Rating. The term “Minimum Rating” means “A+”, “A-1” 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 the Indenture.

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 2019 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 the District and the Owners.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the District) selected by the District. If and to the extent required by the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2019 Bonds, means (subject to the Indenture) all 2019 Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (i) 2019 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2019 Bonds with respect to which all liability of the District will have been discharged in accordance with the Indenture, including 2019 Bonds (or portions thereof) described in

the Indenture; and (iii) 2019 Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2019 Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2019 Bond Owner. The term “Owner” or “2019 Bond Owner,” whenever used in the Indenture with respect to a 2019 Bond, means the person in whose name the ownership of such 2019 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 the Indenture.

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 the District.

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”, “AAAAm” or “AAAAm-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 will be rated “AA” or better by S&P and Fitch or “Aa2” or better by Moody’s.

The value of the above investments will 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 the Indenture.

Rating. The term “Rating” means any currently effective rating on the 2019 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 2019A Bonds pursuant to the Indenture.

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 2019 Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to the Indenture.

Redemption Price. The term “Redemption Price” means, with respect to any 2019 Bond (or portion thereof), the principal amount of such 2019 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 2019 Bond and the Indenture.

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

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 Series 2019B 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 2019 Bonds pursuant to the Indenture.

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 will be such officers, respectively, with responsibility for the administration of the 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 the District may designate in a Written Request of the District deliver to the Trustee.

Series 2019A Bonds. The term “Series 2019A Bonds” means the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2019A issued pursuant to the Water Utility Parity System Master Resolution and the Indenture.

Series 2019B Bonds. The term “Series 2019B Bonds” means the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Taxable Series 2019B issued pursuant to the Water Utility Parity System Master Resolution and the 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 the District and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

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 2019A Bonds, issued by the District on the date of issuance of the Series 2019A Bonds, including any and all exhibits attached thereto.

Treasury Rate. The term “Treasury Rate” means, with respect to any applicable optional Redemption Date for a particular Series 2019B 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 remain term to maturity of the Series 2019B 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 term to maturity of the Series 2019B Bond being redeemed and (b) closest to and more than the remaining term to the maturity of the Series 2019B 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 as provided in the Indenture.

2019 Bonds. The term “2019 Bonds” means the Series 2019A Bonds and the Series 2019B Bonds.

Value. The term “Value,” which will be determined as of the end of each month, means that the value of any investments, which will 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 the District on February 23, 2016, as amended by Resolution No. 16-82 adopted by the Board of Directors of the District on December 13, 2016, as such resolution may be further supplemented and amended from time-to-time.

Written Consent of the District; Written Order of the District; Written Request of the District; Written Requisition of the District. The terms “Written Consent of the District,” “Written Order of the District,” “Written Request of the District,” and “Written Requisition of the District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of the District 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 the District) who is specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for in the Indenture, with respect to compliance with any provision of the Indenture includes: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions in the Indenture 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.

THE 2019 BONDS

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 2019 Bonds, which upon reasonable notice and at reasonable times be open to inspection during regular business hours by the District and the Owners; and, upon presentation for such purpose, the Trustee is, 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 2019 Bonds as provided for in the Indenture.

The person in whose name any 2019 Bond is registered is deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of by such 2019 Bonds is made only to or upon the order in writing of such registered Owner, which payments are valid and effectual to satisfy and discharge liability upon such 2019 Bond to the extent of the sum or sums so paid.

2019 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2019 Bond becomes mutilated, the District, at the expense of the Owner of said 2019 Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2019 Bond of like tenor, series and authorized denomination in exchange and substitution for the 2019 Bonds so mutilated, but only upon surrender to the Trustee of the 2019 Bond so mutilated. Every mutilated 2019 Bond so surrendered to the Trustee will be canceled by it. If any 2019 Bond is 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 is given, the District, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new 2019 Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2019 Bond so lost, destroyed or stolen

(or if any such 2019 Bond has matured or is about to mature, instead of issuing a substitute 2019 Bond, the Trustee may pay the same without surrender thereof). The District may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2019 Bond issued under the Indenture and of the expenses which may be incurred by the District and the Trustee in connection therewith. Any 2019 Bond issued under the provisions of the Indenture in lieu of any 2019 Bond alleged to be lost, destroyed or stolen constitutes an original additional contractual obligation on the part of the District whether or not the 2019 Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and is entitled to the benefits of the Indenture with all other 2019 Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2019 Bond for a 2019 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 2019 Bond upon receipt of indemnity satisfactory to the Trustee.

Book Entry System.

Election of Book Entry System. Prior to the issuance of the 2019 Bonds, the District may provide that such 2019 Bonds are initially issued as book entry 2019 Bonds. If the District elects to deliver any 2019 Bonds in book entry form, then the District will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2019 Bonds in an authorized denomination corresponding to that total principal amount of the 2019 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2019 Bond will be registered in the Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2019 Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book entry 2019 Bonds, the District and the Trustee 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 2019 Bonds. Without limiting the immediately preceding sentence, the District and the Trustee 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 2019 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Registration Books, of any notice with respect to book entry 2019 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2019 Bonds to be redeemed in the event the District redeems the 2019 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 2019 Bonds. The District and the Trustee may treat and consider the person in whose name each book entry 2019 Bond is registered in the Registration Books as the absolute Owner of such book entry 2019 Bond for the purpose of payment of principal of, premium and interest on such 2019 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2019 Bond, for the purpose of registering transfers with respect to such 2019 Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2019 Bonds only to or upon the order of the respective Owner, as shown in the Registration Books, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the 2019 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Registration Books, will receive a 2019 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2019 Bonds. Upon delivery by the Depository to the District 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 in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

Delivery of Letter of Representations. In order to qualify the book entry 2019 Bonds for the Depository's book entry system, the District will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations will not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2019 Bonds other than the Owners, as shown on the Registration Books. By executing a Letter of

Representations, the District agrees to take all action necessary at all times so that the District will be in compliance with all representations of the District in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the District and the Trustee will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book entry 2019 Bonds for the Depository's book entry program.

Selection of Depository. In the event that: (i) the Depository determines not to continue to act as Securities Depository for book entry 2019 Bonds; or (ii) the District determines that continuation of the book entry system is not in the best interest of the beneficial owners of the 2019 Bonds or the District, then the District will discontinue the book entry system with the Depository. If the District determines to replace the Depository with another qualified Securities Depository, the District will prepare or direct the preparation of a new single, separate, fully registered 2019 Bond for each of the maturity dates of such book entry 2019 Bonds, registered in the name of such successor or substitute qualified Securities Depository or its Nominee as provided in the Indenture. If the District fails to identify another qualified Securities Depository to replace the Depository, then the 2019 Bonds are no longer restricted to being registered in such Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 2019 Bonds designate, in accordance with the provisions of the Indenture.

Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2019 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 2019 Bond and all notices with respect to such 2019 Bond will 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 in the Indenture.

Transfer of 2019 Bonds to Substitute Depository. (i) The 2019 Bonds are initially issued as provided in the Indenture. Registered ownership of such 2019 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 the Indenture ("Substitute Depository"); provided that any successor of DTC or Substitute Depository is 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 the District that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository is 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 the District 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 the Indenture, upon receipt of all Outstanding 2019 Bonds by the Trustee, together with a Written Request of the District to the Trustee designating the Substitute Depository, a single new 2019 Bond, which the District will prepare or cause to be prepared, will be issued for each maturity of 2019 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 the District. In the case of any transfer pursuant to the Indenture, upon receipt of all Outstanding 2019 Bonds by the Trustee, together with a Written Request of the District to the Trustee, new 2019 Bonds, which the District will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the District, subject to the limitations of the Indenture, provided that the Trustee is not required to deliver such new 2019 Bonds within a period of less than sixty (60) days from the date of receipt of such Written Request from the District.

(iii) In the case of a partial redemption or an advance refunding of any 2019 Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2019 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 will 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 2019 Bonds will be controlling.

(iv) The District and the Trustee will be entitled to treat the person in whose name any 2019 Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee will not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2019 Bonds. Neither the District nor the Trustee has 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 2019 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2019 Bonds.

VALIDITY OF 2019 BONDS

Validity of 2019 Bonds. The validity of the authorization and issuance of the 2019 Bonds is not dependent on and is not affected in any way by any proceedings taken by the District or the Trustee with respect to any other agreement. The recital contained in the 2019 Bonds that the same are issued pursuant to the Constitution and laws of the State is conclusive evidence of the validity and of compliance with the provisions of law in connection with their issuance.

REDEMPTION OF 2019 BONDS

Partial Redemption of 2019 Bonds. Upon surrender of any 2019 Bond redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the District, a new 2019 Bond or 2019 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2019 Bonds surrendered and of the same series, interest rate and maturity.

Effect of Redemption. Notice of redemption having been duly given pursuant to the Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the Redemption Date on, the 2019 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2019 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2019 Bonds so called for redemption will cease to accrue, said 2019 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2019 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price thereof. The Trustee will, upon surrender for payment of any of the 2019 Bonds to be redeemed on their Redemption Dates, pay such 2019 Bonds at the Redemption Price. All 2019 Bonds redeemed pursuant to the provisions of the Indenture are canceled upon surrender thereof.

WATER UTILITY SYSTEM REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment; Revenue Fund. (a) The 2019 Bonds are intended to be "Bonds" under the Water Utility Parity System Master Resolution and will 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 2019 Bonds, not later than three (3) Business Days prior to each Interest Payment Date, the District will transfer Net Water Utility System Revenues from the Water Utility System Revenue Fund held by the District 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 2019 Bonds due and payable on such Interest Payment Date.

Application of Payment Fund. There is 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 2019 Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2019 Bonds transferred by the District from the Revenue Fund to the Payment Fund pursuant to the Indenture are promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required under the Indenture to be deposited in the Redemption Fund are promptly deposited therein. All payments of interest and principal on the 2019 Bonds deposited with the Trustee are held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee will 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 will 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 2019 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there is in such fund moneys sufficient to pay the interest becoming due and payable on such Interest Payment Date on all 2019 Bonds then Outstanding.

(b) Not later than the Business Day preceding each date on which the principal of the 2019 Bonds becomes due and payable under the Indenture, the Trustee will 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 2019 Bonds coming due and payable on such date. No deposit need be made into the Principal Account so long as there is in such fund moneys sufficient to pay the principal becoming due and payable on such date on all 2019 Bonds then Outstanding.

Application of Interest Account. All amounts in the Interest Account are used and withdrawn by the Trustee solely for the purpose of paying interest on the 2019 Bonds as it becomes due and payable (including accrued interest on any 2019 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

Application of Principal Account. All amounts in the Principal Account are used and withdrawn by the Trustee solely to pay the principal amount of the 2019 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2019 Bonds, upon Written Request of the District, the Trustee will apply such amounts to the purchase of 2019 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 directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2019 Bonds.

Application of Redemption Fund. There is established with the Trustee a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund are used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2019 Bonds to be redeemed on any Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2019 Bonds, upon Written Request of the District, the Trustee will apply such amounts to the purchase of 2019 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 directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2019 Bonds.

Investments. All moneys in any of the funds or accounts established with the District or the Trustee pursuant to the Indenture will be invested by the District 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 are directed by the District pursuant to a Written Request of the District filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions are promptly confirmed to the Trustee in writing). In the absence of any such directions from the District, the Trustee invests any such moneys in Permitted Investments described in clause (g) of the definition thereof; provided, however, that any such investment is made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee receives a Written Request of the District specifying a specific money market fund and, if no such Written Request of the District is so received, the Trustee holds such moneys uninvested. Obligations purchased as an investment of moneys in any fund are 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 under the Indenture are deposited in the Interest Account unless otherwise provided in the 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 will incur no liability for losses arising from any investments made pursuant to the Indenture.

The District acknowledges that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which shall include detail for all investment transactions effected by the Trustee and brokers selected by the District. Upon the District'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. The District waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The District 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 under the Indenture 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 under the Indenture. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The District will 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 under the Indenture (other than the Rebate Fund), but will account for each separately. In making any valuations of investments under the Indenture, 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.

Rebate Fund.

Establishment. The Trustee is established for the Series 2019A 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 2019A Bonds will not be adversely affected, the District will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund will be governed by the Indenture and the Tax Certificate, unless and to the extent that the District 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 2019A Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (i) is deemed conclusively to have complied with the provisions of the Indenture and thereof if it follows all Written Requests of the District; and (ii) has no liability or responsibility to enforce compliance by

the District with the terms of the Indenture and the Tax Certificate; and (iii) may rely conclusively on the District's calculations and determinations and certifications relating to rebate matters; and (iv) has no responsibility to independently make any calculations or determinations or to review the District's calculations or determinations thereunder.

Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the District will 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 Indenture 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 such 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"). The District will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Request of the District an amount will be deposited to the Rebate Fund by the Trustee from any Net Water Utility System Revenues legally available for such purpose (as specified by the District in the aforesaid Written Request of the District), if and to the extent required so that the balance in the Rebate Fund will equal the amount of Rebatable Arbitrage so calculated in accordance with the Indenture. 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 the District the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the Payment Fund.

Payment to the Treasury. The Trustee will pay, as directed by Written Request of the District, 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 Rebatable Arbitrage calculated as of the end of such Bond Year; and (B) Not later than 60 days after the payment of all the Series 2019A Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable 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, the District will 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 the Indenture will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the District), or will be made in such other manner as provided under the Code.

Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the Series 2019A Bonds and the payments described in clause (iii) of subsection (a) above being made may be withdrawn by the District and utilized in any manner by the District.

Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture described under this caption "Rebate Fund" survives the defeasance or payment in full of the Series 2019A Bonds.

Application of Funds and Accounts When No 2019 Bonds are Outstanding. On the date on which all 2019 Bonds are retired under the Indenture or provision made therefor pursuant to the Indenture and after payment of all amounts due the Trustee under the Indenture, all moneys then on deposit in any of the funds or

accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the District for use by the District at any time for any purpose permitted by law.

PARTICULAR COVENANTS

Compliance with Indenture and Water Utility Parity System Master Resolution. The Trustee will not authenticate or deliver any 2019 Bond in any manner other than in accordance with the provisions of the Indenture and the Water Utility Parity System Master Resolution, and the District will not suffer or permit any default by it to occur under the Indenture or the Water Utility Parity System Master Resolution, but will faithfully observe and perform all the covenants, conditions and requirements thereof.

Continuing Disclosure. The District 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 the Indenture, failure of the District to comply with the Continuing Disclosure Agreement is not 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 the District to comply with its obligations under the Indenture, all in accordance with the terms and limitations set forth in the Continuing Disclosure Agreement. For purposes of the Indenture, "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 2019 Bond (including persons holding 2019 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2019 Bond for federal income tax purposes.

Punctual Payment. The District will pay and cause the Trustee to pay the principal and interest to become due in respect of all of the 2019 Bonds, in strict conformity with the terms of the 2019 Bonds and of the Indenture, according to the true intent and meaning thereof, but only as provided in the Indenture and in the Water Utility Parity System Master Resolution.

Extension of Payment of 2019 Bonds. The District will not directly or indirectly extend or assent to the extension of the maturity of any of the 2019 Bonds or the time of payment of any claims for interest by the purchase of such 2019 Bonds or by any other arrangement, and in case the maturity of any of the 2019 Bonds or the time of payment of any such claims for interest is extended, such 2019 Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the 2019 Bonds then Outstanding and of all claims for interest thereon which have not been so extended.

Power to Issue 2019 Bonds and Make Pledge and Assignment. The District is duly authorized pursuant to law to issue the 2019 Bonds, to enter into the 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 the Indenture in the manner and to the extent provided in the Water Utility Parity System Master Resolution and the Indenture. The 2019 Bonds and the provisions of the Water Utility Parity System Master Resolution and the Indenture are and will be the legal, valid and binding special obligations of the District in accordance with their terms, and the District and the Trustee will at all times, subject to the provisions of the Indenture 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 2019 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Tax Covenants. Notwithstanding any other provision of the Indenture, and except as may otherwise be approved by an opinion of Bond Counsel that the exclusion from gross income of the interest on the Series 2019A Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the Series 2019A Bonds and specifically covenants, without limiting the generality of the foregoing, as follows: (a) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Series 2019A Bonds or of any other moneys or property which would cause the Series

2019A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code; (b) Arbitrage. The District will make no use of the proceeds of the Series 2019A 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 2019A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code; (c) Federal Guarantee. The District will make no use of the proceeds of the Series 2019A Bonds or take or omit to take any action that would cause the Series 2019A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code; (d) Information Reporting. The District 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 2019A Bonds pursuant to Section 103(a) of the Code; (e) Hedge Bonds. The District will make no use of the proceeds of the Series 2019A 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 2019A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District 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 2019A Bonds for federal income tax purposes; and (f) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed by the District in connection with the issuance of the Series 2019A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

Waiver of Laws. The District will 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 later in force that may affect the covenants and agreements contained in the Indenture or in the 2019 Bonds, and all benefit or advantage of any such law or laws is expressly waived by the District to the extent permitted by law.

Further Assurances. The District 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 the Indenture and for the better assuring and confirming unto the Owners of the 2019 Bonds of the rights and benefits provided in the Indenture.

Prosecution and Defense of Suits. The District will promptly, upon request of the Trustee or any 2019 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 later developing, will prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee (including all of its employees, officers and directors) and every 2019 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.

The District will defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2019 Bond Owner upon any claim by a 2019 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 2019 Bonds or involving the rights of the Trustee or any 2019 Bond Owner under the Indenture; provided that the Trustee or any 2019 Bond Owner at such party’s election may appear in and defend any such suit, action or proceeding. The District will indemnify and hold harmless the Trustee and the 2019 Bond Owners against any and all liability claimed or asserted by any such person, arising out of such receipt, application or disbursement, and will indemnify and hold harmless the 2019 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 2019 Bonds. The District will promptly reimburse any 2019 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 the Indenture or the 2019 Bonds, provided that such litigation is concluded favorably to such party’s contentions therein.

EVENTS OF DEFAULT AND REMEDIES OF 2019 BOND OWNERS

Events of Default. The following events are Events of Default: (a) default by the District in the due and punctual payment of the principal of or interest on any 2019 Bonds when and as the same becomes due and payable; (b) default by the District in the observance of any of the other agreements or covenants required in the Indenture to be performed by it, and such default has continued for a period of thirty (30) days after the District has 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 has continued for a period of sixty (60) days; (c) the District files 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 approves a petition filed with or without the consent of the District 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 assumes custody or control of the District 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.

Remedies Upon Event of Default. If any Event of Default specified in the Indenture occurs and is continuing, any Owner will 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 the District or any member of the District’s Board of Directors, officer or employee thereof, and to compel the District or any such member of the District’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 in the Indenture; (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 the District and any member of the District’s Board of Directors, officers and employees to account as the trustee of an express trust.

Application of Water Utility System Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Water Utility System Revenues thereafter received by the District 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) will 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 2019 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 2019 Bonds and such Bonds and Contracts if paid in accordance with their respective terms.

Trustee to Represent 2019 Bond Owners. The Trustee is irrevocably appointed (and the successive respective Owners of the 2019 Bonds, by taking and holding the same, is conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2019 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 2019 Bonds or the 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 2019 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 2019 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems 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 in the Indenture, or in aid of the execution of any power in the Indenture 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 2019 Bonds or the Indenture or any law; and upon instituting such proceeding, the Trustee is entitled, as a matter of right, to the

appointment of a receiver of the Water Utility System Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2019 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2019 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee is brought in the name of the Trustee for the benefit and protection of all the Owners of such 2019 Bonds, subject to the provisions of the Indenture.

2019 Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2019 Bonds then Outstanding has 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 under the Indenture, provided that such direction is not otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee has the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to 2019 Bond Owners not parties to such direction.

Suit by Owners. No Owner of any 2019 Bonds has 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 the Indenture with respect to such 2019 Bonds, unless: (a) such Owners has 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 2019 Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners has tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of sixty (60) days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the 2019 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of 2019 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2019 Bonds has any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2019 Bonds, or to enforce any right under the 2019 Bonds, the Indenture, or applicable law with respect to the 2019 Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right is instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2019 Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the District. Nothing in the Indenture or in the 2019 Bonds will affect or impair the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2019 Bonds to the respective Owners of the 2019 Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Water Utility System Revenues and other assets pledged and assigned in the Indenture 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 2019 Bonds.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the 2019 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, is cumulative and in addition to any other remedy given under the Indenture or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2019 Bonds to exercise any right or power arising upon the occurrence of any Event of Default impairs any such right or power or is construed to be a waiver of any such Event of Default or an acquiescence therein.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee. (a) The Trustee will, 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 the Indenture and no implied covenants or duties are read into the Indenture against the Trustee. The Trustee will, 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 the 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) The District may remove the Trustee at any time, unless an Event of Default has occurred and is continuing, and will 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 2019 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with the Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes 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 the District will 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 the District and by giving the 2019 Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee becomes effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has 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 2019 Bond Owner (on behalf of himself and all other 2019 Bond Owners) may petition any court of competent jurisdiction at the expense of the District 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 the Indenture will signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, becomes 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 in the Indenture; but, nevertheless at the Written Request of the District or the request of the successor Trustee, such predecessor Trustee will 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 the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the District will 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 the Indenture, the District will mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each Rating Agency which is then rating the 2019 Bonds and to the 2019 Bond Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within fifteen (15) days after

acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the District.

(e) Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will 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 the Indenture the combined capital and surplus of such trust company, banking association or bank is 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 ceases to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

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 is 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 is eligible under the Indenture, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the 2019 Bonds are statements of the District, and the Trustee does not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or the 2019 Bonds, nor does the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the 2019 Bonds assigned to or imposed upon it. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the 2019 Bonds. The Trustee is not liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2019 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 2019 Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2019 Bonds then Outstanding.

(b) The Trustee is not liable for any error of judgment made in good faith by a Responsible Officer of the Trustee, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee is not 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 in the Indenture) in aggregate principal amount of the 2019 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 the Indenture.

(d) The Trustee is not 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 the Indenture.

(e) The Trustee is not deemed to have knowledge of any default or Event of Default under the Indenture or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with the Indenture, of such event by the District or the Owners of not less than fifty percent (50%) of the 2019 Bonds then Outstanding.

Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the District of any of the terms, conditions, covenants or agreements in the Indenture of any of the documents executed in connection with the 2019 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 is not responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture, or in the exercise of any of its rights or powers.

(g) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture, unless such Owners 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 under the Indenture is construed to impose a duty to exercise such power, right or remedy and the Trustee will not be answerable for other than its negligence or willful misconduct.

(h) Whether or not expressly so provided in the Indenture, every provision therein relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of the Indenture.

(i) The Trustee has 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 2019 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 the Indenture and perform any of its duties through attorneys, agents and receivers and is not answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee is not considered in breach of or in default in its obligations under the Indenture 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 under the Indenture, 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 the Indenture sent by secured e-mail, facsimile transmission or other similar secured electronic methods, provided, however, that, for purposes of the Indenture, an e-mail does not constitute a notice, request, or other communication under the Indenture but rather, the portable document format or similar attachment attached to such e-mail will constitute a notice, request, or other communication under the Indenture and provided further that the Trustee has 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 is amended and replaced whenever a person is to be added or deleted from the listing. If the District 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 is deemed controlling. The Trustee is not 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. The District 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 is not concerned with or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

Right to Rely on Documents. The Trustee is 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 the District, with regard to legal questions, and the opinion of such counsel is full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2019 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2019 Bonds for all purposes and the Trustee is not affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the District and such Certificate, Request or Requisition is full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the 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.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in its respective possession and will be subject at all reasonable times to the inspection of the District, and any 2019 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The District will pay to the Trustee from time to time all reasonable compensation for all services rendered under the 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 the Indenture.

The District indemnifies, defends and holds 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 2019 Bond Owner or a third party without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust created under the Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture. The rights of the Trustee and the indemnification obligations of the District will survive removal or resignation of the Trustee under the Indenture or the discharge of the 2019 Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE/WATER UTILITY PARITY SYSTEM
MASTER RESOLUTION

Amendments to Indenture Permitted. (a) The Indenture and the rights and obligations of the District, the Owners of the 2019 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 the Indenture. No such modification or amendment will: (1) extend the fixed maturity of any 2019 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 2019 Bond so affected; (2) reduce the percentage of Owners required to provide consent or direction under the Indenture or (3) reduce the percentage of owners of any Bonds or Contracts required to provide consent to any amendments or modifications of the Water Utility Parity System Master Resolution as set forth in the Indenture. Promptly after the execution by the District and the Trustee of any Supplemental Indenture pursuant to the Indenture, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2019 Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the District, the Trustee and the Owners of the 2019 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture if the Trustee receives an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Outstanding 2019 Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the District contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2019 Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the District;

(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 the Indenture, or in regard to matters or questions arising under the Indenture, as the District may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute 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 the Indenture in such manner as to cause interest on the Series 2019A 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 2019 Bonds.

(c) The Trustee may in its discretion, but will not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will 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 the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the Series 2019A Bonds from federal income taxation and the 2019 Bonds from state income taxation.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture is deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, the Trustee and all Owners of 2019 Bonds Outstanding will 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 is deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of 2019 Bonds; Preparation of New 2019 Bonds. 2019 Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines will, bear a notation by endorsement or otherwise in form approved by the District 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 2019 Bonds Outstanding at the time of such execution and presentation of his or her 2019 Bonds for the 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 will be made on such 2019 Bonds. If the Supplemental Indenture so provides, new 2019 Bonds so modified as to conform, in the opinion of the District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the District and authenticated by the Trustee, and upon demand on the Owners of any 2019 Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2019 Bond Owner, for 2019 Bonds then Outstanding, upon surrender for cancellation of such 2019 Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular 2019 Bonds. The provisions of the Indenture do not prevent any 2019 Bond Owner from accepting any amendment as to the particular 2019 Bonds held by such 2019 Bond Owner.

Amendment to Water Utility Parity System Master Resolution. The Water Utility Parity System Master Resolution may be amended or modified by the District by a supplemental resolution thereto with the consent of a majority of the owners of outstanding Bonds and Contracts; provided, however, that the District 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 the District other agreements and covenants to be observed, or to surrender any right or power therein reserved to the District, or (ii) cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) resolve questions arising thereunder as the District 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 the District with the applicable Trustee for such outstanding Bonds or Contracts. The District shall give notice of any such amendment or supplement to each Rating Agency then rating the 2019 Bonds.

DEFEASANCE

Discharge of Indenture. The 2019 Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable under the Indenture by the District: (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on such 2019 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 the Indenture) to pay or redeem all 2019 Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the 2019 Bonds then Outstanding.

If the District also pays or cause to be paid all other sums payable under the Indenture by the District, then and in that case, at the election of the District (as evidenced by a certificate of the District filed with the Trustee, signifying the intention of the District to discharge all such indebtedness and the Indenture), and notwithstanding that any such 2019 Bonds have not been surrendered for payment, all covenants, agreements and other obligations of the District under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the District, the Trustee will execute and

deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of such 2019 Bonds not theretofore surrendered for such payment or redemption to the District.

Discharge of Liability on 2019 Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding 2019 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2019 Bonds), provided that, if such Outstanding 2019 Bonds are to be redeemed prior to maturity, notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, then all liability of the District in respect of such 2019 Bonds will cease, terminate and will be completely discharged, and the Owners thereof are thereafter 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 the Indenture.

The District may at any time surrender to the Trustee for cancellation by it any 2019 Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such 2019 Bonds, upon such surrender and cancellation, are deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the 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 2019 Bonds, the money or securities so to be deposited will be held by the Trustee in the funds and accounts established pursuant to the Indenture. Defeasance may be accomplished by depositing with the Trustee:

lawful money of the United States of America in an amount equal to the principal amount of such 2019 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2019 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption is given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held is the principal amount of such 2019 Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or

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 the District 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 2019 Bonds to be paid or redeemed as directed by the District as such principal, interest and premium, if any, become due, provided that in the case of 2019 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that: (i) the Trustee has been irrevocably instructed (by the terms of the Indenture or by Written Request of the District) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2019 Bonds as directed by the District; and (ii) the District has delivered to the Trustee an opinion of Bond Counsel addressed to the District and the Trustee to the effect that such 2019 Bonds have been discharged in accordance with the 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 will be acceptable in form and substance, and addressed, to the District and the Trustee.

Payment of 2019 Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2019 Bonds and remaining unclaimed for two (2) years after the principal of all of the 2019 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the 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 2019 Bonds became due and payable, will be transferred to the State and become subject to the escheat laws of the State free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the District and the Trustee indemnifying the Trustee with respect to claims of Owners of 2019 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the transfer of such moneys to the State as aforesaid, the Trustee will at the Written Request of the District (at the cost of the District), first mail to the Owners of 2019 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 2019 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.

MISCELLANEOUS

Liability Limited. Notwithstanding anything contained in the Indenture or in the Water Utility Parity System Master Resolution, the District will 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 in the Indenture for the payment of principal of and interest on the 2019 Bonds or for the performance of any agreements or covenants required to be performed by it contained in the Indenture. The District 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 the District for such purpose.

The obligation of the District to pay the principal of and interest on the 2019 Bonds is a special obligation of the District payable solely from such Net Water Utility System Revenues and other funds described in the Indenture and in the Water Utility Parity System Master Resolution, 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 limitation or restriction.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the District or the Trustee is named or referred to, such reference is deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the District or the Trustee binds and inures to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and 2019 Bond Owners. Nothing expressed or implied in the Indenture or in the 2019 Bonds is intended or construed to give to any person other than the District, the Trustee and the Owners of the 2019 Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision contained in the 2019 Bonds or the Indenture; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the District, the Trustee and the Owners of the 2019 Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the 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 is not a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of 2019 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the District of any 2019 Bonds, the Trustee will destroy such 2019 Bonds as may be allowed by law, and deliver a certificate of such destruction to the District.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2019 Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions is deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture is construed as if such invalid or illegal or unenforceable provision had never been contained therein. The District declares that it would have entered into the Indenture and authorized the issuance of the 2019 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of 2019 Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2019 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2019 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 2019 Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the District if made in the manner provided in the Indenture.

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 2019 Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any 2019 Bond will bind every future Owner of the same 2019 Bond and the Owner of every 2019 Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the District in accordance therewith or reliance thereon.

Disqualified 2019 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2019 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2019 Bonds which are known by the Trustee to be owned or held by or for the account of the District, or by any other obligor on the 2019 Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the 2019 Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2019 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee will establish to the satisfaction of the Trustee the pledgee's right to vote such 2019 Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the 2019 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the District will certify to the Trustee those 2019 Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular 2019 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2019 Bonds (or portions of 2019 Bonds in the case of registered 2019 Bonds redeemed in part only) will, 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 2019 Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the 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 will at all times be maintained in accordance with corporate trust industry standards to the extent practicable and for the protection of the security of the 2019 Bonds and the rights of every Owner thereof.

Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the District will be individually or personally liable for the payment of the principal of or premium or interest on the 2019 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture will relieve any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

CUSIP Numbers. Neither the Trustee nor the District will be liable for any defect or inaccuracy in the CUSIP number that appears on any 2019 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 2019 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2019 2019 Bond Owners and that neither the District nor the Trustee will be liable for any inaccuracies in such numbers.

Choice of Law. THE INDENTURE WILL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

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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.

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APPENDIX D

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2019 Bonds (the "Obligations"), payment of principal, premium, if any, accreted value, if any, and interest on the Obligations to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Obligations and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

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

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

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

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

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

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

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

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

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

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

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

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

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

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APPENDIX E

FORM OF BOND COUNSEL OPINION

Upon issuance of the 2019 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

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

Re: \$_____ Santa Clara Valley Water District Water System Refunding Revenue Bonds,
 Series 2019A and Taxable Series 2019B

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 2019A (the “2019A Bonds”) and Taxable Series 2019B (the “2019B Bonds” and together with the 2019A 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 March 1, 2019 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds mature on the dates and in the amounts referenced in the Indenture. The Bonds are dated their date of delivery and bear interest at the rates per annum referenced in the Indenture. The Bonds are registered in the form set forth in the Indenture.

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

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

2. The obligation of the District to make the payments of principal of and interest on the Bonds from Net Water Utility System Revenues (as defined in the Indenture) is an enforceable obligation of the District and does not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest

on the 2019A 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 2019A Bond (the first price at which a substantial amount of the 2019A 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 2019A 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 2019A Bond before receipt of cash attributable to such excludable income (with respect to the 2019A Bonds). The amount of original issue discount deemed received by the Owner of a 2019A Bond will increase the Owner's basis in the 2019A Bond. In the opinion of Bond Counsel the amount of original issue discount that accrues to the Owner of a 2019A 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 2019A Bonds and which may at the election of owners of the 2019B Bonds be amortized under Section 171 of the Code. With respect to the 2019A Bonds, such amortizable bond premium reduces the Owner's basis in the applicable 2019A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. With respect to the 2019B Bonds, such amortizable bond premium reduces the Owner's basis in the applicable 2019B 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 2019A 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 2019A Bonds to assure that such interest on the 2019A 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 2019A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2019A 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 2019A 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 2019A Bonds for federal income tax purposes with respect to any 2019A 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 2019A Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of

judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

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

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

Respectfully submitted,

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

Upon issuance of the 2019 Bonds, the District proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

THIS CONTINUING DISCLOSURE AGREEMENT dated April __, 2019 (the “Disclosure Agreement”) is executed and delivered by the Santa Clara Valley Water District (the “District”) and U.S. Bank National Association, as dissemination agent (the “Dissemination Agent”), in connection with the issuance of the Santa Clara Valley Water District Water System Refunding Revenue Bonds, Series 2019A and Taxable Series 2019B (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 19-30 adopted by the Board of Directors of the District on March 26, 2019 (the “Resolution”) and an Indenture of Trust, dated as of March 1, 2019, by and between the District and U.S. Bank National Association, as trustee (the “Indenture”). The District and Dissemination Agent, covenant as follows:

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

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

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

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

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

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

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

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

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

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

(c) The Dissemination Agent shall:

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

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

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

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

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

(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 the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

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

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

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

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

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

2. modifications to the rights of Bond holders;
3. optional, unscheduled or contingent Bond redemptions;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
7. appointment of a successor or additional trustee or the change of the name of a trustee; and
8. incurrence of a financial obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect Bond holders.

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

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

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

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days’ written notice to the District; provided, however, that such resignation will not become effective until the District has secured a successor Dissemination Agent in accordance with the terms of this Disclosure Agreement.

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

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

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

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

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

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

Date: April __, 2019

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: SANTA CLARA VALLEY WATER DISTRICT

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

Date of Issuance: April __, 2019

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

Dated: _____

SANTA CLARA VALLEY WATER DISTRICT

By: [no signature required; form only]

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Valley Water

Clean Water • Healthy Environment • Flood Protection



Mixed Sources

Product group from well managed
forests, controlled sources and
recycled wood or fibres.

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