

**SANTA CLARA VALLEY WATER DISTRICT  
PUBLIC FACILITIES FINANCING CORPORATION MEETING (PFFC)  
Headquarters Bldg. Room A173**

**A G E N D A  
January 28, 2016  
2:00 p.m.**

1. Roll Call.
2. Public Comment – Time Open for Public Comment on Any Subject Not on the Agenda.
3. Approval of Minutes - November 17, 2015 Meeting.
4. Adopt Resolution of the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation Authorizing the Execution and Delivery of Not to Exceed \$125 million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Actions in Connection Therewith. (N. Chu)

Recommendation:

- A. Adopt Resolution of the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation Authorizing the Execution and Delivery of Not to Exceed \$125 million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Actions in Connection Therewith;
  - B. Authorize the Chief Executive Officer, Acting Chief Executive Officer, Chief Administrative Officer, or Chief Financial Officer, District Counsel, and the Clerk of the Board of Directors to negotiate and execute an Amendment or Amendment and Restatement to the Reimbursement Agreement by and among Santa Clara Valley Water District Public Facilities Financing Corporation, Santa Clara Valley Water District, and The Bank of Tokyo-Mitsubishi UFJ, LTD., related to \$150 million Santa Clara Valley Water District Commercial Paper Certificates, and to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated hereby; and
  - C. Authorize the Chief Executive Officer, Acting Chief Executive Officer, Chief Administrative Officer, or Chief Financial Officer to accept the Amended Tax Revenue Anticipation Notes which provide security for the Commercial Paper Program on a subordinate lien to the Parity Master Resolution
5. Discuss Regular Meeting Schedule.
  6. Schedule Next PFFC Meeting.
  7. Other Business.
  8. Adjourn.

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**MINUTES**  
**SANTA CLARA VALLEY WATER DISTRICT**  
**PUBLIC FACILITIES FINANCING CORPORATION**  
**November 17, 2015**

(Paragraph numbers coincide with agenda item numbers)

A meeting of the Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC) was held in Conference Room A-173 of the District Headquarters Building, 5700 Almaden Expressway, San Jose, California, at 2:00 p.m. on November 17, 2015.

**1. Roll Call:** PFFC Board of Director members in attendance were Anthony Bennetti, Dean Chu, and Steve Mullen, constituting a quorum.

Directors Maria Oberg and David Vanni were absent.

Corporate Officer present: Michele King, Corporate Secretary.

District staff present: Najon Chu, Chief Financial Officer; Jesus Nava, Chief Administrative Officer; Charlene Sun, Treasury and Debt Officer; and Anthony Fulcher, Senior Assistant District Counsel.

Members of the external finance team present: Mr. Doug Brown, Bond Counsel, Stradling, Yocca, Carlson and Rauth; and Mr. Ed Soong, Financial Advisor, Public Resources Advisory Group.

Vice President Mullen served as President pro tem.

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

**3. Approval of Minutes of December 10, 2014 PFFC Meeting:** It was moved by Director Bennetti, seconded by Director Chu, and unanimously carried that the December 10, 2015, minutes be approved as presented.

Ms. Charlene Sun, Treasury and Debt Officer reviewed the information on Items 4 and 5 together.

**4. Overview of District Debt Portfolio and**

**5. Update on 2016 Water Utility System Refunding Revenue Bonds and Certificates of Participation:** Ms. Sun provided the Corporation Board with a review on the District Debt portfolio, including Fiscal Year 2015-16-15 Operating and Capital budget and interest balances; outstanding principal debt for the General Fund, Watershed Funds and Water Utility; update on the Safe, Clean Water Program finances; Water Utility planned financings and debt issuances; and ended with a recap of the District's financial successes in 2015.

**6. Discuss Regular Meeting Schedule:** Ms. Michele King, Corporate Secretary, reviewed the current PFFC regular meeting schedule as outlined in Resolution 1 included in the packet. The committee discussed the need to revise the regular meeting time.

It was moved by Director Chu, seconded by Director Bennetti, and unanimously carried, that an item be placed on the next meeting agenda for the Corporate to change its regular meeting time to reflect at least by the second week in November.

**7. Schedule Next PFFC Meeting:** Ms. Sun informed the Board that there will be a need to schedule an additional meeting in January or February to present refinancing for review and approval. It was a consensus of the committee to schedule the next meeting for January 28, 2016 at 2:00 p.m.

**8. Other Business:** Mr. Najon Chu, Chief Financial Officer, provided the Board with an update on the District's independent auditor's audit of the District's financial records.. Mr. Chu indicated that he will forward the auditor's letter to the Board once it is received.

**9. Adjourn:** The meeting adjourned at 2:45 p.m.

Michele L. King, CMC  
Corporate Secretary, PFFC



Public Facilities Financing Corporation  
Meeting Date: 01/28/2016  
Agenda Item No.: 4  
Unclassified Manger: Najon Chu  
Email: NChu@valleywater.org

## **PUBLIC FACILITIES FINANCING CORPORATION AGENDA MEMO**

**SUBJECT:** Adopt Resolution of the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation Authorizing the Execution and Delivery of Not to Exceed \$125 million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Actions in Connection Therewith

**RECOMMENDED ACTION:**

- A. Adopt Resolution of the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation Authorizing the Execution and Delivery of Not to Exceed \$125 million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Actions in Connection Therewith (Attachment 1); and
- B. Authorize the Chief Executive Officer, Acting Chief Executive Officer, Chief Administrative Officer, or Chief Financial Officer, District Counsel, and the Clerk of the Board of Directors to negotiate and execute an Amendment or Amendment and Restatement to the Reimbursement Agreement by and among Santa Clara Valley Water District Public Facilities Financing Corporation, Santa Clara Valley Water District, and The Bank of Tokyo-Mitsubishi UFJ, LTD., related to \$150 million Santa Clara Valley Water District Commercial Paper Certificates, and to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated hereby; and
- C. Authorize the Chief Executive Officer, Acting Chief Executive Officer, Chief Administrative Officer, or Chief Financial Officer to accept the Amended Tax Revenue Anticipation Notes which provide security for the Commercial Paper Program on a subordinate lien to the Parity Master Resolution

**SUMMARY:**

Public Facilities Financing Corporation (PFFC) Board approval of the recommended actions will allow the District to issue principal amount of up to \$125 million Revenue Certificates of Participation (COPs) (Series 2016 C Tax-Exempt and 2016D Taxable) to: (i) finance and/or reimburse the cost of certain water utility system capital improvements; and (ii) pay costs of issuance.

**SUBJECT:** Adopt Resolution of the Board of Directors of the Santa Clara Valley Water District Public Facilities Finance Corporation Authorizing the Execution and Delivery of Not to Exceed \$125 million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Actions in Connection Therewith

01/28/2016

The District will also issue Refunding Revenue Bonds concurrently with the COPs, with an expected closing date of March/April 2016. Based on market rates as of January 6, 2016 plus 0.50% interest rate cushion, the Refunding Revenue Bonds are expected to generate \$5.4 million or 8.4% in Net Present Value (NPV) savings. The expected all-in true-interest-cost (TIC) is 4.3% for the 2016 Debt. The final refunding savings and TIC is subject to change, pending the market conditions, investor demand, interest rate environment and other factors on the pricing day of the debt sale.

**BACKGROUND:**

The full details of the 2016 Water Utility financing, for both the Revenue COPs and Refunding Revenue Bonds are provided in Attachment 2 – 2/28/2016 Draft Board Memo and Attachments

**ATTACHMENT(S):**

1. Resolution of the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation Authorizing the Execution and Delivery of Not to Exceed \$125 million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Actions in Connection Therewith
2. 2/28/2016 Draft Board Memo and Attachments 1 - 11

**RESOLUTION NO. \_\_\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$125,000,000 REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH**

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

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

**WHEREAS**, the District has determined that it would be in the best interests of the District and citizens of the community to authorize the preparation and delivery of revenue certificates of participation in an aggregate principal amount not to exceed \$125,000,000 (the "Certificates");

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

**Section 1. Authorization.** This Board of Directors hereby authorizes the preparation, sale and delivery of the Certificates in an aggregate principal amount not to exceed \$125,000,000 in accordance with the terms and provisions of the Trust Agreement. The purposes for which the proceeds of the sale of the Certificates shall be expended is to finance the costs of certain capital improvements to the water utility system of the District and to reimburse the District for costs previously expended on certain water utility system improvements as described in the Installment Purchase Agreement, and to pay the costs of the sale and delivery of the Certificates.

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

**Section 3. Other Actions.** The President, Vice-President or Secretary and such other officers of the Corporation are authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Certificates, and the delivery of the Installment Purchase Agreement, the Assignment Agreement and the Trust Agreement, and otherwise effectuate the purposes of this Resolution, including but not limited to amendments to any and all documents related to the existing commercial paper program necessary to subordinate the District's obligations with respect thereto to its obligations under the Installment Purchase Agreement. All actions previously taken by such officers with respect to the foregoing are hereby ratified and confirmed.

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

ADOPTED, SIGNED AND APPROVED this 28<sup>th</sup> day of January, 2016.

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President of Santa Clara Valley Water District Public  
Facilities Financing Corporation

(SEAL)

ATTEST:

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Secretary of Santa Clara Valley Water District  
Public Facilities Financing Corporation



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

I, \_\_\_\_\_, Secretary of the Santa Clara Valley Water District Public Facilities Financing Corporation, do hereby certify that the foregoing resolution was duly adopted by the Board of Directors of said Corporation at a special meeting held on the 28<sup>th</sup> day of January, 2016, and that it was so adopted by the following vote:

AYES: DIRECTORS:

NOES: DIRECTORS:

ABSENT: DIRECTORS:

ABSTAIN: DIRECTORS:

\_\_\_\_\_  
Secretary of Santa Clara Valley Water District Public  
Facilities Financing Corporation

(SEAL)



## BOARD AGENDA MEMORANDUM

### SUBJECT:

Resolution of the Board of Directors of the Santa Clara Valley Water District Authorizing the Water Utility Parity System Master Resolution and the Issuance of Not To Exceed \$239 million Refunding Revenue Bonds, the Execution and Delivery of Not to Exceed \$125 million Revenue Certificates of Participation, Approving the Execution and Delivery of Certain Documents and Authorizing Certain Acts In Connection Therewith

### RECOMMENDATION:

- A. Adopt 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 (Water Utility Parity System Master Resolution); and
- B. Adopt the resolution of the Board of Directors of the Santa Clara Valley Water District authorizing the issuance of not to exceed \$239 million Refunding Revenue Bonds, authorizing the execution and delivery of not to exceed \$125 million Revenue Certificates of Participation, approving the execution and delivery of certain documents and authorizing certain acts in connection therewith; and
- C. Authorize and direct the Chief Executive Officer, Acting Chief Executive Officer , Chief Administrative Officer, or Chief Financial Officer, District Counsel, and the Clerk of the Board of Directors and such other officers and staff of the District, acting singly, to do any and all things and to execute and deliver any and all documents which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Refunding Revenue Bonds and the Revenue Certificates of Participation; and
- D. Authorize the Chief Executive Officer, Acting Chief Executive Officer, Chief Administrative Officer, or Chief Financial Officer, District Counsel, and the Clerk of the Board of Directors to negotiate and execute an Amendment or Amendment and Restatement to the Reimbursement Agreement by and among Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC), Santa Clara Valley Water District, and The Bank of Tokyo-Mitsubishi UFJ, LTD., related to \$150 million Santa Clara Valley Water District Commercial Paper Certificates, and to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated hereby; and
- E. Authorize the Chief Executive Officer, Acting Chief Executive Officer, Chief Administrative Officer, or Chief Financial Officer to negotiate and execute the

Amended Tax Revenue Anticipation Notes which provide security for the  
Commercial Paper Program on a subordinate lien to the Parity Master Resolution

**SUMMARY:**

Approval of staff recommendations will allow the District to issue principal amount of up to \$239 million Refunding Revenue Bonds (Revenue Bonds) (Series 2016 A Tax-Exempt and 2016B Taxable) and \$125 million Revenue Certificates of Participation (COPs) (Series 2016 C Tax-Exempt and 2016D Taxable) (together, the "2016 Debt") to: (i) refund all of the currently outstanding Water Utility System Refunding Revenue Bonds, Series 2006A; (ii) refund a portion of the currently outstanding Revenue Certificates of Participation Series 2007A; (iii) pay, all or a portion of, the outstanding amount of the Commercial Paper Certificates, Series A (Tax-Exempt) and Series B (Taxable); (iv) to finance and/or reimburse the cost of certain water utility system capital improvements; and (v) pay costs of issuance of the 2016 Debt.

Based on market rates as of January 6, 2016 plus 0.50% interest rate cushion, the Refunding Revenue Bonds are expected to generate \$5.4 million or 8.4% in Net Present Value (NPV) savings. The expected all-in true-interest-cost (TIC) is 4.3% for the 2016 Debt. The final refunding savings and TIC is subject to change, pending the market conditions, investor demand, interest rate environment and other factors on the pricing day of the debt sale.

Financing Structure/Method of Sale

The 2016 Debt will be sold on a negotiated basis to the Underwriters that were selected in October 2015 through a competitive Request for Information process (see 'Underwriter Selection' section below). The 2016 Debt will be structured to result in low borrowing costs while achieving certain business objectives and flexibility by utilizing financial structuring techniques. The structuring techniques may include amortizing the COPs within the first 13 years (approximate) and the Revenue Bonds in years 13 through 30 (approximate) to minimize the additional cost of COPs compared to Revenue Bonds (estimated at \$521,000 in NPV savings); deferring principal and/or capitalizing interest in the near term to provide groundwater rate relief; accelerating the refunding savings to be realized in the near term; adjusting coupons on the 2016 Debt; providing for flexibility to redeem the bonds prior to maturity; and other financial structuring techniques. The final structure of the 2016 Debt will be determined during the pricing period in March, pending market conditions, investor demand, and interest rate environment and other factors. The pricing of the 2016 Debt is expected to take place over a two-day period, to allow for retail investors to place orders for the 2016 Debt a day in advance of the institutional order period.

The authority to issue Revenue Refunding Bonds is provided in Section 25.1 of the District Act and Sections 53580-53589.5 of the California Government code. Because the District cannot issue Revenue Bonds to acquire new facilities or improvements, the authority to execute and delivery an Installment Purchase Agreement (which will secure

the COPs to be executed and delivered by the PFFC) is provided in Section 5 of the District Act.

As part of the financing plan, the District is restructuring its lien structure and certain covenants to provide additional flexibility to meet current and future business requirements. The updated lien structure is as follows:

1. Close-off the Senior Lien under the existing Master Resolution (94-58) as amended, so that after the 2016 Debt financings are completed, only the following senior lien bonds remain outstanding: Series 2006B (taxable), a portion of the Series 2007A, and Series 2007B (taxable). No new bonds or refundings may be issued under the existing Master Resolution. All future issuances for the Water Utility will be covered by the new Parity Master Resolution to be approved by the Board as part of the 2016 Debt financings. The unrefunded portions of the tax-exempt 2007A bonds are expected to be refunded in March 2017 when they become eligible for current refunding.

This strategy allows the District to avoid paying \$3 million or more in make whole call premiums associated with the 2006B taxable bonds. It also allows the District to retain the 2007B variable-rate taxable bonds at the very low rate of 3-month Libor+ 0.32% (currently 0.94%), which is not replicable in today's market without incurring additional risk and/or significantly higher interest expense, estimated to be an additional NPV cost of \$5 million over the life of the 2007B bonds. The estimated total cost savings/avoidance from implementing the proposed strategy is in excess of \$8 million in NPV.

2. Parity Master Resolution becomes the operating lien for all future water utility debt issuances; this lien is subordinate to the Senior Lien. The Parity Master Resolution provides updated covenants which will provide additional flexibility to meet current and future business requirements. A summary of the key terms is provided in Attachment 1.
3. The Reimbursement Agreement for the Letter of Credit (LOC) supporting the Commercial Paper Program is amended or restated to be 3rd lien, behind the Senior and the Parity liens.

## Estimated Sources and Uses of Bond Proceeds

The estimated sources and uses of funds with respect to the 2016 Debt are set forth below. The total principal amount shown in the table below is based on the current financing plan, which is lower than the total not to exceed authorization of \$364 million (\$239 million Revenue Bonds and \$125 million COPs). The not to exceed authorization allows for flexibility to include full refunding of tax-exempt CP, capitalized interest, and provides a buffer for market volatility.

Sources	
Principal Amount of 2016 Debt	\$282,165,000
Plus/Less Net Original Issue Premium/Discount	19,695,767
<b>TOTAL</b>	<b>301,860,767</b>
Uses	
Deposit to 2006A & 2007A Escrow Fund	66,442,237
Transfer to Paying Agent for the Commercial Paper Certificates	129,500,000
Project Fund	105,000,000
Costs of Issuance	558,000
Underwriter's Discount	352,706
Additional Proceeds	7,824
<b>TOTAL</b>	<b>301,860,767</b>

## Security

The obligation of the District to pay principal of and interest on the 2016 Debt including making Installment Payments 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. The obligation of the District to pay the principal of and interest on the 2016 Debt including making Installment Payments 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.

## Financing Documents

The following financing documents, in substantially final form, are attached for Board review and/or approval: Resolution of the Board; Indenture; Installment Purchase Agreement; Trust Agreement; Purchase Contracts; Preliminary Official Statement; Continuing Disclosure Agreements; Escrow Agreements; and Resolution of the PFFC.

## Costs of Issuance

The estimated total costs of issuance is \$558,000 which will be paid from the proceeds of the debt issuances at closing.

	<u>Estimate</u>
Rating Fees (Fitch/Moody's/S&P)	\$273,000
Bond Counsel	110,000
Financial Advisor	100,000
Trustee	7,500
Printing	7,500
Verification Agent	5,000
Arbitrage Rebate Analysis Fee	5,000
Other Fees/Charges & Contingency (10%)	50,000
<b>Total</b>	<b><u><u>\$ 558,000</u></u></b>

## PFFC

The District is required to issue the 2016 COPs and amend the Reimbursement Agreement in conjunction with the PFFC. The PFFC met on January 28, 2016 and approved the resolution authorizing the 2016 COPs and Amendment to the Reimbursement Resolution.

## Underwriter Selection

The Underwriter team was selected from the Underwriter Pool which was established in 2012 pursuant to a competitive Request for Qualifications process (CAS File FS10-2013) (the "RFQ"). On September 17, 2015, the District's financial advisor, Public Resources Advisory Group (PRAG), distributed a Request for Information (RFI) to the

15 firms in the Underwriter Pool. The following Underwriter team was selected based on the responses to the RFI. The selected Underwriter team provides broad coverage for both retail and institutional investors to generate investor demand for the 2016 Debt.

**Tax-Exempt Debt**

Senior Manager:  
Wells Fargo Securities

Co-Managers:  
Barclays  
Fidelity Capital Markets  
Siebert Brandford Shank  
Stifel, Nicolaus & Company

**Taxable Debt**

Senior Manager:  
J.P. Morgan

Co-Managers:  
Citigroup Global Markets  
Goldman Sachs  
Morgan Stanley

**Financing Schedule**

The 2016 Debt is expected to be priced by the New York City trading desks of Wells Fargo and J.P. Morgan on March 16-17, with a closing date of the end of March or mid-April 2016. The financing schedule is summarized below:

<b>Description</b>	<b>Date</b>
Board approval:	2/23/2016
Ratings:	3/8/2016
Post Preliminary Official Statement:	3/9/2016
Pricing (NY):	3/16-17/2016
Closing:	March/April

**FINANCIAL IMPACT:**

The estimated total costs of issuance is \$558,000 which will be paid from the proceeds of the debt issuances at closing.

**CEQA:**

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



**ATTACHMENTS:**

1. Summary of Key Terms for the Parity Master Resolution
2. PowerPoint Presentation
3. Parity Master Resolution
4. Resolution of the Board
5. Indenture
6. Installment Purchase Agreement
7. Trust Agreement
8. Purchase Contracts
9. Preliminary Official Statement
10. Continuing Disclosure Agreements
11. Escrow Agreements
12. Resolution of the PFFC

**UNCLASSIFIED MANAGER:**

Najon Chu, 408-630-2208

## Attachment 1 - Summary of Key Terms for the Parity Master Resolution

#	Existing Term	Proposed Term
2.1	Pledges Water Utility System Revenues	Broadens the pledge to include the Water Utility System Revenue Fund and all amount on deposit therein (see 2.3 and 2.4 below)
2.3	NA	Establishes Rate Stabilization Fund (RSF) and permits moneys to be transferred to and from Rate Stabilization Fund
2.4	NA	Establishes concept of Special Purpose Funds (SPF) and permits transfers from Special Purpose Fund
3.1	Additional Bonds and Contracts	Eliminates the historic prong of the existing three part additional debt test and makes other clarifying changes
3.2	Separate Utility Systems	Allows for exclusion of principal for commercial paper in calculating the additional bonds test Clarifies the manner in which the District creates separate utility systems
4.4	Compliance with Contracts	Clarifies that amendments, supplements, modifications (including interim contracts or renewal) of such contracts are permitted
4.6	Insurance Requirements	Eliminates certain provisions which could increase District compliance costs or create compliance burdens
4.7	Financial Statements	Eliminates no default certification by CPA and requirement for annual operating report to be filed with trustee
4.9	Rate Covenant	Maintain 1.25 x debt service coverage for senior lien debt  Net Water Utility System Revenues, including any transfers from the Rate Stabilization Fund and Special Revenue Funds, after paying operations and maintenance costs and senior lien debt/reserve, is at least 1.25 x parity debt service  Clarifies existing rate covenant to make clear covenant is on a <b>budget basis</b> and <b>no event of default</b> if coverage is not achieved at year end so long as next year budget is in compliance
	Definition of "Debt Service"	Modified to allow greater flexibility with respect to tax credit bonds, lower variable rate interest assumption, treatment of commercial paper and certain other changes
	Definition of "Maintenance and Operation Costs"	Clarified to make clear that fixed payments under certain contracts with other agencies are treated as O&M for purposes of the parity master resolution
	Definition of "Maintenance and Operation Obligation"	Clarifies that payments under certain agreements with other parties, including JPA's, are treated as O&M under the parity master resolution if so determined by Board of Directors
	Various Other Definitions	Various definitions are added or modified to implement the substantive provisions described above or eliminated because the definition is no longer needed as a result of changes described above

# 2016 Water Utility Financing Plan



# Recommendations

- A. Adopt Water Utility Parity System Master Resolution
- B. Adopt Resolution authorizing up to \$239 million Refunding Revenue Bonds and \$125 million Certificates of Participation (COPs) and amend the Commercial Paper (CP) Program
- C. Authorize the CEO, Acting CEO, CAO, or CFO, District Counsel and Clerk of the Board to take all actions necessary to complete transaction
- D. Authorize the CEO, Acting CEO, CAO, or CFO, District Counsel and Clerk of the Board to negotiate and execute an Amendment to the Reimbursement Resolution for the \$150 million Letter of Credit and take all actions necessary to complete the transaction
- E. Authorize the CEO, Acting CEO, CAO, or CFO to negotiate and execute the Amended Tax Revenue Anticipation Notes which provide security for the Commercial Paper Program on a subordinate lien to the Parity Master Resolution

# 2016 Water Utility Financing Overview

# Plan of Finance

- **Outstanding Debt**

Water Enterprise Fund									
Series	Outstanding Par	Mode	Tax Status	Coupon Range		DSRF	Call Status	Final Maturity	
2006A Rev	\$57,270,000	Fixed	Exempt	3.500%	- 5.000%	\$4,744,938	06/01/2016 @ 100	06/01/2035	
2006B Rev	21,040,000	Fixed	Taxable	5.154%	- 5.312%	Surety	Subject to Make-Whole	06/01/2035	
2007A Rev	68,380,000	Fixed	Exempt	4.000%	- 5.000%	Surety	06/01/2017 @ 100	06/01/2037	
2007B Rev	43,185,000	Var	Taxable	3M LIBOR + 32bps		Surety	Currently Callable	06/01/2037	
<b>Total</b>	<b>\$189,875,000</b>								

\*As of June 30, 2015, the District has \$114 million of commercial paper notes outstanding

- **District Plan of Finance**

- Issue 2016 Refunding Revenue Bonds and 2016 Certificates of Participation (new money); est. **\$5.4M NPV Savings** on refundings and **4.3% all-in true-interest-cost**
- 2016 Bonds and COPs will be issued on a Parity Lien (Net Water System Utility Revenues)
- New Money: \$105 million to fund Capital Improvement Plan

Plan of Finance			
Senior Lien			
Series	Outstanding Par	Mode	DSRF
2006B Taxable	\$21,040,000	Fixed	Surety
2007A	60,765,000	Fixed	Surety
2007B Taxable	43,185,000	Variable	Surety
	<u>\$124,990,000</u>		
Subordinate Lien			
2016 Water Utility Financing			
Series	Outstanding Par	Mode	DSRF
Water Refunding Revenue Bonds			
2016A	\$108,550,000	Fixed	Cash
2016B Taxable	75,245,000	Fixed	Cash
Revenue COPs			
2016C	43,380,000	Fixed	None
2016D Taxable	54,990,000	Fixed	None
	<u>\$282,165,000</u>		

# Capital Improvement Plan

- The prelim. FY 2017-21 CIP includes ~\$1.9B capital improvements
- CIP improves asset management (replaces aging equipment and facilities), and infrastructure reliability (protects the District's water supply)

## Major Capital Improvements

*Prelim. FY 2017-21 CIP (1/12/16 Board Update)*

### Storage:

- Anderson Dam Seismic Retrofit (\$171M)
- Calero/Guadalupe Dam Seismic Retrofit (\$139M)
- Almaden Dam Seismic Retrofit (\$46M)

### Transmission:

- FAHCE Implementation (\$145M)
- 10-Year Pipeline Rehabilitation (\$105M)
- Vasona Pumping Plant Upgrade (\$20M)

### Treatment:

- RWTP Reliability Improvement (\$180M)
- Small Capital Improvements, Water Treatment (\$45M)

### Recycled Water:

- Recycled Water Facilities Expansion (\$925M)
- South County Recycled Water Pipeline (19M)

# Estimated Sources and Uses of Funds

## Sources

Principal Amount of 2016 Debt	\$282,165,000
Plus/Less Net Original Issue Premium/Discount	19,695,767
<b>TOTAL</b>	<b>301,860,767</b>

## Uses

Deposit to 2006A & 2007A Escrow Fund	66,442,237
Transfer to Paying Agent for the Commercial Paper Certificates	129,500,000
Project Fund	105,000,000
Costs of Issuance	558,000
Underwriter's Discount	352,706
Additional Proceeds	7,824
<b>TOTAL</b>	<b>301,860,767</b>



# Parity Master Resolution – Key Terms

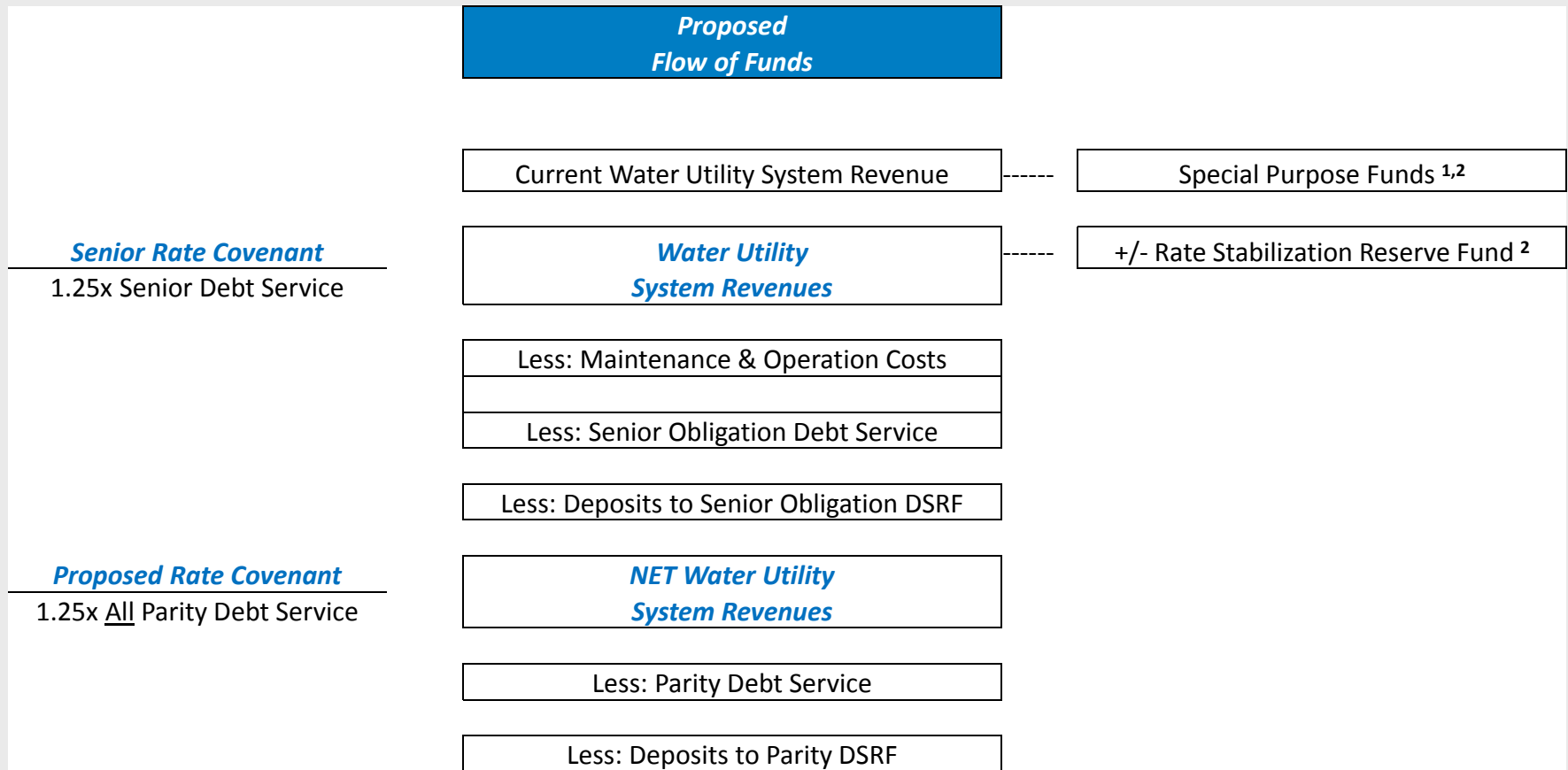
- ▶ Closes Senior Lien
- ▶ Defines “Net Water Utility System Revenue” as Water Utility System Revenues less O&M less Senior Obligation debt service
- ▶ Rate Covenant – Net Water Utility System Revenue of no less than 125% of all outstanding Parity Debt Service on a budget basis
- ▶ Parity Debt Additional Bonds Test
  - (i) Net Water Utility System Revenue of no less than 125% of outstanding and proposed Parity Debt Service for FY of issuance; and
  - (ii) Estimated Net Water Utility System Revenues for the then current Fiscal Year and thereafter is at least 125% of the estimated Parity Debt Service

# Parity Master Resolution – Key Terms

## Funds:

- ▶ Rate Stabilization Fund – transfers added to or deducted from Water Utility System Revenues, as applicable
- ▶ Special Purpose Fund - Transfer included in Current Water Utility System Revenues, based on Board resolution that:
  - Non-routine expenditures are expected to be incurred;
  - Current Water Utility System Revenues reduced;
  - Application of Special Purpose Funds is financially prudent; and
  - Board adopted budget amendment for the expenditures and transfer of funds

# Flow of Funds



Notes:

- 1.) Requires Board resolution and limited to the amount of reduced Current Water Utility System Revenue as a result of non-routine expenditures resulting from extraordinary events.
- 2.) Transfers during or within 270 days after the end of the FY.

# Disclosure – Securities Exchange Act of 1934

- ▶ Section 10b-5:communications to “marketplace” cannot contain untrue statement of material fact or **omission** of material fact
- ▶ Preliminary Official Statement/Official Statement must contain Information concerning the terms of the securities & Financial information or operating data material to an evaluation of the securities
- ▶ Board & Senior Management input required to disclose material facts prior to closing

# Financing Team

***Bond Counsel***      Stradling, Yocca Carlson & Rauth

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***Financial Advisor***      Public Resources Advisory Group

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***Senior Managers***      **Water System Refunding Revenue Bonds**  
Series 2016A                  Wells Fargo Securities  
Series 2016B (Taxable)      J.P. Morgan

**Water System Certificates of Participation**  
Series 2016C                  Wells Fargo Securities  
Series 2016D (Taxable)      J.P. Morgan

# Estimated Costs of Issuance

	<u>Estimate</u>
Rating Fees (Fitch/Moody's/S&P)	\$273,000
Bond Counsel	110,000
Financial Advisor	100,000
Trustee	7,500
Printing	7,500
Verification Agent	5,000
Arbitrage Rebate Analysis Fee	5,000
Other Fees/Charges & Contingency (10%)	<u>50,000</u>
<b>Total</b>	<u><u>\$558,000</u></u>

# Financing Schedule

<b>Description</b>	<b>Date</b>
PFFC approval:	1/28/2016
Board approval:	2/23/2016
Ratings:	3/8/2016
Post Preliminary Official Statement:	3/9/2016
Pricing (NY):	3/16-17/2016
Closing:	March/April

# Questions and Comments





SANTA CLARA VALLEY WATER DISTRICT

RESOLUTION NO. \_\_\_\_

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

(Water Utility Parity System Master Resolution)

Adopted February \_\_, 2016

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SANTA CLARA VALLEY WATER DISTRICT

RESOLUTION NO. \_\_\_\_

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

(Water Utility Parity System Master Resolution)

Adopted February \_\_, 2016

**WHEREAS**, the Santa Clara Valley Water District owns and operates that certain Water Utility System as described in this Resolution; and

**WHEREAS**, the District previously issued and incurred obligations of the District which are payable from Net Water Utility System Revenues under Resolution 94-59 (as supplemented and amended to the date hereof, the “Original Resolution”); and

**WHEREAS**, the District now desires to adopt a resolution to establish covenants to secure the payment of obligations payable from Net Water Utility System Revenues subordinate to obligations incurred under the Original Resolution;

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Santa Clara Valley Water District in Regular Session, assembled this \_\_th day of February, 2016, a majority of Directors being present and concurring, as follows:

**ARTICLE 1**

**DEFINITIONS**

**Section 1.1. Definitions.** Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any opinion or report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein:

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 Section 2.1 hereof and are payable from Net Water Utility System Revenues in accordance with Section 2.2(b) hereof.

### Business Day

“Business Day” shall mean 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 Section 2.1 hereof and are payable from Net Water Utility System Revenues in accordance with Section 2.2(b) hereof, 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 Section 2.4 hereof; 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 shall, 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 shall 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 shall 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 shall 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 shall 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 shall 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 this Water Utility System Parity 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 this Water Utility System Parity 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 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 this 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 shall 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 Section 2.3 hereof.

### Senior Obligations

“Senior Obligations” means [2006B Bonds] [2007A IPA] [2007B IPA].

### 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 Section 3.2 hereof, (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 Section 2.1.

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.

**ARTICLE 2**

**WATER UTILITY SYSTEM REVENUES**

**Section 2.1. Establishment of Water Utility System Revenue Fund.**

The District hereby continues and agrees 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 shall be disbursed, allocated and applied solely to the uses

and purposes hereinafter described in this Resolution, and shall 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 hereby irrevocably pledged to the payment of the Bonds and Contracts as provided herein; and the Water Utility System Revenues and all amounts on deposit in the Water Utility System Revenue Fund shall 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 herein. This pledge shall constitute a lien on Water Utility System Revenues, the Water Utility System Revenue Fund and all amounts on deposit therein as permitted herein for the payment of Contracts and Bonds in accordance with the terms hereof subordinate solely to the lien created under the Original Resolution.

**Section 2.2. Allocation of Water Utility System Revenues.**

In order to carry out and effectuate the obligations of the District to pay Debt Service, the District agrees and covenants that all Current Water Utility System Revenues received by it shall be deposited when and as received in the Water Utility System Revenue Fund.

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 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 shall no longer be operative and the following provisions shall 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.

### **Section 2.3. Establishment of Rate Stabilization Fund.**

The District hereby continues and agrees to maintain, so long as any Bonds or Contracts remain outstanding, the Rate Stabilization Fund to be held by the District. Amounts in the Rate Stabilization Fund shall be disbursed, allocated and applied solely to the uses and purposes hereinafter described in this Resolution, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the District.

All amounts on deposit in the Rate Stabilization Fund and the Rate Stabilization Fund are hereby irrevocably pledged to the payment of the Bonds and Contracts as provided herein; provided that amounts on deposit in the Rate Stabilization Fund may be apportioned for such purposes as are expressly permitted herein. This pledge shall constitute a first lien on amounts on deposit in the Rate Stabilization Fund for the payment of Contracts and Bonds in accordance with the terms hereof.

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 Section 2.2 hereof. Amounts transferred from the Rate Stabilization Fund to the Water Utility System Revenue Fund pursuant to this Section 2.3 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 in Sections 3.1 and 4.9 in such Fiscal Year to the extent provided in the definition of Water Utility System Revenues.

### **Section 2.4. Establishment of Special Purpose Funds.**

Amounts in Special Purpose Funds may be applied and used for the purposes hereinafter described in this Resolution, and 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 hereby irrevocably pledged to the payment of the Bonds and Contracts as provided herein; provided that amounts on deposit in the Special Purpose Funds there may be apportioned for such purposes as are expressly permitted herein. This pledge shall constitute a first lien on amounts on deposit in the Special Purpose Funds for the payment of Contracts and Bonds in accordance with the terms hereof.

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 for application in accordance with Section 2.2 hereof 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 pursuant to this Section 2.4 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 in Sections 3.1 and 4.9 in such Fiscal Year.

### **ARTICLE 3**

#### **BONDS AND CONTRACTS**

##### **Section 3.1. Additional Bonds and Contracts.**

The District may at any time execute any Contract or issue any Bonds, as the case may be, in accordance herewith; 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.

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 Section 2.3 hereof.

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 herein shall prevent 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 Section 2.1 or payable from Net Water Utility System Revenues on a basis subordinate to Bonds and Contracts in accordance with Section 2.2 hereof.

### **Section 3.2. 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 shall 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 shall be pledged by the District to the payment of any obligations of a separate utility system nor shall such obligation be payable from Water Utility System Revenues except in either case on a basis subordinate to the Bonds and Contracts.

## **ARTICLE 4**

### **COVENANTS OF THE DISTRICT**

**Section 4.1. 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 shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement

thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

**Section 4.2. 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 Section 4.9 hereof.

**Section 4.3. 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 shall be made available to each Trustee.

**Section 4.4. 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 herein shall prevent the District from entering into supplements, modifications or amendments to such contracts (including any interim or renewed contract relating thereto).

**Section 4.5. 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 herein or which might impair the security of any Bonds or Contracts. The District shall not issue or incur any additional Senior Obligations under the Original Resolution.

**Section 4.6. Insurance.** The District will procure and maintain such insurance relating to the Water Utility System which it shall deem advisable or necessary (based on the annual written approval of the District's risk manager) to protect its interests, which insurance shall 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 shall 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.

**Section 4.7. Accounting Records and Financial Statements.**

(a) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water Utility System, which records shall 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.

**Section 4.8. 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 shall 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 shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

**Section 4.9. Amount of Rates, Fees and Charges.**

(a) To the fullest extent permitted by law, the District will 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 shall be at least 1.25 times Debt Service for such Fiscal Year. 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 requirements of this section.

(b) So long as the District has complied with its obligations set forth in subsection (a) above, the failure of Current Water Utility System Revenues to meet the threshold in clause (i) of the prior subsection (a) or the failure of Net Water Utility System Revenues to meet the



threshold in clause (ii) of the prior subsection (a) shall not constitute a default or an event of default hereunder.

**Section 4.10. 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 Section 4.9(a).

**Section 4.11. Eminent Domain and Insurance Proceeds.** If all or any part of the Water Utility System shall 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 shall 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.

## ARTICLE 5

### MISCELLANEOUS

**Section 5.1. Benefits of this Water Utility System Parity Resolution Limited to Parties.**

Nothing contained herein, 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 hereto, and any agreement or covenant required herein to be performed by or on behalf of the District shall be for the sole and exclusive benefit of such other parties.

**Section 5.2. Successor is Deemed Included in all References to Predecessor.** Whenever the District is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District, and all agreements and covenants required hereby to be performed by or on behalf of the District shall bind and inure to the benefit of the successors thereof whether so expressed or not.

**Section 5.3. Article and Section Headings, Gender and References.**

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

**Section 5.4. Partial Invalidity.** If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the District shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be

null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The District hereby declares that it would have adopted this Resolution, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

**Section 5.5. Funds.**

Any fund required to be established and maintained herein 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, shall be treated either as an account or a fund; but all such records with respect to any such fund shall 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.

**Section 5.6. Investments.**

Any money held by the District in any of the funds provided herein shall 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 shall be invested as required in such Trust Agreement.

**Section 5.7. Repeal of Inconsistent Resolutions.** Any resolution of the District and any part of any resolution inconsistent herewith is hereby repealed to the extent of such inconsistency.

**Section 5.8. Effective Date.** This Resolution shall take effect immediately.

PASSED and ADOPTED this February \_\_, 2016, by the following vote:

AYES:

NOES:

ABSENT:

APPROVED:

---

Chair of the Board of Directors  
of the Santa Clara Valley Water District

ATTEST:

---

Clerk of the Board of Directors of  
the Santa Clara Valley Water District

**RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$239,000,000 REFUNDING REVENUE BONDS, AUTHORIZING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$125,000,000 REVENUE CERTIFICATES OF PARTICIPATION, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH**

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

**WHEREAS**, the District has previously financed and refinanced the acquisition of certain capital improvements to the water utility system equipment and facilities of the District by causing the issuance of the Water Utility System Refunding Revenue Bonds, Series 2006A (the “2006A Bonds”) and the execution and delivery of the Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2007A (the “2007A Certificates”);

**WHEREAS**, the District has previously financed the acquisition of certain capital improvements to the water utility system equipment and facilities of the District by causing the execution and delivery of the Commercial Paper Certificates, Series A (Tax-Exempt) and the Commercial Paper Certificates, Series B (Taxable) (together the “Commercial Paper Certificates”) pursuant to a resolution of the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”). The 2006A Bonds, the 2007A Bonds and the Commercial Paper Certificates shall be referred to herein as the “Refunded Obligations”;

**WHEREAS**, the District has determined that it would be in the best interests of the District and citizens of the community to authorize refunding bonds in one or more series (the “Refunding Bonds”) to refund all or a portion of the Refunded Obligations;

**WHEREAS**, the Board of Directors of the District (the “Board”) proposes to finance additional water utility system equipment and facilities and to reimburse the District for costs previously expended on certain water utility system equipment and facilities and the Corporation has agreed to assist the District in such financing and reimbursement;

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

**NOW, THEREFORE**, the Board of the District hereby finds, determines, declares, and resolves as follows:

**Section 1. Authorization of Refunding Bonds.** This Board hereby authorizes the issuance, sale and delivery of one or more series of Refunding Bonds in an aggregate principal amount not to exceed \$239,000,000 in accordance with the terms and provisions of the Indenture of

Trust referred to in Section 2 below. The purposes for which the proceeds of the sale of the Refunding Bonds shall be expended are to refund all or a portion of the Refunded Obligations, and to pay the costs of the sale and delivery of the Refunding Bonds.

**Section 2. Indenture.** The Indenture of Trust with respect to the Refunding Bonds, in substantially the form on file with the District, and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Chief Executive Officer or any acting Chief Executive Officer, the Chief Administrative Officer, the Chief Financial Officer and the Clerk of the Board (each an “Authorized Officer” and together the “Authorized Officers”) are hereby each individually authorized and directed to execute and deliver the Indenture of Trust with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.

**Section 3. Authorization of Certificates of Participation.** This Board hereby authorizes the preparation, sale and delivery by the Corporation of one or more series of Certificates in an aggregate principal amount not to exceed \$125,000,000 in accordance with the terms and provisions of the Trust Agreement referred to in Section 5 below. The purposes for which the proceeds of the sale of the Certificates shall be expended are to finance the costs of certain capital improvements to the water utility system of the District and to reimburse the District for costs previously expended on certain water utility system equipment and facilities as described in the Installment Purchase Agreement referred to in Section 4 below, and to pay the costs of the sale and delivery of the Certificates.

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

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

**Section 6. Purchase Contracts for Tax-Exempt Refunding Bonds and Certificates.** One or more Purchase Contracts relating to the Refunding Bonds and the Certificates, the interest on which is excluded from gross income for federal income tax purposes (respectively, the “Tax-Exempt Refunding Bonds” and the “Tax-Exempt Certificates” and together the “Tax-Exempt Obligations”), by and between the District and Wells Fargo Bank, National Association (the “Tax-Exempt Bond Purchase Contracts”), as representative of the underwriters named therein, in substantially the form on file with the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. Each Authorized Officer is individually authorized and directed to execute and deliver such Tax-Exempt Bond Purchase Contracts with such changes, insertions and omissions as may be approved by such Authorized Officer executing the

same, said execution being conclusive evidence of such approval; provided, that the underwriting discount shall not exceed .125 of 1%.

**Section 7. Purchase Contracts for Taxable Refunding Bonds and Certificates.** One or more Purchase Contracts relating to the Refunding Bonds and the Certificates, the interest on which is not excluded from gross income for federal income tax purposes (respectively, the “Taxable Refunding Bonds” and the “Taxable Certificates” and together the “Taxable Obligations”), by and between the District and J.P. Morgan Securities LLC (the “Taxable Bond Purchase Contracts” and together with the Tax-Exempt Purchase Contract, the “Purchase Contracts”), as representative of the underwriters named therein, in substantially the form on file with the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. Each Authorized Officer is individually authorized and directed to execute and deliver such Taxable Bond Purchase Contracts with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval; provided, that the underwriting discount shall not exceed .125 of 1%.

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

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

**Section 10. Escrow Agreements.** The Escrow Agreement (2006A Bonds) relating to the refunded 2006A Bonds and the Escrow Agreement (2007A Certificates) relating to the refunded 2007A Certificates (collectively, the “Escrow Agreements”), in substantially the forms on file with the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, are hereby approved. Each Authorized Officer is individually authorized and directed to execute and deliver the Escrow Agreements with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.

**Section 11. Payment of Commercial Paper Certificates.** Each Authorized Officer and such other officers and staff of the District are authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which such officers may deem necessary or advisable in order to pay all or a portion of the outstanding amounts of the Commercial Paper Certificates from a portion of the proceeds of the Refunding Bonds.

**Section 12. Selection of Municipal Bond Insurer.** Each Authorized Officer, acting individually, is authorized to select a municipal bond insurer(s) to insure payments of the Refunding Bonds and/or Certificates in accordance with the terms and conditions of a commitment letter(s) to be executed by such insurer(s) and the District so long as such Authorized Officer determines that obtaining the municipal bond insurance policy(ies) provided by such insurer(s) will result in a lower interest rate or yield to maturity with respect to such Refunding Bonds and/or Certificates. Special Counsel and Bond Counsel are hereby directed to make all changes to the Indenture of Trust, the Escrow Agreements, the Installment Purchase Agreement, Trust Agreement, the Purchase Contracts, Preliminary Official Statement, Official Statement and Continuing Disclosure Agreements and other related documents as are necessary to reflect the selection of such municipal bond insurer(s) and the reasonable of the comments of the municipal bond insurer(s) in connection therewith.

**Section 13. Trustee.** U.S. Bank National Association, San Francisco, California is hereby appointed to act as trustee under the Indenture of Trust with respect to the Refunding Bonds and under the Trust Agreement with respect to the Certificates.

**Section 14. Designation of Special Funds.** In accordance with Resolution No. \_\_\_ of the District (the "Parity Master Resolution"), the Board of Directors hereby designate the following funds, in addition to the Drought Reserve preciously designated, as "Special Funds" for all purposes under the Parity Master Resolution: the San Felipe Emergency Reserve, the Santa Clara Advanced Water Purification Center Reserve and the Supplemental Water Supply Reserve.

**Section 15. Amendments to Resolution No. 15-37.**

(a) The definition of "Master Resolution" contained in Resolution No. 15-37 shall be revised to read in its entirety as follows: RESOLUTION NO. \_\_\_ 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 (Water Utility Parity System Master Resolution), adopted on February \_\_, 2016.

(b) The definition of "Subordinate Obligation" in Resolution No. 15-37 is hereby deleted; and

(c) The second sentence of Section 5 of Resolution No. 15-30 is hereby amended to read in its entirety: "The District hereby pledges Net Water Utility System Revenues of the District, subordinate to the payment of Bonds and Contracts (as defined in the Master Resolution), to additionally secure the payment of the principal of and interest on the Notes, all in accordance with the Master Resolution.

**Section 16. Other Actions.** The Authorized Officers and such other officers and staff of the District are authorized and directed, acting singly, to do any and all things and to execute and

deliver any and all documents which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Refunding Bonds and the Certificates, and the delivery of the Indenture of Trust, the Installment Purchase Agreement, the Trust Agreement, the Purchase Contracts, the Continuing Disclosure Agreements, the Preliminary Official Statement and the Official Statement, the Escrow Agreements, the payment of all or a portion of the outstanding amounts of the Commercial Paper Certificates, and otherwise effectuate the purposes of this Resolution, and such actions in connection therewith previously taken by such officers and staff are hereby ratified and confirmed.

**Section 17. Definitions.** Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given to such terms, with respect to the Refunding Bonds, in the Indenture of Trust and with respect to the Certificates, in the Trust Agreement and Installment Purchase Agreement, unless the context otherwise clearly requires.

**Section 18. Effect.** This resolution shall take effect immediately.



PASSED and ADOPTED by the Board of Directors of Santa Clara Valley Water District by the following vote on the 23<sup>rd</sup> day of February, 2016.

AYES: DIRECTORS:

NOES: DIRECTORS:

ABSENT: DIRECTORS:

ABSTAIN: DIRECTORS:

SANTA CLARA VALLEY WATER  
DISTRICT

By:

---

Chair/Board of Directors

ATTEST: MICHELE L. KING, CMC

---

Clerk/Board of Directors

**CLERK'S CERTIFICATE**

I, Michelle L. King, CMC, Clerk of the Board of Directors of Santa Clara Valley Water District, Santa Clara County, California, hereby certify as follows:

The foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Board of Directors of said District duly and regularly and legally held at the regular meeting place thereof on February 23, 2016 of which meeting all of the members of said Board of Directors had due notice and at which a majority thereof were present.

At said meeting said resolution was adopted by the following vote:

AYES: Directors  
NOES: Directors  
ABSENT: Directors  
ABSTAIN: Directors

I have carefully compared the same with the original minutes of said meeting on file and of record in my office, and the foregoing is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes.

Said resolution has not been amended, modified or rescinded since the date of its adoption, and same is now in full force and effect.

Dated: \_\_\_\_\_, 2016

---

Clerk of the Board of Directors of Santa Clara Valley Water District

(Seal)

**INDENTURE OF TRUST**

**Dated as of February 1, 2016**

**By and between**

**U.S. BANK NATIONAL ASSOCIATION,  
as Trustee**

**and the**

**SANTA CLARA VALLEY WATER DISTRICT**

**Relating to**

**\$ \_\_\_\_\_  
SANTA CLARA VALLEY WATER DISTRICT  
WATER SYSTEM REFUNDING REVENUE BONDS,  
SERIES 2016A**

**and**

**\$ \_\_\_\_\_  
SANTA CLARA VALLEY WATER DISTRICT  
WATER SYSTEM REFUNDING REVENUE BONDS,  
TAXABLE SERIES 2016B**

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## INDENTURE OF TRUST

THIS INDENTURE OF TRUST, made and entered into and dated as of February 1, 2016 (the "Indenture"), by and between SANTA CLARA VALLEY WATER DISTRICT, an agency duly organized and existing under and by virtue of the laws of the State of California (the "District"), and U.S. BANK NATIONAL ASSOCIATION, duly organized and existing under the laws of the United States of America, as trustee hereunder (the "Trustee");

### W I T N E S S E T H:

WHEREAS, the District has previously financed and refinanced the acquisition of certain capital improvements to the water utility system equipment and facilities of the District by causing the issuance of the Water Utility System Refunding Revenue Bonds, Series 2006A, the execution and delivery of the Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2007A, the execution and delivery of the Commercial Paper Certificates, Series A (Tax-Exempt) and the Commercial Paper Certificates, Series B (Taxable) and by entering into a loan agreement with the State of California Department of Water Resources (together, the "Refunded Obligations"); and

WHEREAS, the District has determined that it is in the best interest of the public to pay, prepay and defease, the Refunded Obligations; and

WHEREAS, the District is authorized under the Santa Clara Valley Water District Act, Chapter 1405 of Statutes of 1951 of the State of California, as amended, and by Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including all laws amendatory thereof or supplemental thereto, to refinance the acquisition of property for its water system; and

WHEREAS, in order to provide for the authentication and delivery of refunding revenue bonds (the "2016 Bonds"), to establish and declare the terms and conditions upon which such 2016 Bonds are to be issued and secured and to secure the payment of the principal thereof and interest and premium, if any, thereon, the District has authorized the execution and delivery of this Indenture; and

WHEREAS, the District has determined that all acts and proceedings required by law necessary to make the 2016 Bonds, when executed by the District, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal special obligations of the District, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, THE INDENTURE WITNESSETH:

### GRANTING CLAUSES

The District, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the mutual covenants herein contained and of the purchase and acceptance of the 2016 Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of and the interest and

premium (if any) on all 2016 Bonds at any time issued and Outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, does hereby assign and pledge unto, and grant a security interest in, the following (the "Trust Estate") to the Trustee, and its successors in trust and assigns forever, for the securing of the performance of the obligations of the District to the 2016 Bond Owners hereinafter set forth:

#### GRANTING CLAUSE FIRST

All right, title and interest of the District in and to the Water Utility System Revenues (as defined in the Water Utility Parity System Master Resolution), including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and receipt for any Water Utility System Revenues payable to or receivable by the District under the Constitution of the State, the Government Code of the State of California, the Water Utility Parity System Master Resolution and this Indenture and any other applicable laws of the State or otherwise, to bring actions and proceedings thereunder for the enforcement thereof, and to do any and all things which the District is or may become entitled to do thereunder, subject to the terms hereof and of the Water Utility Parity System Master Resolution.

#### GRANTING CLAUSE SECOND

All moneys and securities held in funds and accounts of this Indenture and of the Water Utility Parity System Master Resolution, except amounts held in the Rebate Fund, and all other rights of every name and nature from time to time herein or therein or hereafter by delivery or by writing of any kind pledged, assigned or transferred as and for additional security hereunder or thereunder to the Trustee by the District or by anyone on its behalf, or with its written consent, and to hold and apply the same, subject to the terms hereof and of the Water Utility Parity System Master Resolution.

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors in trust and assigns forever for the benefit of the Owners and such pledge shall constitute a lien on and security interest in such Trust Estate;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the 2016 Bonds issued under and secured by this Indenture and the Water Utility Parity System Master Resolution without privilege, priority or distinction as to the lien or otherwise of any of the 2016 Bonds over any of the other 2016 Bonds;

PROVIDED, HOWEVER, that if the District, its successors or assigns shall well and truly pay, or cause to be paid, the principal of and interest and any redemption premium on the 2016 Bonds due or to become due thereon, at the times and in the manner provided in the 2016 Bonds according to the true intent and meaning thereof, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments or deposits as



herein provided, this Indenture and the rights hereby granted shall cease, terminate and be void; otherwise this Indenture shall remain in full force and effect.

THE INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all 2016 Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all sold property, rights and interests, including, without limitation, the Water Utility System Revenues, hereby assigned and pledged under the Water Utility Parity System Master Resolution, are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the District has agreed and covenanted and does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the 2016 Bonds, as follows:

## ARTICLE I

### DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 and in the Water Utility Parity System Master Resolution, shall for all purposes of this Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, or as specified in the Water Utility Parity System Master Resolution, in each case to be equally applicable to both the singular and plural forms of any of the terms defined.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Authorized Representative. The term "Authorized Officer" means the Chief Executive Officer/General Manager of the District, any acting Chief Executive Officer/General Manager or, if there is no officer such 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), the Chief Administrative Officer or the Chief Financial 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

shall be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

Closing Date. The term “Closing Date” means the date on which the 2016 Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Agreement. The term “Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated March \_\_, 2016, by and between the District and U.S. Bank National Association, as dissemination agent, relating to the 2016 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 2016 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 2016 Bonds and any other cost, charge or fee in connection with the original issuance of the 2016 Bonds.

Costs of Issuance Fund. The term “Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03.

Defeasance Securities. The term “Defeasance Securities” means: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (4) pre-refunded municipal obligations rated not lower than the rating on securities described in clause (2) above.

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 2016 Bonds.

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.

Escrow Agent. The term “Escrow Agent” means U.S. Bank National Association, as escrow agent under the Series 2006A Escrow Agreement and the Series 2007A Escrow Agreement.

Event of Default. The term “Event of Default” means any of the events specified in Section 7.01.

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

Fiscal Year. The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the last day of June of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

Fitch. The term “Fitch” means Fitch Ratings, Inc., or any successor thereto.

Indenture. The term “Indenture” means this Indenture of Trust, dated as of February 1, 2016, 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 Section 5.02.

Interest Payment Date. The term “Interest Payment Date” means \_\_\_\_\_ 1, 2016, and each June 1 and December 1 thereafter.

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

Issuing and Paying Agent Agreement. The term “Issuing and Paying Agent Agreement” means the Restated Issuing and Paying Agent Agreement, dated as of June 1, 2012, as amended by

Amendment No. 1 to Restated Issuing and Paying Agent Agreement, dated as of January 1, 2015, each by and among the District, the Corporation and U.S. Bank National Association relating to the Tax-Exempt Commercial Paper Certificates and the Taxable Commercial Paper Certificates.

Issuing and Paying Agent. The term “Issuing and Paying Agent” means U.S. Bank National Association as Issuing and Paying Agent under the Restated Issuing and Paying Agent Agreement, or its successor Issuing and Paying Agent thereunder as provided therein.

Law. The term “Law” means the Santa Clara Valley Water District Act, Chapter 1405 of Statutes of 1951 of the State of California, as amended and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including all laws amendatory thereof or supplemental thereto.

Letter of Representations. The term “Letter of Representations” means the letter of the District delivered to and accepted by the Depository on or prior to delivery of the 2016 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/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), the Chief Administrative Officer or the Chief Financial Officer.

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

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

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

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.08 hereof.

Office of the Trustee. The term “Office of the Trustee” means the principal corporate trust office of the Trustee in Los Angeles, California, provided that for purposes of payment, redemption, exchange, transfer, surrender and cancellation of 2016 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 provisions of Section 1.02, each Opinion of Counsel shall include the statements provided for in Section 1.02.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2016 Bonds, means (subject to the provisions of Section 11.09) all 2016 Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (i) 2016 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2016 Bonds with respect to which all liability of the District shall have been discharged in accordance with Section 10.02, including 2016 Bonds (or portions thereof) described in Section 11.09; and (iii) 2016 Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2016 Bonds shall have been authenticated and delivered by the Trustee pursuant to this Indenture.

Owner; 2016 Bond Owner. The term “Owner” or “2016 Bond Owner,” whenever used herein with respect to a 2016 Bond, means the person in whose name the ownership of such 2016 Bond is registered on the Registration Books.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as Securities Depository.

Payment Fund. The term “Payment Fund” means the fund by that name established pursuant to Section 5.02.

Permitted Investments. The term “Permitted Investments” means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by 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", "AAAm" or "AAAm-G" or better by S&P, 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"), in the highest rating category of 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); and
- (m) Certificates of deposit insured by the Federal Deposit Insurance Corporation.
- (n) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision shall be rated “AA” or better by S&P and Fitch or “Aa2” or better by Moody’s.

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

Principal Account. The term “Principal Account” means the account by that name in the Payment Fund established pursuant to Section 5.02.

Rating. The term “Rating” means any currently effective rating on the 2016 Bonds issued by a Rating Agency.

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

Rebate Fund. The term “Rebate Fund” means the fund by that name established for the Series 2016A Bonds pursuant to Section 5.07.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for an optional or extraordinary redemption prior to maturity of the 2016 Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to Section 5.05.

Redemption Price. The term “Redemption Price” means, with respect to any 2016 Bond (or portion thereof), the principal amount of such 2016 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 2016 Bond and this Indenture.

Refunded Series 2007A Certificates. The term “Refunded 2007A Certificates” means the 2007A Certificates with maturity dates of June 1, 2016 through June 1, 20\_\_.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2016 Bonds pursuant to Section 2.05.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, with responsibility for the administration of this Indenture.

S&P. The term “S&P” means Standard & Poor’s Ratings Services, 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 2007A Certificates. The term “Series 2007A Certificates” means the outstanding Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2007A, executed and delivered pursuant to the 2007 Trust Agreement.

Series 2007A Escrow Agreement. The term “Series 2007A Escrow Agreement” means that certain Series 2007A Escrow Agreement, dated as of February 1, 2016, by and between the District and U.S. Bank National Association.

Series 2007A Escrow Fund. The term “Series 2007A Escrow Fund” means the fund by that name established under the Series 2007A Escrow Agreement.

Series 2006A Bonds. The term “Series 2006A Bonds” means the outstanding Santa Clara Valley Water District, Water Utility System Refunding Revenue Bonds, Series 2006A, issued and delivered pursuant to the 2006 Resolution.

Series 2006A Escrow Agreement. The term “Series 2006A Escrow Agreement” means that certain Series 2006A Escrow Agreement, dated as of February 1, 2016, by and between the District and U.S. Bank National Association.

Series 2006A Escrow Fund. The term “Series 2006A Escrow Fund” means the fund by that name established under the Series 2006A Escrow Agreement.



Series 2016A Bonds. The term “Series 2016A Bonds” means the Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2016A issued pursuant to the Water Utility Parity System Master Resolution and this Indenture.

Series 2016B Bonds. The term “Series 2016B Bonds” means the Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Taxable Series 2016B issued pursuant to the Water Utility Parity System Master Resolution and this Indenture.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the District and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the Series 2016A Bonds, issued by the District on the date of issuance of the Series 2016A Bonds, including any and all exhibits attached thereto.

Taxable Commercial Paper Certificates. The term “Taxable Commercial Paper Certificates” means the outstanding Santa Clara Valley Water District Commercial Paper Certificates, Series B (Taxable) executed and delivered pursuant to Resolution No. PFFC-12-001 of the Corporation, adopted March 10, 2012, and the Issuing and Paying Agent Agreement.

Tax-Exempt Commercial Paper Certificates. The term “Tax-Exempt Commercial Paper Certificates” means the outstanding Santa Clara Valley Water District Commercial Paper Certificates, Series A (Tax-Exempt) executed and delivered pursuant to Resolution No. PFFC-12-001 of the Corporation, adopted March 10, 2012, and the Issuing and Paying Agent Agreement.

Trustee. The term “Trustee” means U.S. Bank National Association, a national banking association having a corporate trust office in Los Angeles, California, duly organized and existing under the laws of the United States of America, or its successor as Trustee hereunder as provided in Section 8.01.

2016 Bonds. The term “2016 Bonds” means the Santa Clara Valley Water District Series 2016A Bonds and the Series 2016B Bonds issued hereunder.

2006 Resolution. The term “2006 Resolution” means Resolution No. 06-80 adopted by the Board of Directors of the District on November 28, 2006.

2007 Trust Agreement. The term “2007 Trust Agreement” means the Trust Agreement dated as of September 1, 2007, by and among the District, the Santa Clara Valley Water District Public Facilities Financing Corporation and U.S. Bank National Association, as trustee thereunder.

Valuation Date. “Valuation Date” means the fifth Business Day preceding the date of redemption.

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

Water Utility Parity System Master Resolution. “Water Utility Parity System Master Resolution” means the Water Utility Parity System Master Resolution, Resolution No. \_\_\_\_\_ adopted by the Board of Directors of the District on February \_\_, 2016, as such resolution may be 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.

Section 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in this Indenture except the certificate of destruction provided for in Section 11.05 hereof, with respect to compliance with any provision hereof shall include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Section 1.03. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

## ARTICLE II

### THE 2016 BONDS

Section 2.01. Authorization of 2016 Bonds. The District hereby authorizes the issuance hereunder from time to time of the 2016 Bonds, which shall constitute special obligations of the District, for the purpose of (i) paying the outstanding Taxable Commercial Paper Certificates and Tax-Exempt Commercial Paper Certificates, (ii) currently refunding the outstanding Series 2006A

Bonds (iii) currently and advance refunding the Refunded Series 2007A Certificates, and (iv) paying the Costs of Issuance. The Series 2016A Bonds are hereby designated the “Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2016A” in the aggregate principal amount of \$\_\_\_\_\_. The Series 2016B Bonds are hereby designated the “Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Taxable Series 2016B” in the aggregate principal amount of \$\_\_\_\_\_. The Indenture constitutes a continuing agreement with the Owners from time to time of the 2016 Bonds to secure the full payment of the principal of and interest and premium (if any) on all the 2016 Bonds, subject to the covenants, provisions and conditions herein contained.

Section 2.02. Terms of the 2016 Bonds. The 2016 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

(a) The 2016A Bonds shall mature on June 1 in each of the years and in the amounts set forth below and shall bear interest at the rates set forth below:

<i><b>Maturity Date</b></i> <i><b>(June 1)</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>
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(b) The 2016B Bonds shall mature on June 1 in each of the years and in the amounts set forth below and shall bear interest at the rates set forth below:

<i><b>Maturity Date</b></i> <i><b>(June 1)</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>
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Interest on the 2016 Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Owner’s option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the Record

Date). Principal of and premium (if any) on any 2016 Bond shall be paid by check of the Trustee upon presentation and surrender thereof at maturity or upon the prior redemption thereof, at the Office of the Trustee. Both the principal of and interest and premium (if any) on the 2016 Bonds shall be payable in lawful money of the United States of America.

Each 2016 Bond shall be dated the date of initial delivery, and shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before \_\_\_\_\_ 15, 2016, in which event it shall bear interest from the date of initial delivery; provided, however, that if, as of the date of authentication of any 2016 Bond, interest thereon is in default, such 2016 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the 2016 Bonds shall be calculated on the basis of a 360 day year composed of twelve 30 day months.

Section 2.03. Transfer of 2016 Bonds. Any 2016 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2016 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee shall not be required to register the transfer of any 2016 Bond during the period in which the Trustee is selecting 2016 Bonds for redemption and any 2016 Bond that has been selected for redemption.

Whenever any 2016 Bond or 2016 Bonds shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and shall deliver a new 2016 Bond or 2016 Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee shall require the 2016 Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds it has received.

Section 2.04. Exchange of 2016 Bonds. 2016 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee shall not be required to exchange any 2016 Bond during the period in which the Trustee is selecting 2016 Bonds for redemption and any 2016 Bond that has been selected for redemption. The Trustee shall require the 2016 Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds it has received.

Section 2.05. Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2016 Bonds, which shall 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 shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2016 Bonds as hereinbefore provided.

The person in whose name any 2016 Bond shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest on and principal and

Redemption Price of by such 2016 Bonds shall be made only to or upon the order in writing of such registered Owner, which payments shall be valid and effectual to satisfy and discharge liability upon such 2016 Bond to the extent of the sum or sums so paid.

Section 2.06. Form and Execution of 2016 Bonds. The 2016 Bonds shall be in substantially the form set forth in Exhibit A hereto. The 2016 Bonds shall be executed in the name and on behalf of the District with the manual or facsimile signature of its President. The 2016 Bonds may carry a seal, and such seal may be in the form of a facsimile of the District's seal and may be reproduced, imprinted or impressed on the 2016 Bonds. The 2016 Bonds shall then be delivered to the Trustee for authentication by it. In case any of the officers who shall have signed any of the 2016 Bonds shall cease to be such officer or officers of the District before the 2016 Bonds so signed shall have been authenticated or delivered by the Trustee, or issued by the District, such 2016 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the District as though those who signed the same had continued to be such officers of the District, and also any 2016 Bonds may be signed on behalf of the District by such persons as at the actual date of execution of such 2016 Bonds shall be the proper officers of the District although at the nominal date of such 2016 Bonds any such person shall not have been such officer of the District.

Only such of the 2016 Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in Exhibit A hereto, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the 2016 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.07. 2016 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2016 Bond shall become mutilated, the District, at the expense of the Owner of said 2016 Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2016 Bond of like tenor, series and authorized denomination in exchange and substitution for the 2016 Bonds so mutilated, but only upon surrender to the Trustee of the 2016 Bond so mutilated. Every mutilated 2016 Bond so surrendered to the Trustee shall be canceled by it. If any 2016 Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2016 Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2016 Bond so lost, destroyed or stolen (or if any such 2016 Bond shall have matured or shall be about to mature, instead of issuing a substitute 2016 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 2016 Bond issued under this Section and of the expenses which may be incurred by the District and the Trustee in connection therewith. Any 2016 Bond issued under the provisions of this Section in lieu of any 2016 Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the District whether or not the 2016 Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other 2016 Bonds secured by this Indenture. Notwithstanding any other provision of this Section, in lieu of delivering a new 2016 Bond for a 2016 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 2016 Bond upon receipt of indemnity satisfactory to the Trustee.

Section 2.08. Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2016 Bonds, the District may provide that such 2016 Bonds shall be initially issued as book entry 2016 Bonds. If the District shall elect to deliver any 2016 Bonds in book entry form, then the District shall cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2016 Bonds in an authorized denomination corresponding to that total principal amount of the 2016 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2016 Bond shall be registered in the 2016 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2016 Bonds, or any portion thereof may not thereafter be transferred except as provided in Section 2.08(e).

With respect to book entry 2016 Bonds, the District and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2016 Bonds. Without limiting the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2016 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2016 Bond Registration Books, of any notice with respect to book entry 2016 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2016 Bonds to be redeemed in the event the District redeems the 2016 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 2016 Bonds. The District and the Trustee may treat and consider the person in whose name each book entry 2016 Bond is registered in the 2016 Bond Registration Books as the absolute Owner of such book entry 2016 Bond for the purpose of payment of principal of, premium and interest on such 2016 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2016 Bond, for the purpose of registering transfers with respect to such 2016 Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest on the 2016 Bonds only to or upon the order of the respective Owner, as shown in the 2016 Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the 2016 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2016 Bond Registration Books, shall receive a 2016 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2016 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 herein with respect to Record Dates, the word Nominee in this Indenture shall refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2016 Bonds for the Depository's book entry system, the District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2016 Bonds other than the Owners, as shown on the 2016 Bond Registration Books. By executing a Letter of Representations, the District shall agree 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 shall take such other actions, not inconsistent with

this Indenture, as are reasonably necessary to qualify book entry 2016 Bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as Securities Depository for book entry 2016 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 2016 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 shall prepare or direct the preparation of a new single, separate, fully registered 2016 Bond for each of the maturity dates of such book entry 2016 Bonds, registered in the name of such successor or substitute qualified Securities Depository or its Nominee as provided in subsection (e) hereof. If the District fails to identify another qualified Securities Depository to replace the Depository, then the 2016 Bonds shall no longer be restricted to being registered in such 2016 Bond Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such 2016 Bonds shall designate, in accordance with the provisions of Sections 2.03 and 2.04 hereof.

(d) Payments To Depository. Notwithstanding any other provision of this Indenture to the contrary, so long as all Outstanding 2016 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 2016 Bond and all notices with respect to such 2016 Bond shall be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions herein.

(e) Transfer of 2016 Bonds to Substitute Depository.

(i) The 2016 Bonds shall be initially issued as provided in Section 2.01 hereof. Registered ownership of such 2016 Bonds, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this Section 2.08(e) ("Substitute Depository"); provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by 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 clause (A) or clause (B) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2016 Bonds by the Trustee, together with a Written Request of the District to the Trustee designating the Substitute Depository, a

single new 2016 Bond, which the District shall prepare or cause to be prepared, shall be issued for each maturity of 2016 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 clause (C) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2016 Bonds by the Trustee, together with a Written Request of the District to the Trustee, new 2016 Bonds, which the District shall prepare or cause to be prepared, shall be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the District, subject to the limitations of Section 2.01 hereof, provided that the Trustee shall not be required to deliver such new 2016 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 2016 Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such 2016 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee shall not be liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2016 Bonds shall be controlling.

(iv) The District and the Trustee shall be entitled to treat the person in whose name any 2016 Bond is registered as the Owner thereof for all purposes of this Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee shall have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2016 Bonds. Neither the District nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2016 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2016 Bonds.

### ARTICLE III

#### ISSUANCE OF 2016 BONDS; APPLICATION OF PROCEEDS

Section 3.01. Issuance of the 2016 Bonds. At any time after the execution of this Indenture, the District may execute and the Trustee shall authenticate and, upon Written Request of the District, deliver the Series 2016A Bonds in the aggregate principal amount of \$\_\_\_\_\_ and the Series 2016B Bonds in the aggregate principal amount of \$\_\_\_\_\_.

Section 3.02. Application of Proceeds of the 2016 Bonds and Certain Other Moneys. The proceeds received from the sale of the 2016 Bonds shall be deposited with the Trustee, who shall transfer: (a) \$\_\_\_\_\_ to the Series 2006A Escrow Agent for deposit in the Series 2006A Escrow Fund, (b) \$\_\_\_\_\_ to the Series 2007A Escrow Agent for deposit in the Series 2007A Escrow Fund, (c) \$\_\_\_\_\_ to the Issuing and Paying Agent to pay the outstanding Taxable Commercial Paper Certificates, (d) \$\_\_\_\_\_ to the Issuing and Paying Agent to pay the outstanding Tax-Exempt Commercial Paper Certificates, and (e) deposit the amount of \$\_\_\_\_\_ in the Costs of Issuance Fund. [The Trustee shall deposit \$\_\_\_\_\_ from amounts held in the reserve fund under the 2006 Resolution, received from the trustee for the Series 2006A Bonds, in the Fund to be applied in accordance with \_\_\_\_\_.] The Trustee may establish temporary funds or accounts in its records to record and facilitate such deposits and transfer.



Section 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Requisitions of the District stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is proper charge against said fund and that payment for such charge has not previously been made. On the six month anniversary of the issuance of the 2016 Bonds, or upon the earlier Written Request of the District, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Interest Account and the Costs of Issuance Fund shall be closed. Investment earnings on amounts on deposit in the Costs of Issuance Fund shall be retained in the Cost of Issuance Fund.

Section 3.04. Validity of 2016 Bonds. The validity of the authorization and issuance of the 2016 Bonds is not dependent on and shall not be 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 2016 Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

#### ARTICLE IV

#### REDEMPTION OF 2016 BONDS

Section 4.01. Terms of Redemption.

(a) The 2016 Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the District in a Written Request provided to the Trustee at least 20 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in the Water Utility Parity System Master Resolution, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

(b) The Series 2016A Bonds with stated maturities on or after June 1, 20\_\_ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 20 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after June 1, 20\_\_ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

(c) The Series 2016B Bonds with stated maturities on or after June 1, 20\_\_ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 20 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after June 1, 20\_\_ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

(d) The Series 2016A Bonds with stated maturities on June 1, 20\_\_ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20\_\_ in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date</i> <i>(June 1)</i>	<i>Principal</i> <i>Amount</i>
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\* Final Maturity.

In the event of a redemption pursuant to Section 4.01(a) and (d) above the District shall provide the Trustee with a revised sinking fund schedule giving effect to the redemption so completed.

(e) The Series 2016B Bonds with stated maturities on June 1, 20\_\_ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20\_\_ in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date</i> <i>(June 1)</i>	<i>Principal</i> <i>Amount</i>
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\* Final Maturity.

In the event of a redemption pursuant to Section 4.01(a) and (e) above the District shall provide the Trustee with a revised sinking fund schedule giving effect to the redemption so completed.

Section 4.02. Selection of 2016 Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the 2016 Bonds, the Trustee shall select the 2016 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 Section 4.01 hereof. The Trustee will promptly notify the District in writing of the numbers of the 2016 Bonds or portions thereof so selected for redemption.

Section 4.03. Notice of Redemption. Notice of redemption shall be given at least twenty (20) days but not more than sixty (60) days before any Redemption Date, to the respective Owners of any 2016 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 2016 Bonds, the Trustee will send notice of redemption only to the Securities Depositories and Information Services. Notice of redemption to the Securities Depositories

shall be given by registered mail, other electronically secure means, or any other method agreed upon and notice of redemption to the Information Services shall be given by mail, other electronically secure means, or any other method agreed upon. Each notice of redemption shall state the date of notice, the Redemption Date, the place or places of redemption, the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2016 Bonds of any such maturity are to be redeemed, the serial numbers of the 2016 Bonds of such maturity to be redeemed by giving the individual number of each 2016 Bond or by stating that all 2016 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2016 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 2016 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 2016 Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date interest thereon shall cease to accrue, and shall require that such 2016 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 2016 Bond. Notice of redemption of 2016 Bonds shall be given by the Trustee at the expense of the District.

With respect to any notice of optional redemption of 2016 Bonds, such notice shall 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 2016 Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such 2016 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Section 4.04. Partial Redemption of 2016 Bonds. Upon surrender of any 2016 Bond redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new 2016 Bond or 2016 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2016 Bonds surrendered and of the same series, interest rate and maturity.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2016 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2016 Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the 2016 Bonds so called for redemption shall cease to accrue, said 2016 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said 2016 Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price thereof. The Trustee shall, upon surrender for payment of any of the 2016 Bonds to be redeemed on their Redemption Dates, pay such 2016 Bonds at the Redemption Price.

All 2016 Bonds redeemed pursuant to the provisions of this Article shall be canceled upon surrender thereof.

ARTICLE V

REVENUES, FUNDS AND ACCOUNTS;  
PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01. Pledge and Assignment; Revenue Fund.

(a) The 2016 Bonds are intended to be “Bonds” under the Water Utility Parity System Master Resolution and shall be secured by the pledge and liens created in the Water Utility Parity System Master Resolution.

(b) In order to carry out and effectuate the pledge and lien contained in the Water Utility Parity System Master Resolution for the 2016 Bonds, not later than three (3) business days prior to each Interest Payment Date, the District shall 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 2016 Bonds due and payable on such Interest Payment Date.

Section 5.02. Application of Payment Fund. There is hereby established with the Trustee the Payment Fund, which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2016 Bonds remain unpaid. Except as directed herein, all payments of interest and principal on the 2016 Bonds transferred by the District from the Water Utility System Revenue Fund to the Payment Fund pursuant to Section 5.01(b) shall be promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required hereunder to be deposited in the Redemption Fund shall be promptly deposited therein. All payments of interest and principal on the 2016 Bonds deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture. The Trustee shall also establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee shall transfer from the Payment Fund and deposit into the following respective accounts the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee shall deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all 2016 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there shall be in such fund moneys sufficient to pay the interest becoming due and payable on such Interest Payment Date on all 2016 Bonds then Outstanding.

(b) Not later than the Business Day preceding each date on which the principal of the 2016 Bonds shall become due and payable hereunder, the Trustee shall deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2016 Bonds coming due and payable on such date. No deposit

need be made into the Principal Account so long as there shall be in such fund moneys sufficient to pay the principal becoming due and payable on such date on all 2016 Bonds then Outstanding.

Section 5.03. Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2016 Bonds as it shall become due and payable (including accrued interest on any 2016 Bonds purchased or accelerated prior to maturity pursuant to this Indenture).

Section 5.04. Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the 2016 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2016 Bonds, upon written direction of the District, the Trustee shall apply such amounts to the purchase of 2016 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2016 Bonds.

Section 5.05. Application of Redemption Fund. There is hereby established with the Trustee a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2016 Bonds to be redeemed on any Redemption Date pursuant to Section 4.01; provided, however, that at any time prior to selection for redemption of any such 2016 Bonds, upon written direction of the District, the Trustee shall apply such amounts to the purchase of 2016 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2016 Bonds.

Section 5.06. Investments. All moneys in any of the funds or accounts established with the District or the Trustee pursuant to this Indenture shall 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 shall be 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 shall be promptly confirmed to the Trustee in writing). In the absence of any such directions from the District, the Trustee shall invest any such moneys in Permitted Investments described in clause (g) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction from the District specifying a specific money market fund and, if no such written direction from the District is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Interest Account unless otherwise provided in this Indenture. For purposes of acquiring any investments hereunder, the Trustee may commingle funds (other than the Rebate Fund) held by it hereunder. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The

Trustee shall incur no liability for losses arising from any investments made pursuant to this Section 5.06.

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 shall furnish the District periodic cash transaction statements which 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 hereunder through its own bond or investment department or trust investment department, or those of its parent or an affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under this Indenture.

The District shall invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate.

For investment purposes, the Trustee may commingle the funds and accounts established hereunder (other than the Rebate Fund), but shall account for each separately. In making any valuations of investments hereunder, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee accounting system.

Section 5.07. Rebate Fund.

(a) Establishment. The Trustee shall establish a fund for the Series 2016A Bonds 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 2016A Bonds will not be adversely affected, the District shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the Series 2016A Bonds shall be governed by this Section 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 2016A Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained herein or in the Tax Certificate, the Trustee: (i) shall be deemed conclusively to have complied with the provisions hereof and thereof if it follows all Requests of the District; and (ii) shall have no liability or responsibility to enforce compliance by the District with the terms of this Section and the Tax Certificate; and (iii) may rely conclusively on the District's calculations and determinations and certifications relating to rebate matters; and (iv) shall have no responsibility to independently make

any calculations or determinations or to review the District's calculations or determinations thereunder.

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

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Request of the District an amount shall be deposited to the Rebate Fund by the Trustee from any Net Water Utility System Revenues legally available for such purpose (as specified by the District in the aforesaid Written Request), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with clause (i) of this subsection (a). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the District the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Payment Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed by Written Request of 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 2016A 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 shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subsection (a) shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T (prepared by the District), or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the Series 2016A Bonds and the payments described in

subsection (a) above being made may be withdrawn by the District and utilized in any manner by the District.

(c) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance or payment in full of the Series 2016A Bonds.

Section 5.08. Application of Funds and Accounts When No 2016 Bonds are Outstanding. On the date on which all 2016 Bonds shall be retired hereunder or provision made therefor pursuant to Article X and after payment of all amounts due the Trustee hereunder, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to this Indenture shall be withdrawn by the Trustee and paid to the District for use by the District at any time for any purpose permitted by law.

## ARTICLE VI

### PARTICULAR COVENANTS

Section 6.01. Compliance with Indenture and Water Utility Parity System Master Resolution. The Trustee will not authenticate or deliver any 2016 Bond in any manner other than in accordance with the provisions of this Indenture and the Water Utility Parity System Master Resolution, and the District will not suffer or permit any default by it to occur under this Indenture or the Water Utility Parity System Master Resolution, but will faithfully observe and perform all the covenants, conditions and requirements hereof and thereof.

Section 6.02. Continuing Disclosure. The District hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Indenture, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2016 Bond (including persons holding 2016 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2016 Bond for federal income tax purposes.

Section 6.03. Punctual Payment. The District shall pay and cause the Trustee to pay the principal and interest to become due in respect of all of the 2016 Bonds, in strict conformity with the terms of the 2016 Bonds and of this Indenture, according to the true intent and meaning thereof, but only as provided in this Indenture and in the Water Utility Parity System Master Resolution.

Section 6.04. Extension of Payment of 2016 Bonds. The District shall not directly or indirectly extend or assent to the extension of the maturity of any of the 2016 Bonds or the time of payment of any claims for interest by the purchase of such 2016 Bonds or by any other arrangement, and in case the maturity of any of the 2016 Bonds or the time of payment of any such claims for



interest shall be extended, such 2016 Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the 2016 Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended.

Section 6.05. Power to Issue 2016 Bonds and Make Pledge and Assignment. The District is duly authorized pursuant to law to issue the 2016 Bonds, to enter into this Indenture and to pledge and assign the Water Utility System Revenues and other assets purported to be pledged and assigned under the Water Utility Parity System Master Resolution and this Indenture in the manner and to the extent provided in the Water Utility Parity System Master Resolution and this Indenture. The 2016 Bonds and the provisions of the Water Utility Parity System Master Resolution this 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 shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the 2016 Bond Owners under this Indenture against all claims and demands of all persons whomsoever.

Section 6.06. Tax Covenants. Notwithstanding any other provision of this Indenture, and except as may otherwise be approved by an opinion of Bond Counsel that the exclusion from gross income of the portion of interest on the Series 2016A 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 2016A 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 2016A Bonds or of any other moneys or property which would cause the Series 2016A 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 2016A 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 2016A 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 2016A Bonds or take or omit to take any action that would cause the Series 2016A 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 2016A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the Series 2016A 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 2016A 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 2016A 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 2016A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein.

This Section and the covenants set forth herein shall not be applicable to, and nothing contained herein shall be deemed to prevent the District from issuing the Series 2016B Bonds or other Bonds or Contracts the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Section 6.07. Waiver of Laws. The District shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Indenture or in the 2016 Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the District to the extent permitted by law.

Section 6.08. 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 this Indenture and for the better assuring and confirming unto the Owners of the 2016 Bonds of the rights and benefits provided in this Indenture.

Section 6.09. Prosecution and Defense of Suits. The District shall promptly, upon request of the Trustee or any 2016 Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water Utility System or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee (including all of its employees, officers and directors) and every 2016 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 shall defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2016 Bond Owner upon any claim by a 2016 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 2016 Bonds or involving the rights of the Trustee or any 2016 Bond Owner under this Indenture; provided that the Trustee or any 2016 Bond Owner at such party's election may appear in and defend any such suit, action or proceeding. The District shall indemnify and hold harmless the Trustee and the 2016 Bond Owners against any and all liability claimed or asserted by any such person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the 2016 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 2016 Bonds. The District shall promptly reimburse any 2016 Bond Owner in the full amount of any attorneys' fees or other expenses which such Owner may incur in litigation or otherwise in order to enforce such party's rights under this Indenture or the 2016 Bonds, provided that such litigation shall be concluded favorably to such party's contentions therein.

## ARTICLE VII

### EVENTS OF DEFAULT AND REMEDIES OF 2016 BOND OWNERS

Section 7.01. Events of Default. The following events shall be Events of Default:

- (a) default by the District in the due and punctual payment of the principal of or interest on any 2016 Bonds when and as the same shall become due and payable;
- (b) default by the District in the observance of any of the other agreements or covenants required herein to be performed by it, and such default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default or, if such default is not reasonably susceptible to cure within thirty (30) days after notice thereof, such default shall have continued for a period of sixty (60) days;
- (c) the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of 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 shall assume 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.

Section 7.02. Remedies Upon Event of Default. If any Event of Default specified in Section 7.01 shall occur and be continuing, any Owner shall have the following rights, for the equal benefit and protection of all Owners similarly situated:

- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against 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 herein;
- (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Owners; or
- (c) by suit in equity upon the happening of an Event of Default to require the District and any member of the District’s Board of Directors, officers and employees to account as the trustee of an express trust.

Section 7.03. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be 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) shall be applied in the following order:

(i) To the payment, without preference or priority, and in the event of any insufficiency ratably without any discrimination or preference, of the fees, costs and expenses, if any of the Trustee, including reasonable compensation to their respective accountants and counsel;

(ii) To the payment of Operation and Maintenance Costs;

(iii) to the payment of Senior Obligations in accordance with the terms thereof; and

(iv) to the payment of the entire principal amount of the unpaid 2016 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 2016 Bonds and such Bonds and Contracts if paid in accordance with their respective terms.

Section 7.04. Trustee to Represent 2016 Bond Owners . The Trustee is hereby irrevocably appointed (and the successive respective Owners of the 2016 Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2016 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 2016 Bonds or this Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2016 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 2016 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the 2016 Bonds or this Indenture or any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Water Utility System Revenues and other assets pledged under this Indenture, pending such proceedings. All rights of action under this Indenture or the 2016 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2016 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such 2016 Bonds, subject to the provisions of this Indenture.

Section 7.05. 2016 Bond Owners' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2016 Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conduct in all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to 2016 Bond Owners not parties to such direction.

Section 7.06. Suit by Owners. No Owner of any 2016 Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any

right or remedy under this Indenture with respect to such 2016 Bonds, unless: (a) such Owners shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than fifty percent (50%) in aggregate principal amount of the 2016 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the 2016 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of 2016 Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of 2016 Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of 2016 Bonds, or to enforce any right under the 2016 Bonds, this Indenture, or applicable law with respect to the 2016 Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding 2016 Bonds, subject to the provisions of this Indenture.

Section 7.07. Absolute Obligation of the District. Nothing in this Section 7.07 or in any other provision of this Indenture or in the 2016 Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2016 Bonds to the respective Owners of the 2016 Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Water Utility System Revenues and other assets pledged and assigned herein and in the Water Utility Parity System Master Resolution therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2016 Bonds.

Section 7.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the 2016 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2016 Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein.

## ARTICLE VIII

### THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee.

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

(b) The District may remove the Trustee at any time, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2016 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon the District shall promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the District and by giving the 2016 Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within ninety (90) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2016 Bond Owner (on behalf of himself and all other 2016 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall 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, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of the District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the District shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the District shall mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each Rating Agency which is then rating the 2016 Bonds and to the 2016 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 shall cause such notice to be mailed at the expense of the District.

(e) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such trust company, banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Section 8.02. Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, banking association or bank shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03. Liability of Trustee.

(a) The recitals of facts herein and in the 2016 Bonds shall be taken as statements of the District, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture or the 2016 Bonds, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations herein or in the 2016 Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the 2016 Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2016 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 2016 Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the 2016 Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for herein) in aggregate principal amount of the 2016 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any

remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be deemed to have knowledge of any default or Event of Default hereunder or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until a Responsible Officer of the Trustee shall have actual knowledge of such event or the Trustee shall have been notified in writing, in accordance with Section 11.07, of such event by the District or the Owners of not less than fifty percent (50%) of the 2016 Bonds then Outstanding. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the District of any of the terms, conditions, covenants or agreements herein of any of the documents executed in connection with the 2016 Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it.

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

(g) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of Owners pursuant to this Indenture, unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy and the Trustee shall not be answerable for other than its negligence or willful misconduct.

(h) Whether or not herein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article VIII.

(i) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2016 Bonds.

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

(k) The Trustee may execute any of the trusts or powers of this Indenture and perform any of its duties through attorneys, agents and receivers and shall not be answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable



delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, which affect the Trustee’s ability to perform its obligations hereunder, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Water Utility System Revenues, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by secured e-mail, facsimile transmission or other similar secured electronic methods, provided, however, that, for purposes of this Indenture, an e-mail does not constitute a notice, request, or other communication hereunder but rather, the portable document format or similar attachment attached to such e-mail shall constitute a notice, request, or other communication hereunder and provided further that the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If 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 shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such instructions notwithstanding the fact that such instructions conflict or are inconsistent with a subsequent written instruction. 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 shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

Section 8.04. Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2016 Bonds appearing in the Trustee’s Registration Books as the absolute owners of the 2016 Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate, Request or

Requisition of the District and such Certificate, Request or Requisition shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its respective possession and shall be subject at all reasonable times to the inspection of the District, and any 2016 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Section 8.06. Compensation and Indemnification. The District shall pay to the Trustee from time to time all reasonable compensation for all services rendered under this Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Indenture.

The District shall indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred to a 2016 Bond Owner or a third party without negligence or bad faith on its part, arising out of or in connection with the execution of this Indenture, acceptance or administration of this trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. The rights of the Trustee and the indemnification obligations of the District shall survive removal or resignation of the Trustee hereunder or the discharge of the 2016 Bonds and this Indenture.

## ARTICLE IX

### MODIFICATION OR AMENDMENT OF THE INDENTURE/WATER UTILITY PARITY SYSTEM MASTER RESOLUTION

#### Section 9.01. Amendments to Indenture Permitted.

(a) The Indenture and the rights and obligations of the District, the Owners of the 2016 Bonds, and the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, subject to subsections (b) – (d) of this Section. No such modification or amendment shall: (1) extend the fixed maturity of any 2016 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 2016 Bond so affected; (2) reduce the percentage of Owners required to provide consent or direction under this Indenture or (3) reduce the percentage of owners of any Bonds or Contracts required to provide consent to any amendment or modification of the Water Utility Parity System Master Resolution as set forth in Section 9.05 below. Promptly after the execution by the District and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2016 Bonds at the respective addresses shown on the Registration Books. Any failure

to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the District, the Trustee and the Owners of the 2016 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture if the Trustee shall receive an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Outstanding 2016 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 this Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2016 Bonds (or any portion thereof), or to surrender any right or power herein reserved 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 this Indenture, or in regard to matters or questions arising under this Indenture, as the District may deem necessary or desirable;

(3) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereunder in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute;

(4) to modify, amend or supplement this Indenture in such manner as to cause interest on the Series 2016A 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 2016 Bonds.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture hereunder, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of this Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2016 Bonds from federal income taxation and from state income taxation.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District, the Trustee and all Owners of 2016 Bonds Outstanding shall thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.03. Endorsement of 2016 Bonds; Preparation of New 2016 Bonds. 2016 Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by 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 2016 Bonds Outstanding at the time of such execution and presentation of his or her 2016 Bonds for such purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for such purpose, a suitable notation shall be made on such 2016 Bonds. If the Supplemental Indenture shall so provide, new 2016 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, shall be prepared and executed by the District and authenticated by the Trustee, and upon demand on the Owners of any 2016 Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any 2016 Bond Owner, for 2016 Bonds then Outstanding, upon surrender for cancellation of such 2016 Bonds, in equal aggregate principal amount of the same maturity.

Section 9.04. Amendment of Particular 2016 Bonds. The provisions of this Article shall not prevent any 2016 Bond Owner from accepting any amendment as to the particular 2016 Bonds held by such 2016 Bond Owner.

Section 9.05. Amendment to Water Utility Parity System Master Resolution. The Water Utility Parity System Master Resolution may be amended or modified by the District at any time by a supplemental resolution thereto, including but not limited to, modifications, amendments or supplements (i) to 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) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to 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 amendments or modifications shall become binding with the written consent of the owners or holders of a majority of the aggregate principal amount of all outstanding Bonds and Contracts, without respect to whether a majority of the owners or holders of the aggregate principal amount of any individual series of Bonds or any individual Contract has so approved such amendment or modification. Written consent of 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 2016 Bonds.

## ARTICLE X

### DEFEASANCE

Section 10.01. Discharge of Indenture. The 2016 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 hereunder by the District:

- (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on such 2016 Bonds, as and when the same become due and payable;
- (b) by the deposit with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem all 2016 Bonds then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the 2016 Bonds then Outstanding.

If the District shall also pay or cause to be paid all other sums payable hereunder 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 this Indenture), and notwithstanding that any such 2016 Bonds shall not have been surrendered for payment, all covenants, agreements and other obligations of the District under this Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the District, the Trustee shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment or redemption of such 2016 Bonds not theretofore surrendered for such payment or redemption to the District.

Section 10.02. Discharge of Liability on 2016 Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding 2016 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2016 Bonds), provided that, if such Outstanding 2016 Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provisions satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the District in respect of such 2016 Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of Section 10.04.

The District may at any time surrender to the Trustee for cancellation by it any 2016 Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such 2016 Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2016 Bonds, the money or securities so to be deposited or held shall be invested in Defeasance Securities and shall be held by the Trustee in the funds and accounts established pursuant to this Indenture. Defeasance may be accomplished by depositing with the Trustee:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2016 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2016 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provisions satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such 2016 Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or

(b) Defeasance Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant or Independent Financial Consultant filed with 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 2016 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 2016 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that: (i) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the District) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2016 Bonds as directed by the District; (ii) the District shall have delivered to the Trustee an opinion of Bond Counsel addressed to the District and the Trustee to the effect that such 2016 Bonds have been discharged in accordance with this Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above); (iii) the District shall have delivered an escrow agreement; and (iv) the District shall have delivered a certificate of discharge of the Trustee with respect to the 2016 Bonds. The opinion of Bond Counsel and Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above shall be acceptable in form and substance, and addressed, to the District and the Trustee.

The 2016 Bonds shall be deemed Outstanding under this Indenture unless and until they are in fact paid and retired or the above criteria are met.

Section 10.04. Payment of 2016 Bonds After Discharge of Indenture. Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2016 Bonds and remaining unclaimed for two (2) years after the principal of all of the 2016 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2016 Bonds became due and payable, shall be repaid to the District free from the trusts created by this Indenture upon receipt of an indemnification agreement acceptable to the District and the Trustee indemnifying the Trustee with respect to claims of Owners of 2016 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the District as aforesaid, the Trustee shall at the written direction of the District (at the cost of the District), first mail to the Owners of 2016 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 2016 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

## ARTICLE XI

### MISCELLANEOUS

Section 11.01. Liability Limited. Notwithstanding anything contained herein or in the Water Utility Parity System Master Resolution, the District shall not be required to advance any moneys derived from any source of income other than the Net Water Utility System Revenues and the other funds provided herein for the payment of principal of and interest on the 2016 Bonds or for the performance of any agreements or covenants required to be performed by it contained herein. 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 2016 Bonds is a special obligation of the District payable solely from such Net Water Utility System Revenues and other funds described herein and in the Water Utility Parity System Master Resolution, and does not constitute a debt of 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.

Section 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either the District or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the District or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.03. Limitation of Rights to Parties and 2016 Bond Owners. Nothing expressed or implied in this Indenture or in the 2016 Bonds is intended or shall be construed to give to any person other than the District, the Trustee and the Owners of the 2016 Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District, the Trustee and the Owners of the 2016 Bonds.

Section 11.04. Waiver of Notice; Requirement of Mailed Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in this Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Section 11.05. Destruction of 2016 Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the District of any 2016 Bonds, the Trustee shall destroy such 2016 Bonds as may be allowed by law, and deliver a certificate of such destruction to the District.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the 2016 Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The District hereby declares that it would have entered into this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the 2016 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices. Any notice to or demand upon the District or the Trustee shall be deemed to have been sufficiently given or served for all purposes by being sent by facsimile or email or by being deposited, first class mail, postage prepaid, in a post office letter box, addressed, as the

case may be, to the District at Santa Clara Valley Water District, 5750 Almaden Expressway, San Jose, California 95118, Attention: Financing Officer (or such other address as may have been filed in writing by the District with the Trustee) or to the Trustee at U.S. Bank National Association, One California Street, Suite 2100, San Francisco, California; Attention: Global Corporate Trust Services, Reference: Santa Clara Valley Water District, Series 2016A/B; Facsimile: (415) 273-4591. Notwithstanding the foregoing provisions of this Section 11.07, the Trustee shall not be deemed to have received, and shall not be liable for failing to act upon the contents of, any notice unless and until the Trustee actually receives such notice.

Section 11.08. Evidence of Rights of 2016 Bond Owners. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by 2016 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such 2016 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 2016 Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and the District if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The Ownership of 2016 Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any 2016 Bond shall bind every future Owner of the same 2016 Bond and the Owner of every 2016 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.

Section 11.09. Disqualified 2016 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2016 Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, 2016 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 2016 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 2016 Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2016 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such 2016 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 2016 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request, the District shall certify to the Trustee those 2016 Bonds that are disqualified pursuant to this Section 11.09 and the Trustee may conclusively rely on such certificate.



Section 11.10. Money Held for Particular 2016 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2016 Bonds (or portions of 2016 Bonds in the case of registered 2016 Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the 2016 Bonds entitled thereto, subject, however, to the provisions of Section 10.04 hereof but without any liability for interest thereon.

Section 11.11. Funds and Accounts. Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with corporate trust industry standards to the extent practicable for the protection of the security of the 2016 Bonds and the rights of every Owner thereof.

Section 11.12. Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the District shall be individually or personally liable for the payment of the principal of or premium or interest on the 2016 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by this Indenture.

Section 11.13. Execution in Several Counterparts. The Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the District and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.14. CUSIP Numbers. Neither the Trustee nor the District shall be liable for any defect or inaccuracy in the CUSIP number that appears on any 2016 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 2016 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2016 Bondholders and that neither the District nor the Trustee shall be liable for any inaccuracies in such numbers.

Section 11.15. Choice of Law. THE INDENTURE SHALL BE GOVERNED BY THE LAWS OF THE STATE

IN WITNESS WHEREOF, the District has caused this Indenture to be signed in its name by its President, and the Trustee, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officers thereunto duly authorized, all as of the day and year first above written.

SANTA CLARA VALLEY WATER DISTRICT

By: \_\_\_\_\_  
Its: [Title]

Attest:

\_\_\_\_\_  
Clerk of the Board of Directors

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Its: Authorized Officer

**EXHIBIT A**

**FORM OF 2016 BOND**

***UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.***

No. \_\_\_\_\_

\$ \_\_\_\_\_

UNITED STATES OF AMERICA  
STATE OF CALIFORNIA

SANTA CLARA VALLEY WATER DISTRICT  
REFUNDING REVENUE BOND, [SERIES 2016A][TAXABLE SERIES 2016B]

INTEREST RATE	MATURITY DATE	ORIGINAL ISSUE DATE	CUSIP
_____%	June 1, 20__	____, 2016	__

REGISTERED OWNER      CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The SANTA CLARA VALLEY WATER DISTRICT, an agency duly organized and existing under the laws of the State of California (the "District"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless: (i) this Bond is authenticated after the fifteenth day of the calendar month preceding an interest payment date, whether or not such day is a business day, and on or before the following interest payment date, in which event it shall bear interest from such interest payment date; or (ii) this Bond is authenticated on or before \_\_\_\_\_ 15, 2015, in which event it shall bear interest from the Original Issue Date identified above; provided, however, that if as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond), at the Interest Rate per annum specified above, payable semiannually on \_\_\_\_\_ 1, 2016 and each June 1 and December 1 thereafter, calculated on the basis of a 360 day year composed of twelve 30 day months. Principal hereof and premium, if any, upon early redemption hereof are payable by check of the Trustee upon presentation and surrender hereof at the Office of the Trustee

(as defined in the hereinafter described Indenture) of U.S. Bank National Association, as trustee (the "Trustee"). Interest hereon is payable by check of the Trustee sent by first class mail on the applicable interest payment date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each interest payment date (except that in the case of a registered owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such registered owner's option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such registered owner prior to the fifteenth (15th) day of the month preceding such interest payment date).

This Bond is not a debt of the State of California, or any of its political subdivisions (other than the District), and neither the State, nor any of its political subdivisions (other than the District), is liable hereon, nor in any event shall this Bond be payable out of any funds or properties of the District other than the Net Water Utility System Revenues (as such term is defined in the Water Utility Parity System Master Resolution adopted by the Board of Directors of the District on February \_\_, 2016 (the "Water Utility Parity System Master Resolution") and other moneys pledged and assigned therefor under the Water Utility Parity System Master Resolution and the Indenture of Trust, dated as of February 1, 2016 (the "Indenture"), by and between the District and the Trustee. Such pledge, together with the pledge created by all other Contracts and Bonds (as such terms are defined in the Water Utility Parity System Master Resolution), constitutes a second lien on Revenues and all amounts on deposit in the funds and accounts under the Water Utility Parity System Master Resolution to the extent set forth therein, subordinate to the Senior Obligations, as permitted by the Water Utility Parity System Master Resolution, and subject to application of Net Water Utility System Revenues in accordance with the terms of the Water Utility Parity System Master Resolution and the Indenture. The obligation of the District to make payments in accordance with the Water Utility Parity System Master Resolution and the Indenture is a limited obligation of the District as set forth in the Water Utility Parity System Master Resolution and the Indenture and the District shall have no liability or obligation in connection herewith except with respect to such payments to be made pursuant to the Water Utility Parity System Master Resolution and the Indenture. The Bonds do not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limitation or restriction.

This Bond is one of a duly authorized issue of bonds of the District designated as the "Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2016A (the "2016A Bonds") and Taxable Series 2016B" (Taxable) (the "2016B Bonds," and with the 2016A Bonds, the "Bonds"), of an aggregate principal amount of \_\_\_\_\_ (\$\_\_\_\_\_), all of like tenor and date (except for such variation, if any, as may be required to designate varying series, numbers or interest rates) and all issued pursuant to the provisions of Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, and pursuant to the Water Utility Parity System Master Resolution, the Indenture and the resolution authorizing the issuance of the Bonds. Reference is hereby made to the Water Utility Parity System Master Resolution and the Indenture (copies of which are on file at the office of the District) and all supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Water Utility System Revenues, and the rights thereunder of the Owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the District hereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees. The Bonds have been issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

The Bonds have been issued by the District to refund certain obligations of the District, as more fully described in the Indenture.

This Bond and the interest, premium, if any, hereon and all other Bonds and the interest and premium, if any, thereon (to the extent set forth in the Water Utility Parity System Master Resolution and the Indenture) are special obligations of the District, secured by a pledge and lien on and payable from the Water Utility System Revenues and any other amounts on deposit in certain funds and accounts created under the Water Utility Parity System Master Resolution. As and to the extent set forth in the Water Utility Parity System Master Resolution and the Indenture, all of the Water Utility System Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Water Utility Parity System Master Resolution and the Indenture, to the payment of the principal of and interest and premium (if any) on the Bonds.

The Water Utility Parity System Master Resolution, the Indenture and the rights and obligations of the District and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by a resolution or resolutions or an indenture or indentures supplemental thereto. No such modification or amendment shall: (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected; or (ii) permit the creation of any lien on the Water Utility System Revenues (as such term is defined in the Water Utility Parity System Master Resolution) and other assets pledged under the Water Utility Parity System Master Resolution and the Indenture prior to or on a parity with the lien created by the Water Utility Parity System Master Resolution except as permitted herein, or deprive the Owners of the Bonds of the lien created by the Water Utility Parity System Master Resolution on such Net Water Utility System Revenues and other assets except as permitted herein.

The Indenture and the rights and obligations of the District, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a supplemental indenture if the Trustee shall receive an opinion of Bond Counsel to the effect that the provisions of such supplemental indenture shall not materially adversely affect the interests of the Owners of the Outstanding Bonds.

The Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the District in a Written Request provided to the Trustee at least 20 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in, the Indenture at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

The [2016A][2016B] Bonds with stated maturities on or after June 1, 20\_\_ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 20 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral

multiples of \$5,000, on or after June 1, 20\_\_ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

The Series [2016A][2016B] Bonds with stated maturities on June 1, 20\_\_ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20\_\_ in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date</i> <i>(June 1)</i>	<i>Principal</i> <i>Amount</i>
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\* Final Maturity.

As provided in the Indenture, notice of redemption shall be mailed by the Trustee by first class mail at least 20 days but not more than 60 days prior to the Redemption Date to the respective Owners of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, but neither the failure to receive such notice nor any defect in the notice or the mailing thereof shall affect the validity of the proceedings for redemption or the cessation of accrual of interest thereon from and after the date fixed for redemption.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all of the Bonds and the interest accrued thereon may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his or her duly authorized attorney in writing, at said Office of the Trustee but only in the manner subject to the limitations and upon payment of the taxes and charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds of the same series, of authorized denomination or denominations, for the same aggregate principal amount of the same maturity will be issued to the transferee in exchange therefor.

Bonds may be exchanged at said Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same series and same maturity, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture.

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

The District and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the District and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Indenture and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit under any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the District has caused this Bond to be executed in its name and on its behalf with the manual or facsimile signature of its President as of this [\_\_\_] day of \_\_\_\_\_, 2016.

SANTA CLARA VALLEY WATER DISTRICT

By: \_\_\_\_\_  
Its: Chair of the Board of Directors

Attest:

\_\_\_\_\_  
Clerk of the Board of Directors

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION  
TO APPEAR ON BONDS]

This is one of the Bonds described in the within-mentioned Indenture.

Dated: \_\_\_\_\_ [\_\_\_], 2016

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Its: Authorized Signatory

[FORM OF ASSIGNMENT]

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Name, Address and Tax Identification or  
Social Security Number of Assignee)

the within registered Bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_  
\_\_\_\_\_ attorney, to transfer the same on the registration books of the Trustee  
with full power of substitution in the premises.

Dated: \_\_\_\_\_

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

\_\_\_\_\_  
Note: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.



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INSTALLMENT PURCHASE AGREEMENT

by and between the

SANTA CLARA VALLEY WATER DISTRICT

and the

SANTA CLARA VALLEY WATER DISTRICT  
PUBLIC FACILITIES FINANCING CORPORATION

Dated as of February 1, 2016

relating to

\$ \_\_\_\_\_  
SANTA CLARA VALLEY WATER DISTRICT  
REVENUE CERTIFICATES OF PARTICIPATION  
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS)  
SERIES 2016C AND TAXABLE SERIES 2016D

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## INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT, made and entered into as of February 1, 2016, by and between the SANTA CLARA VALLEY WATER DISTRICT, a flood control and water district organized and existing under the laws of the State of California (the "District"), and the SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation").

### WITNESSETH:

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

WHEREAS, on February \_\_, 2016, the Board of Directors of the District adopted Resolution No. \_\_\_\_\_ entitled "A Resolution of the Board of Directors of the Santa Clara Valley Water District Providing for the Allocation of Water Utility System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Utility System Revenues" as amended and supplemented from time-to-time (the "Water Utility Parity System Master Resolution");

WHEREAS, the District proposes to finance certain equipment and facilities within the District Water Utility System and to reimburse itself for costs previously expended to finance certain equipment and facilities within the District Water Utility System, as more particularly described in Exhibit A hereto (collectively, the "Project");

WHEREAS, the Corporation has agreed to assist the District to finance the Project;

WHEREAS, the District and the Corporation have duly authorized the execution of this Agreement;

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

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

### ARTICLE I

#### DEFINITIONS

Section 1.1. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the

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

#### Authorized District Representative

The term “Authorized District Representative” means the Chair of the Board of Directors or Finance Manager of the District or such other officer or employee of the District or other person who has been designated as such representative by resolution of the Board of Directors of the District.

#### Component

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

#### Component A

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

#### Component B

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

#### Continuing Disclosure Agreement

The term “Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated March \_\_, 2016, by and between the District and U.S. Bank National Association, as dissemination agent, relating to the Certificates, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

#### Corporation

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

#### Event of Default

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

#### Installment Payment Date

The term “Installment Payment Date” means the Business Day prior to June 1 and December 1 of each year, commencing the Business Day prior to \_\_\_\_\_ 1, 2016 with respect to the

Series 2016C Certificates and commencing the Business Day prior to \_\_\_\_\_ 1, 2016 with respect to the Series 2016D Certificates.

### Installment Payments

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

### Installment Purchase Agreement

The term “Installment Purchase Agreement” means this Installment Purchase Agreement, dated as of February 1, 2016, by and between the District and the Corporation, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

### Law

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

### Net Proceeds

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

### Project

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

### Purchase Price

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

### Series 2016C Acquisition and Construction Fund

The term “Series 2016C Acquisition and Construction Fund” means the fund referred to by that name established pursuant to Section 3.5.

### Series 2016D Acquisition and Construction Fund

The term “Series 2016D Acquisition and Construction Fund” means the fund referred to by that name established pursuant to Section 3.5.

### Special Counsel

The term “Special Counsel” means a firm of attorneys which are nationally recognized as experts in the area of municipal finance.

Water Utility Parity System Master Resolution

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

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

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations by the District. The District makes the following representations:

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

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

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

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

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

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

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

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

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

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

### ARTICLE III

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

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

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

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

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

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

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

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

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

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

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

Section 3.5. Series 2016C Acquisition and Construction Fund and Series 2016D Acquisition and Construction Fund. There is hereby established with the District the Series 2016C Acquisition and Construction Fund and the Series 2016D Acquisition and Construction Fund. Amounts on deposit in the Series 2016C Acquisition and Construction Fund may be used and withdrawn by the District for the payment for the payment of Costs of Issuance, for the costs of the acquisition or construction of the Project or to reimburse the District for previous costs expended in the acquisition or construction of the Project. Amounts on deposit in the Series 2016D Acquisition and Construction Fund may be used and withdrawn by the District for the payment for the payment of Costs of Issuance, for the costs of the acquisition or construction of the Project or to reimburse the District for previous costs expended in the acquisition or construction of the Project.

Within the Series 2016C Acquisition and Construction Fund and the Series 2016D Acquisition and Construction Fund the District may establish such accounts therein as it shall determine in order to provide for the accounting of any component or group of components constituting a portion of the Project, including Costs of Issuance Accounts.

When all Costs of Issuance have been paid and the acquisition and construction of the Project has been completed, the District shall transfer any remaining balance of money in the Series 2016C Acquisition and Construction Fund to the Trustee and request that the Trustee deposit in the Series 2016C Certificate Rebate Fund an amount to the extent necessary to pay Rebatable Arbitrage and any

remaining balance shall be deposited by the Trustee in the Series 2016C Payment Fund and applied as provided in the Trust Agreement.

When all Costs of Issuance have been paid and the acquisition and construction of the Project has been completed, the District shall transfer any remaining balance of money in the Series 2016D Acquisition and Construction Fund to the Trustee and to be deposited by the Trustee in the Series 2016D Payment Fund and applied as provided in the Trust Agreement.

## ARTICLE IV

### INSTALLMENT PAYMENTS

#### Section 4.1. Purchase Price.

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

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

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

#### Section 4.2. Installment Payments.

(a) The District shall, subject to any rights of prepayment provided in Article VII, pay to the Corporation, from available Water Utility System Revenues as provided in Section 3.1 hereof and in Section 2.2(b) of the Water Utility Parity System Master Resolution, the Purchase Price in Installment Payments to such date in the amounts and on the Installment Payment Dates to be determined upon execution and delivery of the Certificates. Upon execution and delivery of the Certificates, the Installment Payments are to be applied to the payment of the principal and interest evidenced and represented by the Certificates and Installment Payments shall be made in amounts that are sufficient, but no more than sufficient, to pay the scheduled payments of principal and interest evidenced and represented by the outstanding Certificates. If and to the extent that, on any Installment Payment Date, there are amounts on deposit in a fund established under the Trust Agreement for the payment of principal and interest represented by the Certificates, which amounts are not being held for the payment of specific Certificates, said amounts shall be credited against the Installment Payment due on such date. If all or a portion of the Certificates are no longer outstanding as a result of prepayment, early retirement through purchase by the District or the Corporation or defeasance of such Certificates, the schedule of Installment Payments to be determined upon execution and delivery of the Certificates shall be deemed to have been modified so that the Installment Payments are sufficient, but no more than sufficient, to pay the scheduled payments of principal and interest evidenced and represented by the outstanding Certificates. Upon any such prepayment, purchase or defeasance, the District shall recalculate Installment Payments and shall provide the Trustee with a modified schedule of Installment Payments.



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

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

## ARTICLE V

### WATER UTILITY SYSTEM REVENUES

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

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

## ARTICLE VI

### COVENANTS OF THE DISTRICT

Section 6.1. Compliance with Installment Purchase Agreement and Water Utility Parity System Master Resolution. The District will punctually pay the Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or

other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

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

Section 6.2. Tax Covenants. The District covenants and agrees to contest by court action or otherwise any assertion by the United States of America or any department or agency thereof that the interest evidenced and represented by the Series 2016C Certificates is includable in gross income of the recipient under federal income tax laws. Notwithstanding any other provision of this Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest evidenced and represented by the Series 2016C Certificates 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 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 2016C Certificates or of any other moneys or property which would cause the Series 2016C Certificates 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 2016C Certificates or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Series 2016C Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) Federal Guaranty. The District will make no use of the proceeds of the Series 2016C Certificates or take or omit to take any action that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. 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;

(e) Hedge Bonds. The District will make no use of the proceeds of the Series 2016C Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either the Series 2016C Certificates 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 evidenced and represented by the Series 2016C Certificates 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 that certain Tax Certificate executed by the District in connection with the execution and delivery of the Series 2016C Certificates and will comply with the covenants and requirements stated therein and incorporated by reference herein.

Section 6.3. Against 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 or alleged to have been furnished to or for the District, in, upon, about or relating to the Project and will keep the Project free of any and all liens against any portion of the Project or the Corporation interest therein. In the event any such lien attaches to or is filed against any portion of the Project or the Corporation interest therein, 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 shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment. The District will, to the maximum extent permitted by law, indemnify and hold the Corporation harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys’ fees) as a result of any such lien or claim of lien against any portion of the Project or the Corporation interest therein.

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

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

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

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

Section 6.8. Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to

carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

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

## ARTICLE VII

### PREPAYMENT OF INSTALLMENT PAYMENTS

#### Section 7.1. Prepayment.

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

(b) The District may prepay the Installment Payments with respect to the Series 2016C Certificates in the order as directed in a written request of the District to the Trustee, as a whole or in part, on any date on or after June 1, 20\_\_ from any available funds. The principal amount of such unpaid Installment Payments is payable at a prepayment price equal to the principal amount of such Installment Payments to be prepaid plus accrued interest with respect thereto to the date of prepayment without premium.

(c) The District may prepay the Installment Payments with respect to the Series 2016D Certificates in the order as directed in a written request of the District to the Trustee, as a whole or in part, on any date on or after June 1, 20\_\_ from any available funds. The principal amount of such unpaid Installment Payments is payable at a prepayment price equal to the principal amount of such Installment Payments to be prepaid plus accrued interest with respect thereto to the date of prepayment without premium.

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

Section 7.2. Method of Prepayment. Before making any prepayment pursuant to Section 7.1(a), the District may, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Corporation and the Trustee describing such event and specifying the date on which the prepayment of the Certificates will be paid, which date shall be not less than forty-five (45) days nor more than sixty (60) days from

the date such notice is given, unless such prepayment must occur on an Interest Payment Date, in which case such date shall be the next Interest Payment Date with respect to which notice of prepayment may be timely given pursuant to the Trust Agreement.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

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

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

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

(3) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of 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 shall assume custody or control of the District or of the whole or any substantial part of its property; or

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

### Section 8.2. Remedies of the Corporation.

The Corporation shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against 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 herein;

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

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

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

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

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

Section 8.4. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

## ARTICLE IX

### DISCHARGE OF OBLIGATIONS

#### Section 9.1. Discharge of Obligations.

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

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

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

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

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

## ARTICLE X

### MISCELLANEOUS

Section 10.1. Liability of District Limited to Water Utility System Revenues. Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than as provided in the Water Utility Parity System Master Resolution for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The District may, however, but in no event shall be obligated to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Installment Payments is payable as provided 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 within the meaning of any constitutional or statutory debt limitation or restriction.

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

Section 10.3. Amendments.

(a) This Agreement may be amended in writing as may be mutually agreed by the District and the Corporation, and upon execution and delivery of the Certificates, by the Owners of a majority in aggregate principal amount of Certificates outstanding; provided that upon execution and delivery of the Certificates, no such amendment shall (a) extend the payment date of any

Installment Payment, or reduce the amount of any Installment Payment without the prior written consent of the Owner of each Certificate so affected, (b) reduce the percentage of Certificates the consent of the Owners of which is required for the execution of any amendment of this Installment Purchase Agreement or (c) reduce the percentage of the consent of the owners or holders of outstanding Bonds and Contracts of which is required to provide consent to any amendment or modification of the Water Utility Parity System Master Resolution as set forth in Section 10.3(b) below.

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

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

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

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

The District shall promptly deliver, by first class mail, a copy of any amendment to this agreement to S&P.

(b) The Water Utility Parity System Master Resolution may be amended or modified by the District at any time by a supplemental resolution thereto, including but not limited to, modifications, amendments or supplements (i) to 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) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to 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 amendments or modifications shall become binding with the written consent of the owners or holders of a majority of the aggregate principal amount of all outstanding Bonds and Contracts, without respect to whether a majority of the owners or holders of the aggregate principal amount of any individual series of Bonds or any individual Contract has so approved such amendment or modification. Written consent of 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 Certificates.

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

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

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

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

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

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

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

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

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

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

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

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

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

**SANTA CLARA VALLEY WATER DISTRICT**

By: \_\_\_\_\_  
[Title]

(SEAL)

Attest:

\_\_\_\_\_  
Clerk of the Board of Directors

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

By: \_\_\_\_\_  
President

(SEAL)

Attest:

\_\_\_\_\_  
Secretary

**EXHIBIT A**

**DESCRIPTION OF THE PROJECT**

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

**Component A:**

Project

Estimated Cost

[List of 2015-16 CIP to come]

**Component B:**

Project

Estimated Cost

[List of 2015-16 and 2016-17 CIP to come]

**EXHIBIT B  
PURCHASE PRICE**

1. The principal amount of payments to be made by the District hereunder is \$\_\_\_\_\_.
2. The installment payments of principal and interest with respect to the Series 2016C Certificates are payable in the amounts and on the Installment Payment Dates as follows:

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

3. The Installment Payments of principal with respect to the Series 2016D Certificates are payable in the amounts and the Installment Payments Dates as follows:

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



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TRUST AGREEMENT

by and among the

SANTA CLARA VALLEY WATER DISTRICT

and the

SANTA CLARA VALLEY WATER DISTRICT  
PUBLIC FACILITIES FINANCING CORPORATION

and

U.S. BANK NATIONAL ASSOCIATION,  
as trustee

Dated as of February 1, 2016

RELATING TO

\$\_\_\_\_\_

SANTA CLARA VALLEY WATER DISTRICT  
REVENUE CERTIFICATES OF PARTICIPATION  
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS)  
SERIES 2016C AND TAXABLE SERIES 2016D

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## TRUST AGREEMENT

THIS TRUST AGREEMENT, dated as of February 1, 2016, by and among the SANTA CLARA VALLEY WATER DISTRICT, a flood control and water district duly organized and existing under and by virtue of the laws of the State of California (the "District"), the SANTA CLARA VALLEY WATER DISTRICT PUBLIC FACILITIES FINANCING CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association existing under and by virtue of the laws of the United States, as trustee (the "Trustee");

### WITNESSETH:

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

## ARTICLE I

### DEFINITIONS; EQUAL SECURITY

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

#### **Authorized Denominations**

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

#### **Authorized Officer**

The term "Authorized Officer" means the Chief Executive Officer/General Manager of the District, any acting Chief Executive Officer/General Manager or, if there is no officer such 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), the Chief Administrative Officer or the Chief Financial Officer.

#### **Beneficial Owners**

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

### **Book-Entry Certificates**

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

### **Business Day**

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

### **Capitalized Interest Fund**

The term “Capitalized Interest Fund” means the Capitalized Interest Fund and the accounts therein established pursuant to Section 4.01 hereof.

### **Certificate of the Corporation**

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

### **Certificate of the District**

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

### **Certificate Payment Date**

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

### **Certificates**

The term “Certificates” means the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2016C and the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Taxable Series 2016D, delivered in the aggregate principal amount of \$\_\_\_\_\_.

### **Certificate Year**

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

## **Code**

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

## **Corporate Trust Office of the Trustee**

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

## **Costs of Issuance**

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

## **Defeasance Securities**

The term “Defeasance Securities” means: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (4) pre-refunded municipal obligations rated not lower than the rating on securities described in clause (2) above.

## **Delivery Date**

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

## **Depository**

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

## **District**

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

## **DTC**

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

## **Event of Default**

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

## **Fiscal Year**

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

## **Fitch**

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

## **Information Services**

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

## **Interest Payment Date**

The term “Interest Payment Date” means each June 1 and December 1, commencing \_\_\_\_\_ 1, 2016, and, with respect to the Series 2016C Certificates and commencing \_\_\_\_\_ 1, 2016, with respect to the Series 2016D Certificates provided, however, if an Interest Payment Date with respect to the Certificates is not a Business Day, interest shall be payable on the next succeeding Business Day, and provided further that the amount paid with respect to Certificates on such succeeding Business Day shall be for the same number of days as if paid on the Interest Payment Date which was not a Business Day.

## **Investment Agreement.**

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

## **Letter of Representations or Representation Letter**

The term “Letter of Representations” or “Representation Letter” means the letter of the District delivered to and accepted by the Depository on or prior to the Delivery Date as Book-Entry Certificates setting forth the basis on which the Depository serves as depository for such Book-Entry

Certificates, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

**Maximum Annual Debt Service**

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

**Minimum Rating**

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

**Moody’s or Moody’s Investors Service**

The term “Moody’s Investors Service” or “Moody’s” means Moody’s Investors Service, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, such terms shall be deemed to refer to any other nationally recognized rating agency designated by the District.

**Nominee**

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

**Opinion of Counsel**

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

**Outstanding**

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

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

## **Owner**

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

## **Participants**

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

## **Permitted Investments**

The term “Permitted Investments” means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by 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 or direct obligations of the World Bank.

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

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

- (c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank; Rural Economic Community Development Administration; Federal Farm Credit Bureau; U.S. Maritime Administration; Small Business Administration; U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration and Federal Financing Bank;
- (d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); Obligations of the Resolution Funding Corporation (REFCORP); Senior debt obligations of the Federal Home Loan Bank System; and Senior debt obligations of other Government Sponsored Agencies;



- (e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's, "A-1" by S&P and "F1" by Fitch and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (f) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's, "A-1" by S&P or "F1" by Fitch and which matures not more than 270 calendar days after the date of purchase;
- (g) Investments in a money market fund rated "AAm", "AAAm" or "AAAm-G" or better by S&P, 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"), in the highest rating category of 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); and
- (m) Certificates of deposit insured by the Federal Deposit Insurance Corporation.
- (n) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision shall be rated “AA” or better by S&P and Fitch or “Aa2” or better by Moody’s.

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

#### **Prepayment Date**

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

#### **Rating Agencies**

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

#### **Record Date**

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

#### **S&P or Standard & Poor’s Ratings Services**

The term “Standard & Poor’s Ratings Services” or “S&P” means Standard & Poor’s Ratings Services, its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, such terms shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

#### **Series 2016C Certificate Rebate Fund**

The term “Series 2016C Certificate Rebate Fund” means the Series 2016C Certificate Rebate Fund established pursuant to Section 4.01 hereof.

**Series 2016C Certificates**

The term “Series 2016C Certificates” means the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2016C, delivered in the aggregate principal amount of \$\_\_\_\_\_.

**Series 2016C Payment Fund**

The term “Series 2016C Payment Fund” means the Series 2016C Payment Fund established pursuant to Section 4.01 hereof.

**Series 2016D Certificates**

The term “Series 2016D Certificates” means the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Taxable Series 2016D, delivered in the aggregate principal amount of \$\_\_\_\_\_.

**Series 2016D Payment Fund**

The term “Series 2016D Payment Fund” means the Series 2016D Payment Fund established pursuant to Section 4.01 hereof.

**Securities Depositories**

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

**Securities Exchange Act**

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

**State**

The term “State” means the State of California.

**Tax Certificate**

The term “Tax Certificate” means the Tax Certificate related to the Series 2016C Certificates delivered by the District on the Delivery Date, as the same may be amended or supplemented in accordance with its terms.

**Taxable Account**

The term “Taxable Account” means the Taxable Account of the Capitalized Interest Fund established pursuant to Section 4.01 hereof.

**Tax-Exempt Account**

The term “Tax-Exempt Account” means the Tax-Exempt Account of the Capitalized Interest Fund established pursuant to Section 4.01 hereof.

**Trust Agreement**

The term “Trust Agreement” means this Trust Agreement, dated as of February 1, 2016, by and among the District, the Corporation and the Trustee, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions hereof.

**Trustee**

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

**U.S. Governmental Securities Business Day**

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

**Value**

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

**Water Utility Parity System Master Resolution**

“Water Utility Parity System Master Resolution” means the Water Utility Parity System Master Resolution, Resolution No. \_\_\_\_\_ adopted by the Board of Directors of the District on February \_\_, 2016, as such resolution may be supplemented and amended from time-to-time.

**Written Request of the Corporation**

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

**Written Request of the District**

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

**SECTION 1.02. Equal Security.** In consideration of the acceptance of the Certificates by the Owners thereof, the Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal and prepayment premiums, if any, evidenced and represented by the Certificates, subject to the agreements, conditions, covenants and provisions contained herein; and all agreements,

conditions, covenants and provisions set forth herein to be performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or for any cause whatsoever, except as expressly provided herein or therein.

## ARTICLE II

### CONDITIONS AND TERMS OF CERTIFICATES

**SECTION 2.01. Authorization of Certificates.** The Trustee is hereby authorized and directed, upon receipt of a Written Request of the District to execute and deliver the Series 2016C Certificates in the aggregate principal amount of \$\_\_\_\_\_ and the Series 2016D Certificates in the aggregate principal amount of \$\_\_\_\_\_, evidencing individual interests in Installment Payments to be paid by the District under the Installment Purchase Agreement.

**SECTION 2.02. Denominations, Method and Place of Payment and Dating of Certificates.** The Certificates shall be dated the Delivery Date and shall be issued only in fully registered Certificates in denominations of five thousand dollars (\$5,000) or any integral multiple thereof, and shall mature on the dates and in the principal amounts and bear interest at the rates as set forth in the schedule set forth in Section 2.03 hereof. The interest, principal and prepayment premiums, if any, evidenced and represented by the Certificates shall be payable in lawful money of the United States of America. The interest evidenced and represented by the Certificates shall be payable on their respective Interest Payment Dates by check mailed by the Trustee to the respective Owners thereof as shown in the books required to be kept by the Trustee pursuant to the provisions of Section 2.08 at the close of business on the Record Date next preceding each Interest Payment Date (except that in the case of an Owner of one million dollars (\$1,000,000) or greater in aggregate principal amount of Outstanding Certificates, such payment may, at such Owner's written request, be made by wire transfer of immediately available funds to an account within the United States in accordance with written instructions provided by such Owner prior to the applicable Record Date), and the principal and prepayment premiums, if any, evidenced and represented by the Certificates shall be payable on their respective Certificate Payment Dates or on prepayment prior thereto by check delivered by the Trustee upon surrender thereof by the respective Owners thereof at the Corporate Trust Office of the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal and prepayment premiums, if any, evidenced and represented by such Certificate shall be made only to such Owner as above provided, which payments shall be valid and effectual to satisfy and discharge the liability evidenced and represented by such Certificate to the extent of the sum or sums so paid. All Certificates paid pursuant to the provisions of this section shall be cancelled by the Trustee and shall not be redelivered.

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

Interest Payment Date to which interest has been paid or made available for payment with respect to such Outstanding Certificates.

The Series 2016C Certificates shall have Certificate Payment Dates of June 1 in the years and shall evidence and represent principal components of Installment Payments in the amounts, with interest thereon at the rates, as follows:

**SERIES 2016C CERTIFICATES**

<i>Certificate Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
	\$	%

The Series 2016D Certificates shall have Certificate Payment Dates of June 1 in the years and shall evidence and represent principal components of Installment Payments in the amounts, with interest thereon at the rates, as follows:

**SERIES 2016D CERTIFICATES**

<i>Certificate Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
	\$	%

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

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

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

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

**SECTION 2.06. Transfer and Payment of Certificates.** Any Certificate may, in accordance with its terms, be transferred in the books required to be kept pursuant to the provisions of Section 2.08 by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender, at the Corporate Trust Office of the Trustee, of such Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates of like series and of authorized denominations of the same Certificate Payment Date evidencing and representing the same aggregate principal amount. The Trustee shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege.

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

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

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

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

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

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



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

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

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

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

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

selection by DTC or any Participant of any person to receive payment in the event of a partial prepayment of the Certificates, or (v) any consent given or other action taken by DTC as Owner of Certificates. The Trustee shall pay all principal and premium, if any, and interest evidenced and represented by the Certificates only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the District's obligations with respect to the payment of the principal and premium, if any, and interest evidenced and represented by the Certificates to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Certificates will be transferable to such new nominee in accordance with subsection (f) of this Section 2.10.

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

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

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

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

securities depository, the provisions of Sections 2.06 and 2.07 shall also apply to, among other things, the registration, exchange and transfer of the Certificates and the method of payment of principal, premium, if any, and interest evidenced and represented by the Certificates.

### ARTICLE III

#### PREPAYMENT OF CERTIFICATES

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

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

(b) **Optional Prepayment.** The Series 2016C Certificates with Certificate Payment Dates on or after June 1, 20\_\_ are subject to optional prepayment prior to their respective Certificate Payment Dates by the District on any date on or after June 1, 20\_\_, upon notice as hereinafter provided, as a whole or in part by lot in such order of maturity as the District may determine, in integral multiples of five thousand dollars (\$5,000), from any source of available funds, at a prepayment price equal to 100% of the principal amount to be prepaid, plus interest, if any, accrued with respect thereto to the date of prepayment, without premium.

The Series 2016D Certificates with Certificate Payment Dates on or after June 1, 20\_\_ are subject to optional prepayment prior to their respective Certificate Payment Dates by the District on any date on or after June 1, 20\_\_, upon notice as hereinafter provided, as a whole or in part by lot in such order of maturity as the District may determine, in integral multiples of five thousand dollars (\$5,000), from any source of available funds, at a prepayment price equal to 100% of the principal amount to be prepaid, plus interest, if any, accrued with respect thereto to the date of prepayment, without premium.

(c) **Mandatory Sinking Fund Payment.** The Series 2016C Certificates with Certificate Payment Dates of June 1, 20\_\_ are subject to mandatory prepayment prior to such Certificate Payment Dates, in part by lot on the dates shown on the following schedule, in integral multiples of \$5,000 solely from the principal components of scheduled Installment Payments becoming due on such dates, at a price equal to the sum of the principal amount evidenced and represented by the Series 2016C Certificates to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

**Mandatory Sinking Fund Schedule – Series 2016C Certificates**

<i>Sinking Fund Payment Date (June 1)</i>	<i>Principal Amount</i>
1	\$

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<sup>1</sup> Final maturity.

The Series 2016D Certificates with Certificate Payment Dates of June 1, 20\_\_ are subject to mandatory prepayment prior to such Certificate Payment Dates, in part by lot on the dates shown on the following schedule, in integral multiples of \$5,000 solely from the principal components of scheduled Installment Payments becoming due on such dates, at a price equal to the sum of the principal amount evidenced and represented by the Series 2016D Certificates to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

**Mandatory Sinking Fund Schedule – 2016D Certificates**

<i>Sinking Fund Payment Date (June 1)</i>	<i>Principal Amount</i>
1	\$

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<sup>1</sup> Final maturity.

**SECTION 3.02. Selection of Certificate for Prepayment.** If less than all Outstanding Certificates maturing by their terms on any one date are to be prepaid at any one time, and no other method of selection is specified in Section 3.01 above, the Trustee shall select the Certificates of such maturity date to be prepaid in any manner that it deems appropriate and fair and shall promptly notify the District in writing of the numbers of the Certificates so selected for prepayment. For purposes of such selection, Certificates shall be deemed to be composed of \$5,000 multiples and any such multiple may be separately prepaid or redeemed. In the event the term Certificates are designated for prepayment, the District may designate which sinking account payments are allocated to such prepayment.

**SECTION 3.03. Notice of Prepayment.** Notice of prepayment shall be given by the Trustee, not less than twenty (20) nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the Certificates designated for prepayment at their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories and (iii) the Information Services; provided, however, that so long as a book-entry system is used for the Certificates, the Trustee will send notice of prepayment only to the Securities Depositories and Information Services. Notice of prepayment to the Securities Depositories shall be given by registered mail, other electronically secure means, or any other method agreed upon and notice of prepayment to the Information Services shall be given by mail, other electronically secure means, or any other method agreed upon. Each notice of prepayment shall state the series, prepayment date, the prepayment price, if any, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such

maturity is to be prepaid, the distinctive certificate numbers of the Certificates of such maturity to be prepaid and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on the prepayment date there will become due and payable on the Certificates to be prepaid, all of the principal amount thereof on the prepayment date, and that from and after such prepayment date interest evidenced and represented by the Certificates shall cease to accrue, and shall require that such Certificates be then surrendered at the address of the Trustee specified in the prepayment notice. Failure by the Trustee to give notice pursuant to this Section to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for prepayment. Failure by the Trustee to mail notice of prepayment pursuant to this Section to any one or more of the respective Owners of any Certificates designated for prepayment shall not affect the sufficiency of the proceedings for prepayment with respect to the Owners to whom such notice was mailed.

In the event of prepayment of Certificates (other than sinking fund prepayments), the Trustee shall give notice of optional prepayment, other than any notice that refers to Certificates that are to be prepaid from proceeds of a refunding bond issue, only if sufficient funds have been deposited with the Trustee to pay the applicable prepayment price of the Certificates to be prepaid. The District shall give the Trustee written notice of its intention to optionally prepay Certificates at least 20 days prior to the intended Prepayment Date. In the event the District elects to optionally prepay the Certificates in part, it shall deliver to the Trustee a schedule of revised Installment Payments and mandatory prepayments.

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

**SECTION 3.04. Effect of Prepayment.** If notice of prepayment has been duly given as aforesaid and money for the payment of the prepayment price of the Certificates called for prepayment is held by the Trustee in Series 2016C Payment Fund or the Series 2016D Payment Fund, as the case may be, then on the prepayment date designated in such notice, Certificates shall become due and payable, and from and after the date so designated interest evidenced and represented by the Certificates so called for prepayment shall cease to accrue, and the Owners of such Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof. Any prepayment of Certificates pursuant to Section 3.01 hereof shall cause the schedule of Installment Payments set forth in Exhibit B to the Installment Purchase Agreement to be recalculated by the District in accordance with Section 4.2 of the Installment Purchase Agreement. Such schedule shall be furnished by the District to the Trustee. All Certificates prepaid, pursuant to the provisions of this Article shall be cancelled by the Trustee and shall be delivered to, or upon the order of, the District and shall not be redelivered.

## ARTICLE IV

### ESTABLISHMENT OF FUNDS; DEPOSIT AND APPLICATION OF PROCEEDS

**SECTION 4.01. Establishment of Funds.** The Trustee shall establish and maintain the following special trust funds to be held by the Trustee: (i) the Series 2016C Payment Fund,

(ii) the Series 2016D Payment Fund, (iii) the Series 2016C Certificate Rebate Fund, and (iv) the Capitalized Interest Fund and within such fund the Tax-Exempt Account and the Taxable Account.

**SECTION 4.02. Delivery of Certificates.** The Trustee is hereby authorized to execute and deliver the Certificates to the purchaser thereof upon receipt of a Written Request of the District, concurred in by the Corporation, and upon receipt of the proceeds of sale thereof.

**SECTION 4.03. Application of Proceeds.** Upon the receipt of the proceeds of the Certificates when the same shall have been duly executed and delivered, the Trustee shall deposit in the Tax-Exempt Account of the Capitalized Interest Fund the amount of \$\_\_\_\_\_, deposit in the Taxable Account of the Capitalized Interest Fund the amount of \$\_\_\_\_\_, transfer to the District the amount of \$\_\_\_\_\_ for deposit in the Series 2016C Acquisition and Construction Fund, and transfer to the District the amount of \$\_\_\_\_\_ for deposit in the Series 2016D Acquisition and Construction Fund. The Trustee may establish a temporary fund or account in its records to facilitate such deposit and transfer.

## ARTICLE V

### INSTALLMENT PAYMENTS

**SECTION 5.01. Pledge of Installment Payments.** All Installment Payments shall be paid directly by the District to the Trustee and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Installment Payments received by the Trustee shall be held in trust by the Trustee under the terms hereof. The Installment Payments with respect to the Series 2016C Certificates shall be deposited by the Trustee as and when received in the Series 2016C Payment Fund, which fund the Trustee has established and maintains so long as any Certificates are Outstanding. The Installment Payments with respect to the Series 2016D Certificates shall be deposited by the Trustee as and when received in the Series 2016D Payment Fund, which fund the Trustee has established and maintains so long as any Certificates are Outstanding. All money in the Series 2016C Payment Fund shall be held in trust by the Trustee for the benefit of the Owners of the Series 2016C Certificates and all the money in the Series 2016D Payment Fund shall be held in trust by the Trustee for the benefit of the owner of the Series 2016D Certificates. The District and the Corporation hereby pledge and grant a lien on the Series 2016C Payment Fund to the Trustee for the benefit of the Owners of the Series 2016C Certificates and a lien on the Series 2016D Payment Fund to the Trustee for the benefit of the Owners of the Series 2016D Certificates.

### **SECTION 5.02. Receipt and Deposit of Installment Payments.**

(a) In order to carry out and effectuate the pledge contained herein, subject to the provisions of Section 5.01, the Trustee shall deposit the Installment Payments with respect to the Series 2016C Certificates when and as received in trust in the Series 2016C Payment Fund for the benefit of the Owners of the Series 2016C Certificates. All Installment Payments shall be accounted for through and held in trust. All Installment Payments deposited with the Trustee as herein provided shall nevertheless be allocated, applied and disbursed solely to the purposes and uses hereinafter in this Article set forth, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Trustee.

(b) In order to carry out and effectuate the pledge contained herein, subject to the provisions of Section 5.01, the Trustee shall deposit the Installment Payments with respect to the Series 2016D Certificates when and as received in trust in the Series 2016D Payment Fund for the benefit of the Owners of the Series 2016D Certificates. All Installment Payments shall be accounted for through and held in trust. All Installment Payments deposited with the Trustee as herein provided shall nevertheless be allocated, applied and disbursed solely to the purposes and uses hereinafter in this Article set forth, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Trustee.

(c) Money in the Series 2016C Payment Fund shall be used and withdrawn by the Trustee for the purpose of paying (i) the interest evidenced and represented by the Series 2016C Certificates as it shall become due and payable (including accrued interest evidenced and represented by the Series 2016C Certificates purchased or prepaid prior to maturity), and (ii) the principal evidenced and represented by the Series 2016C Certificates as it shall become due and payable.

(d) Money in the Series 2016D Payment Fund shall be used and withdrawn by the Trustee for the purpose of paying (i) the interest evidenced and represented by the Series 2016D Certificates as it shall become due and payable (including accrued interest evidenced and represented by the Series 2016D Certificates purchased or prepaid prior to maturity), and (ii) the principal evidenced and represented by the Series 2016D Certificates as it shall become due and payable.

(e) Any moneys which, pursuant to Section 7.1 of the Installment Purchase Agreement, are to be used to prepay the Series 2016C Certificates pursuant to Section 3.01 hereof shall be deposited by the Trustee in the Series 2016C Payment Fund. The Trustee shall, on the scheduled prepayment date, withdraw from the Series 2016C Payment Fund and pay to the Owners entitled thereto an amount equal to the prepayment price of the Series 2016C Certificates to be prepaid on such date plus interest evidenced and represented by the Certificates to the Prepayment Date.

(f) Any moneys which, pursuant to Section 7.1 of the Installment Purchase Agreement, are to be used to prepay the Series 2016D Certificates pursuant to Section 3.01 hereof shall be deposited by the Trustee in the Series 2016D Payment Fund. The Trustee shall, on the scheduled prepayment date, withdraw from the Series 2016D Payment Fund and pay to the Owners entitled thereto an amount equal to the prepayment price of the Series 2016D Certificates to be prepaid on such date plus interest evidenced and represented by the Certificates to the Prepayment Date.

**SECTION 5.03. Reserved.**

**SECTION 5.04. Investment of Moneys in Funds.** Moneys in the funds established with the Trustee hereunder shall, in accordance with a Written Request of the District, be invested by the Trustee in Permitted Investments. The Trustee may conclusively rely on any direction contained in a Written Request of the District to invest in investments that such investments are Permitted Investments. In the absence of a Written Request of the District, the Trustee shall invest moneys in clause (g) of the definition of Permitted Investments. The obligations in which moneys in said funds are invested shall mature on or prior to the date on which such moneys are estimated to be required to be paid out hereunder. The Trustee shall sell at the best price obtainable or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment required under this Trust Agreement. Notwithstanding anything herein to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with this Trust Agreement. For purposes of determining the amount of

deposit in any fund held hereunder, all Permitted Investments credited to such fund shall be valued at the market value thereof. Except as otherwise provided in this Section, Permitted Investments representing an investment of moneys attributable to any fund and all investment profits or losses thereon shall be deemed at all times to be a part of said fund. To the extent that Permitted Investments are registrable securities, such Permitted Investments shall be registered in the name of the Trustee.

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

The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

The District acknowledges that to the extent 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 will not receive such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

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

#### **SECTION 5.05. Application of the Series 2016C Certificate Rebate Fund.**

(a) Absent an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Series 2016C Certificates will not be adversely affected, the District shall cause to be deposited in the Series 2016C Certificate Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. Within the Series 2016C Certificate Rebate Fund, there shall be established two separate accounts designated the "Rebate Account" and the "Alternative Penalty Account." All money at any time deposited in the Rebate Account or the Alternative Penalty Account shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Series 2016C Certificate Rebate Fund shall be governed by this Section and the Tax Certificate, unless and to the extent that the District delivers to the Trustee an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest evidenced and represented by the Series 2016C Certificates will not be adversely affected if such requirements are not satisfied.

(b) The following provisions relate to the Rebate Accounts and the Alternate Penalty Accounts of the Series 2016C Certificate Rebate Fund:

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

(i) Annual Computation. Within 55 days of the end of each Certificate Year, the District shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable



exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Certificate Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(ii) Annual Transfer. Within 55 days of the end of each applicable Certificate Year, upon the written direction of a representative of the District, an amount shall be deposited to the Rebate Account by the Trustee from any funds legally available for such purpose (as specified by the District in the aforesaid written direction), if and to the extent required so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated in accordance with (i) of this Subsection (b)(1). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from a representative of the District, the Trustee shall withdraw the excess from the Rebate Account and then credit the excess to the Series 2016C Payment Fund.

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

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

(Y) Not later than 60 days after the payment of all the Series 2016C Certificates, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Certificate Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

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

(2) Alternative Penalty Account.

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

(ii) Six-Month Transfer. Within 85 days of the close of each Six-Month Period, upon the written direction of a representative of the District, the Trustee shall deposit in the Alternative Penalty Account from any legally available source of funds (as specified by the District in the aforesaid written direction), if and to the extent required, so that the balance in the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in Subsection (b)(2)(i) above. In the event that immediately following the transfer provided in the previous sentence, the amount then on deposit to the credit of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by Subsection (b)(2)(iii) below, the Trustee, at the written direction of a representative of the District, shall withdraw the excess from the Alternative Penalty Account and credit the excess to the Series 2016C Payment Fund.

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

(c) Disposition of Unexpended Funds. Any funds remaining in the Series 2016C Certificate Rebate Fund after prepayment and payment of the principal and interest evidenced and represented by the Series 2016C Certificates, the payments described in Subsection (b)(1)(iii) or (b)(2)(iii) (whichever is applicable), may be withdrawn by the District and utilized in any manner by the District.

(d) Survival of Defeasance. Notwithstanding anything in this Section or this Trust Agreement to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance of the Series 2016C Certificates.

(e) Duty of Trustee. The Trustee shall be fully protected and shall be deemed to have complied with the provisions of this Section 5.05 if it complies with the written directions of the

District delivered pursuant to this Section 5.05 and the Trustee shall have no responsibility to enforce compliance by the District with the Tax Certificate.

**SECTION 5.06. Application of the Capitalized Interest Fund**

The Trustee shall transfer the following amounts from the Tax-Exempt Account and the Taxable Account of the Capitalized Interest Fund to the Series 2016C Payment Fund and the Series 2016D Payment, as applicable, on the dates set forth below.

**From the Tax-Exempt Account to the Series 2016C Payment Fund**

\$

**From the Taxable Account to the Series 2016D Payment Fund**

\$

All earnings derived from investment of funds on deposit in the Tax-Exempt Account and the Taxable Account of the Capitalized Payment Fund shall be transferred to the Series 2016C Payment Fund and the Series 2016D Payment Fund, respectively. Any amounts on deposit in the Tax-Exempt Account and the Taxable Account of the Capitalized Interest Fund on June 2, 20\_\_ shall be transferred to the Series 2016C Payment Fund and the Series 2016D Payment Fund, respectively.

**ARTICLE VI**

**COVENANTS**

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

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

**SECTION 6.02. Accounting Records and Statements.** The Trustee shall keep proper books of record and account in accordance with industry standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Installment Payments and the proceeds of the Certificates or the obligation which they evidence and represent. Such records shall specify the account or fund to which each

investment (or portion thereof) held by the Trustee is to be allocated and shall set forth, in the case of each investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, and (d) the amounts and dates of any payments made with respect thereto. Such records shall be open to inspection by any Owner or his agent duly authorized in writing at reasonable hours and under reasonable conditions and upon reasonable written request during the regular business hours of the Trustee on any Business Day. As soon as available after June 30, 2016, and continuing after each June 30th so long as any Certificates are Outstanding, the Trustee will furnish to the Corporation and to any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, deposits and disbursements of the money held hereunder for the preceding fiscal year. In addition, the Trustee shall provide the District with a monthly accounting of the funds and accounts held hereunder; provided, that the Trustee shall not be obligated to provide an accounting for any fund or account that (a) has a balance of \$0.00 and (b) has not had any activity since the last reporting date.

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

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

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

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

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

**SECTION 6.07. Recordation and Filing.** The District will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain at all times a security interest in the money in the Series 2016C Payment Fund, the Series 2016D Payment Fund and the Capitalized Interest Fund hereunder in such manner, at such times and in such places as may be required in order to fully perfect, preserve and protect the benefit, protection and security of the respective Owners and the rights of the Trustee hereunder (with copies of each such document being forwarded to the Trustee), and the District will do whatever else may be necessary or be reasonably required in order to perfect and continue the pledge of and lien on the money in the funds herebefore described.

**SECTION 6.08. Tax Covenants.** Notwithstanding any other provision of this Agreement, absent an Opinion of Counsel that the exclusion from gross income of interest with respect to the Series 2016C Certificates 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 and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will not take or omit to take any action or make any use of the proceeds of the Series 2016C Certificates or of any other moneys or property which would cause the Series 2016C Certificates 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 2016C Certificates or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Series 2016C Certificates 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 2016C Certificates or take or omit to take any action that would cause the Series 2016C Certificates 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.

(e) Miscellaneous. The District will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Series 2016C Certificates and will comply with the covenants and requirements stated therein and incorporated by reference herein.

This Section shall not be applicable to, and nothing contained herein shall be deemed to prevent the District from causing the Trustee to execute and deliver, Series 2016C Certificates the interest with respect to which has been determined by Special Counsel to be subject to federal income taxation.

## ARTICLE VII

### THE TRUSTEE

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

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

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

### **SECTION 7.02. Duties, Immunities and Liabilities of Trustee.**

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

(b) So long as no Event of Default has occurred and is continuing, upon thirty (30) days' written notice to the Trustee, the District may remove the Trustee at any time and shall remove the Trustee at any time requested to do so by an instrument or concurrent instruments in writing, or in the case of the Certificates, the Owners of the Certificates of not less than a majority in aggregate amount

of Certificates then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

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

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

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

of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

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

(g) The Trustee shall not be responsible for the sufficiency, timeliness or payment of the Installment Payments, the maintenance of insurance as required by the Installment Purchase Agreement or reviewing any report or certificate required to be provided hereunder or under the Installment Purchase Agreement.

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

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

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

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

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

**SECTION 7.05. Liability of Trustee.**

(a) The recitals of facts herein and in the Certificates contained shall be taken as statements of the District, and the Trustee assumes no responsibility for the correctness of the same, and makes no representations as to the validity or sufficiency of this Trust Agreement, the Installment Purchase Agreement or of the Certificates, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Certificates assigned to or imposed upon it. The Trustee shall, however be responsible for its representations contained in



its certificate of execution on the Certificates. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the Owner of Certificates with the same rights it would have if it were not Trustee or and, to the extent permitted by law, may act as 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 Owners, whether or not such committee shall represent the Owners of a majority in aggregate amount of Certificates then Outstanding.

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

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

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

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

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

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

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

**SECTION 7.06. Right to Rely on Documents.** The Trustee shall be protected in acting, and may conclusively rely, upon any notice, resolution, request, requisition, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and need not conduct any independent investigation of the matters covered therein. The Trustee may consult with counsel, who may be counsel but need not of or to the District, with regard to legal questions, and the opinion of such

counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

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

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

## ARTICLE VIII

### AMENDMENT OF THE TRUST AGREEMENT

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

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

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

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the

Corporation or the District may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates; and

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

**SECTION 8.02. Disqualified Certificates.** Certificates owned or held by or for the account of the Corporation or the District shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in this article, and shall not be entitled to consent to or take any other action provided in this article.

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

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

## ARTICLE IX

### EVENTS OF DEFAULT AND REMEDIES OF OWNERS

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

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

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

(a) by mandamus, or other suit, action or proceeding at law or in equity, to enforce its rights against the Corporation or the District or any director, officer or employee of the District, and

to compel the Corporation or the District or any such director, officer or employee of the District to observe or perform its or his duties under applicable law and the agreements, conditions, covenants and terms contained herein required to be observed or performed by it or him;

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

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

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

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

**SECTION 9.05. Application of Funds.** All moneys on deposit in the funds and accounts held hereunder (other than the Series 2016C Certificate Rebate Fund) and all moneys received by the Trustee pursuant to any right given or action taken under the provisions of this article or of Article IV of the Installment Purchase Agreement shall be deposited in segregated accounts in the Series 2016C Payment Fund and the Series 2016D Payment Fund, and shall be applied by the Trustee in the following order and upon presentation of the several Certificates and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid.

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

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

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal evidenced and represented by any Certificates which shall have become due, whether on the Certificate Payment Date or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest evidenced and represented by the Certificates to be paid at a rate

equal to the rate or rates of interest then applicable to the Certificates if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of interest, principal and prepayment premiums, if any, due on such date to the persons entitled thereto, without any discrimination or preference.

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

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

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

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

**SECTION 9.10. Actions by the Trustee as Attorney-in-Fact.** Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated, and the Trustee is hereby appointed (and the successive respective Owners, by taking and holding the same, shall be conclusively deemed so to have appointed the Trustee) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any suit, action, or proceeding and to do perform any and all acts and things for and on behalf of the respective Owners, as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact; provided, that

the Trustee need not institute any such suit, action or proceeding until it shall have been first provided with indemnity adequate to it.

**SECTION 9.11. Power of the Trustee to Control Proceedings.** In the event that the Trustee, upon the occurrence of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder whether upon its own discretion, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action.

## **ARTICLE X**

### **DEFEASANCE**

#### **SECTION 10.01. Discharge of Certificates and Trust Agreement.**

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of any Outstanding Certificates the interest and principal and prepayment premiums, if any, evidenced and represented thereby at the times and in the manner stipulated herein and therein, then such Owners evidenced and represented thereby shall cease to be entitled to the pledge of and lien on the moneys in the Series 2016C Payment Fund and the Series 2016D Payment Fund, as provided herein, and all agreements, covenants and other obligations of the Corporation and the District to said Owners hereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Corporation and the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District all money or securities held by it pursuant hereto which are not required for the payment of the interest and principal and prepayment premiums, if any, evidenced and represented thereby.

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

Any Outstanding Certificates shall prior to their Certificate Payment Date or prepayment date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Certificates are to be prepaid on any date prior to their respective Certificate Payment Date, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of Section 3.03 of this Trust Agreement, notice of prepayment of such Certificates on said prepayment date, said notice to be given in accordance with Section 3.03 of this Trust Agreement, (2) there shall have been irrevocably deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Defeasance Securities the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall, as verified by an independent certified public accountant be sufficient to pay when due the interest evidenced and represented by such Certificates on and prior to their respective Certificate Payment Date or prepayment date thereof, as the case may be, (3) in the event such Certificates are not by

their terms subject to prepayment within the next succeeding sixty (60) days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to provide as soon as practicable, a notice to the Owners of such Certificates that the deposit required by clause (2) above has been made with the Trustee and that such Certificates are deemed to have been paid in accordance with this Section and stating the maturity date or prepayment date upon which money is to be available for the payment of the principal of and prepayment premiums, if any, on such Certificates, and (4) in the case of Book-Entry Certificates, the Trustee shall give notice to the Depository of the prepayment of all or part of such Book-Entry Certificates on the date proceeds or other funds are deposited in escrow with respect to such Book-Entry Certificates.

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

## ARTICLE XI

### MISCELLANEOUS

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

The Certificates shall be payable solely from the Installment Payments and amounts on deposit in the funds established hereunder (other than amounts on deposit in the Series 2016C Certificate Rebate Fund created pursuant to Section 5.07). The Certificates do not constitute a debt or liability of the District or of the State of California and neither the faith and credit of the District nor of the State are pledged to the payment of the principal, or interest evidenced and represented by the Certificates.

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

**SECTION 11.03. Successor is Deemed Included in All References to Predecessor.** Whenever herein either the Corporation, the District or any member, officer or employee thereof is

named or referred to, such reference shall be deemed to include the respective successor to the powers, duties and functions with respect to the administration, control and management of the Project that are presently vested in the Corporation, the District or such member, officer or employee, and all agreements and covenants required hereby to be performed by or on behalf of the Corporation, the District or any member, officer or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

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

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

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

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

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

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



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

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

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

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

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

If to the Trustee:

U.S. Bank National Association  
One California Street, Suite 2100  
San Francisco, California 94111  
Attention: Corporate Trust Department

If to the Corporation:

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

If to the District:

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

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

SANTA CLARA VALLEY WATER DISTRICT

(SEAL)

By: \_\_\_\_\_  
[Title]

ATTEST:

\_\_\_\_\_  
Clerk of the Board of Directors

SANTA CLARA VALLEY WATER DISTRICT  
PUBLIC FACILITIES FINANCING  
CORPORATION

(SEAL)

By: \_\_\_\_\_  
President

ATTEST:

\_\_\_\_\_  
Secretary

U.S. BANK NATIONAL ASSOCIATION,  
as trustee

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**[FORM OF SERIES 2016 CERTIFICATE OF PARTICIPATION]**

No. R-\_\_

\$\_\_\_\_\_

Revenue Certificate of Participation  
(Water Utility System Improvement Projects)  
[Series 2016C] [Taxable Series 2016D]  
Evidencing and Representing a Proportionate,  
Undivided Interest of the Owner Hereof  
in Installment Payments to Be Made  
by the  
SANTA CLARA VALLEY WATER DISTRICT  
to the  
Santa Clara Valley Water District Public Facilities Financing Corporation  
under and pursuant to the  
Installment Purchase Agreement

*Interest Rate*                      *Maturity Date*                      *Dated Date*                      *CUSIP*  
\_\_\_\_\_ %                      June 1, \_\_\_\_\_                      \_\_\_\_\_ 1, 20\_\_                      80168F\_\_

REGISTERED OWNER: CEDE & CO.

PRINCIPAL SUM: \_\_\_\_\_ DOLLARS

THIS IS TO CERTIFY that the Registered Owner (specified above) of this Certificate of Participation (the "Certificate") is the owner of an undivided interest in the right to receive the Installment Payments (as defined below) payable by the Santa Clara Valley Water District (the "District") pursuant to the Installment Purchase Agreement (described below) on the maturity date specified above (subject to any right of prior prepayment provided for) the principal sum specified above, together with interest evidenced and represented hereby at the interest rate per annum specified above on \_\_\_\_\_ 1, 2016, and on each December 1 and June 1 thereafter (the "Interest Payment Dates") from the Interest Payment Date next preceding the date of execution hereof, unless such date of execution is during the period commencing after the fifteenth day of the month preceding an Interest Payment Date (the "Record Date") through and including the next succeeding Interest Payment Date, in which event this Certificate shall represent interest from such Interest Payment Date and with respect to the first Interest Payment Date, this Certificate shall represent interest from the Dated Date until the principal evidenced and represented hereby shall have been paid; provided, however, that if on the date of execution of this Certificate, interest is then in default on the Certificates, this Certificate shall evidence interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Certificate.

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

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

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

This Certificate is one of a duly authorized issue of Certificates of Participation of the District designated as the "Revenue Certificates of Participation (Water Utility System Improvement Projects), [Series 2016C] [Taxable Series 2016D]" in the aggregate principal amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_), all of like tenor and date (except for variations relating to Certificates (as may be required to designate varying numbers, maturities and interest rates), and is executed and delivered, together with the Revenue Certificates of Participation (Water Utility System Improvement Projects), [Taxable Series 2016D] [Series 2016C] in the aggregate principal amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_ (together with the [Series 2016C][Series 2016D] Certificates, the "Certificates"), under and pursuant to the provisions of a trust agreement, dated as of February 1, 2016 (the "Trust Agreement"), by and among the District, the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation") and the Trustee (copies of which are on file at the Corporate Trust Office of the Trustee).

The Certificates are executed and delivered to provide funds for financing public facilities of the District and to reimburse the District for previous amounts expended on the financing of public facilities. The Certificates are payable solely from installment payments (the "Installment Payments") paid by the District for the purchase of the Project pursuant to an Installment Purchase Agreement, dated as of February 1, 2016, by and between the District and the Corporation (the "Installment Purchase Agreement"), including interest or profits from the investment of money in certain funds established under the Trust Agreement for the payment of the Certificates (other than amounts on deposit in the Series 2016C Certificate Rebate Fund) and amounts on deposit in the funds established under the Trust Agreement (other than amounts on deposit in the Series 2016C Certificate Rebate Fund). The Installment Payments do not constitute a debt or liability of the District or of the State of California in contravention of any constitutional or statutory debt limit and neither the faith and credit of the District nor of the State of California are pledged to the payment of the principal or interest evidenced and represented by the Certificates.

The Certificates are subject to extraordinary prepayment by the District on any date prior to their respective Certificate Payment Dates, upon notice as hereinafter provided, as a whole or in part by lot within each Certificate Payment Date, in such order of prepayment as the District may determine, in integral multiples of five thousand dollars (\$5,000) and any integral multiple thereof and from net proceeds of insurance awards or condemnation proceedings received by the District due to the damage, destruction or condemnation of all or any portion of the Water Utility System under

the circumstances and upon the conditions and terms prescribed in the Trust Agreement and in the Installment Purchase Agreement, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

The [Series 2016C Certificates] [Series 2016D Certificates] with Certificate Payment Dates on or after June 1, 20\_\_ are subject to optional prepayment prior to their respective Certificate Payment Dates by the District on any date on or after June 1, 20\_\_, upon notice as hereinafter provided, as a whole or in part by lot in such order of maturity as the District may determine, in integral multiples of five thousand dollars (\$5,000), from any source of available funds, at a prepayment price equal to 100% of the principal amount to be prepaid, plus interest, if any, accrued with respect thereto to the date of prepayment, without premium.

#### [Mandatory Sinking Fund Schedule]

Notice of prepayment of this Certificate shall be given by the Trustee not less than twenty (20) days nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the Certificates designated for prepayment at their addresses appearing on the registration books of the Trustee (ii) the Securities Depositories and (iii) the Information Services subject to and in accordance with provisions of the Trust Agreement with respect thereto. If notice of prepayment has been duly given as aforesaid and money for the payment of the above-described prepayment price is held by the Trustee, in the [Series 2016C/Series 2016D] Payment Fund then this Certificate so called for prepayment shall, on the prepayment date designated in such notice, become due and payable at the above-described prepayment price; and from and after the date so designated, interest evidenced and represented on this Certificate shall cease to accrue and the registered owner of this Certificate shall have no rights in respect hereto except to receive payment of the prepayment price hereof.

This Certificate is transferable only in the books required to be kept for that purpose at the Corporate Trust Office of the Trustee by the registered owner hereof in person or by his duly authorized attorney, upon surrender of this Certificate together with a duly executed written instrument of transfer in a form approved by the Trustee and thereupon a new fully registered Certificate or Certificates will be executed and delivered, by the Trustee of like series and of authorized denominations of the same Certificate Payment Date evidenced and representing the same aggregate principal amount a Certificate will be issued to the transferee in exchange therefor. This Certificate may be exchanged at the Corporate Trust Office of the Trustee for the same aggregate principal amount evidenced and represented by a Certificate of authorized denominations. The Trustee shall not be required to register the transfer of or exchange (i) any Certificates during the period established by the Trustee for the selection of Certificates for prepayment, or (ii) any Certificate which has been selected for prepayment in whole or in part.

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

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

If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the registered owners of any outstanding Certificates the interest and the principal and the prepayment premiums, if any, evidenced and represented thereby at the times and in the manner stipulated herein and in the Trust Agreement, then the registered owners of such Certificates shall cease to be entitled to the pledge of and lien on the moneys in the [Series 2016C Payment Fund] [Series 2016D Payment Fund], the Capitalized Interest Fund and the Series 2016D Payment Fund, as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District to the registered owners of such Certificates under the Trust Agreement shall thereupon cease, terminate and become void and be discharged and satisfied.

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

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

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

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

Date of Execution: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By: \_\_\_\_\_  
Authorized Officer

**[FORM OF ASSIGNMENT TO CERTIFICATES]**

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

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

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

Dated: \_\_\_\_\_

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

Signature Guaranteed:

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



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**EXHIBIT A FORM OF SERIES 2016[C][D] CERTIFICATE OF PARTICIPATION**

**PURCHASE CONTRACT**

\$ \_\_\_\_\_  
**SANTA CLARA VALLEY WATER DISTRICT  
WATER UTILITY SYSTEM REFUNDING REVENUE BONDS  
SERIES 2016A**

\$ \_\_\_\_\_  
**SANTA CLARA VALLEY WATER DISTRICT  
REVENUE CERTIFICATES OF PARTICIPATION  
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS)  
SERIES 2016C**

March \_\_, 2016

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

Ladies and Gentlemen:

The undersigned, Wells Fargo Bank, National Association, as representative (the “Representative”) of itself, Barclays Capital Inc., Fidelity Capital Markets, Siebert Brandford Shank & Co., LLC and Stifel Nicolaus & Company, Inc., as underwriters (the “Underwriters”), offer to enter into this Purchase Contract (the “Purchase Contract”) with the Santa Clara Valley Water District (the “District”), which will be binding upon the District and the Underwriters upon the acceptance hereof by the District. This offer is made subject to its acceptance by the District by execution of this Purchase Contract and its delivery to the Representative on or before 8:00 p.m., California time, on the date hereof. All terms used herein and not otherwise defined shall have the meanings given to such terms in the Official Statement (as hereinafter defined). The Representative has been duly authorized to execute this Purchase Contract and to take any action hereunder by and on behalf of the Underwriters.

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriters hereby agree to purchase, and the District hereby agrees to cause to be delivered to the Underwriters, all (but not less than all) of the District’s \$\_\_\_\_\_ aggregate principal amount of Water Utility System Refunding Revenue Bonds, Series 2016A (the “Series 2016A Bonds”) and \$\_\_\_\_\_ Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2016C (the “Series 2016C Certificates” and together with the Series 2016A Bonds, the “Securities”). The purchase price for the Series 2016A Bonds shall be \$\_\_\_\_\_ (representing the \$\_\_\_\_\_ par amount of the Series 2016A Bonds [plus] [minus] \$\_\_\_\_\_ of net original issue [premium] [discount] and less \$\_\_\_\_\_ Underwriters’ discount). The purchase price for the Series 2016C Certificates shall be \$\_\_\_\_\_ (representing

\$\_\_\_\_\_ par amount of the Series 2016C Certificates [plus] [minus] \$\_\_\_\_\_ of net original issue [premium] [discount] and less \$\_\_\_\_\_ Underwriters' discount).

2. Description and Purpose of the Series 2016A Bonds. The Series 2016A Bonds shall be issued pursuant to Resolution No. \_\_\_\_ (Water Utility Parity System Master Resolution) adopted by the Board of Directors of the District on February \_\_, 2016 (the "Resolution"), and an Indenture of Trust, dated as of February 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Bond Trustee"), providing for the issuance of the Series 2016A Bonds.

The Series 2016A Bonds shall be dated the date of delivery thereof and shall mature on the dates and in the amounts and shall bear interest at the rates shown on Exhibit A hereto. The Series 2016A Bonds shall be secured under, and shall be as described in, and shall be payable and subject to redemption prior to maturity as provided in, the Resolution and the Indenture.

The Series 2016A Bonds are being issued to provide a portion of the money to (i) refund all of the currently outstanding Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2006A (the "2006A Bonds"); (ii) refund a portion of the currently outstanding Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2007A (the "2007A Certificates"); (iii) pay all or a portion of the outstanding amount of the Santa Clara Valley Water District Commercial Paper Certificates, Series A (Tax-Exempt) (the "Tax-Exempt Commercial Paper Certificates"); and (iv) pay costs of issuance of the Series 2016A Bonds.

Pursuant to the Indenture, the District will deliver a portion of the proceeds of the Series 2016A Bonds to U.S. Bank National Association, as escrow agent (the "Escrow Agent") under the Escrow Agreement (2006A) dated as of February 1, 2016 (the "2006A Escrow Agreement"), by and between the District and the Escrow Agent for deposit in an escrow fund established thereunder.

Pursuant to the Indenture, the District will deliver a portion of the proceeds of the Series 2016A Bonds to the Escrow Agent for deposit in an escrow fund (the "2007A Escrow Fund") established under the Escrow Agreement (2007A) dated as of February 1, 2016 (the "2007A Escrow Agreement"), by and between the District and the Escrow Agent.

3. Description and Purpose of the Series 2016C Certificates. The Series 2016C Certificates shall be executed and delivered pursuant to a Trust Agreement, dated as of February 1, 2016 (the "Trust Agreement"), by and among the District, the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Certificates Trustee"). The Series 2016C Certificates shall mature in the amounts and on the dates and represent interest at the rates set forth in Appendix A hereto. Other terms of the Series 2016C Certificates shall be as described in the Trust Agreement. The Series 2016C Certificates evidence and represent the proportionate undivided interests of the registered owners thereof (the "Owners") in certain installment payments (the "Installment Payments") to be made by the District pursuant to an Installment Purchase Agreement, dated as of February 1, 2016 (the "Installment Purchase Agreement"), by and between the District and the Corporation.

The proceeds of the Series 2016C Certificates will be used to (a) to finance the cost of certain water utility system improvements, (b) to reimburse the District for costs previously expended on certain water utility system improvements, and (c) to pay the costs of executing and delivering the Series 2016C Certificates.

The District will undertake, pursuant to Continuing Disclosure Agreements (the “Continuing Disclosure Agreements”), dated the Closing Date, by and between the District and U.S. Bank National Association, as dissemination agent, to provide annual reports and notices of certain events in accordance with the requirements of Rule 15c2-12. The form of the Continuing Disclosure Agreement covering the 2016A Bonds is set forth as Appendices G to the Official Statement and the form of the Continuing Disclosure Agreement covering the 2016C Certificates is set forth as Appendices H to the Official Statement.

4. Public Offering. The Underwriters agree to make an initial public offering of all the Securities at the public offering prices (or yields) set forth on Exhibit A hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriters reserve the right to change the public offering prices (or yields) as they deem necessary in connection with the marketing of the Securities, provided that the Underwriters shall not change the interest rates set forth on Exhibit A. The Securities may be offered and sold to certain dealers at prices lower than such initial public offering prices.

5. Delivery of Official Statement and Other Materials. The District has previously authorized the use by the Underwriters prior to the date hereof of the Preliminary Official Statement of the District dated March \_\_\_, 2016 relating to the Securities (which, together with all appendices thereto, is referred to herein as the “Preliminary Official Statement”). The District has deemed final the Preliminary Official Statement as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (“Rule 15c2-12”), except for information permitted to be omitted therefrom by Rule 15c2-12. The District will deliver, within seven business days from the date hereof and in any event not less than two days prior to the date of the Closing (as hereinafter defined), a final printed form of the official statement dated the date hereof (including all information permitted to be omitted by Rule 15c2-12 and any amendments or supplements to such official statement as have been approved by the District and the Representative) (the “Official Statement”) at the request of the Representative in sufficient quantity (not to exceed 50) to enable the Underwriters to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The District hereby approves of the use and distribution by the Underwriters of the Official Statement in connection with the offer and sale of the Securities. At the time of or prior to the date of the Closing, the Underwriters shall file a copy of the Official Statement with the Municipal Securities Rulemaking Board. The District hereby authorizes the use by the Underwriters of the Resolution, the Indenture, the Installment Purchase Agreement, the Trust Agreement, the Escrow Agreements and the Continuing Disclosure Agreement in connection with the public offering and sale of the Securities.

The District further agrees to provide the Underwriters with the advance refunding documents (as defined in MSRB Rule G-32) in a word-searchable PDF format as described in the MSRB’s Rule G-32 and shall provide such electronic copy of the word-searchable PDF

format of the advance refunding documents to the Underwriters no later than four (4) business days after the Closing to enable the Underwriters to comply with MSRB Rule G-32.

6. The Closing. At 8:00 a.m., California time, on April \_\_, 2016 or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the District and the Representative, the District will cause to be delivered (i) the Securities in book-entry form through the facilities of The Depository Trust Company, New York, New York (“DTC”) (delivered through the Trustee via the F.A.S.T. delivery book-entry system of DTC), on behalf of the Underwriters, and (ii) the closing documents hereinafter mentioned at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”), San Francisco, California or another place to be mutually agreed upon by the District and the Representative. The Underwriters will accept such delivery of the Securities and pay the purchase price of such Securities as set forth in Section 1 hereof in immediately available funds to the order of the District. This payment for and delivery of the Securities, together with the execution and delivery of the aforementioned documents, is herein called the “Closing.”

7. District Representations, Warranties and Covenants. The District represents, warrants and covenants to the Underwriters that:

(a) Due Organization, Existence and Authority. The District is a special district duly organized and existing under the Constitution and laws of the State of California, with full right, power and authority to adopt the Resolution and to execute, deliver and perform its obligations under this Purchase Contract, the Indenture, the Installment Purchase Agreement, the Trust Agreement, the Escrow Agreements and the Continuing Disclosure Agreements (collectively, the “Financing Documents”), and to perform its obligations under each of the foregoing, and to carry out and consummate the transactions contemplated by the Financing Documents and the Official Statement.

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

(c) Preliminary Official Statement Accurate and Complete. The Preliminary Official Statement did not, except as revised by the Official Statement and any supplement or amendment prepared pursuant to paragraph (e) below, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements

were made, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system).

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

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

(f) Amended Official Statement. If the information contained in the Official Statement is amended or supplemented pursuant to paragraph (e) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date that is 25 days after the End of the Underwriting Period for the Securities, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system).

(g) No Material Change in Finances. Except as otherwise described in the Official Statement, there shall not have been any material adverse changes in the financial condition of the District since June 30, 2015.

(h) No Breach or Default. As of the time of acceptance hereof, (A) the District is not in default, nor has it been in default, as to principal or interest with respect



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

(i) No Litigation. As of the time of acceptance hereof, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of the District after due investigation, threatened (A) in any way questioning the corporate existence of the District or the titles of the officers of the District to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the adoption of the Resolution or the execution or delivery of the Securities, this Purchase Contract, or the Financing Documents, or in any way contesting or affecting the validity of the Securities or this Purchase Contract, the Resolution, the Financing Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Securities from gross income for federal income tax purposes or contesting the powers of the District to adopt the Resolution or to enter into this Purchase Contract or the Financing Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of the District or to its ability to pay the principal of and interest with respect to the Securities when due; or (D) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue

statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) of this sentence.

(j) Prior Liens on Net Water Utility System Revenues. The Series 2016A Bonds, when issued, authenticated and delivered in accordance with the Resolution and the Indenture, and the installment payments under the Installment Purchase Agreement (the “Installment Payments”) will be valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Resolution; and the Resolution will provide, for the benefit of the holders from time to time of the Securities and any Parity Obligations (as defined in the Resolution) heretofore or hereafter issued under the Resolution, a legally valid and binding interest in and to the funds pledged under the Resolution as described in the Official Statement; except as described in the Official Statement, upon the issuance of the Securities, the District does not and will not have outstanding any obligations which obligations are secured by a lien on the Net Water Utility System Revenues superior to or on a parity with the Series 2016A Bonds and the Installment Payments.

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

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

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

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

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

8. Closing Conditions. The Underwriters have entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the District of its obligations hereunder, both as of the date hereof and as of the date of the Closing. Accordingly, the Underwriters' obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Securities shall be conditioned, at the option of the Representative, upon the performance by the District of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing and also shall be subject to the following additional conditions:

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

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

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

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

default would materially adversely impact the ability of the District to pay the principal of and interest on the Securities.

(e) Termination Events. Between the date hereof and the date of the Closing, the market price or marketability, at the initial offering price set forth in the Official Statement, of the Securities shall not have been materially adversely affected in the judgment of the Representative (evidenced by a written notice to the District terminating the obligation of the Underwriters to accept delivery of and make any payment for the Securities) by reason of any of the following:

(i) any event occurring, or information becoming known that, in the judgment of the Representative, makes untrue in any material respect any statement or information contained in the Official Statement or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or

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

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

in the reasonable opinion of the Representative, materially adversely affects the market price of the Securities; or

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

(v) the imposition by the New York Stock Exchange or other national securities exchange or any governmental authority of any material restrictions not now in force with respect to the Securities or obligations of the general character of the Securities or securities generally or the material increase of any such restrictions now in force, including those relating to the extension of credit by or the charge to the net capital requirements of, the Underwriters; or

(vi) the declaration of a general banking moratorium by federal, New York or California authorities or the general suspension of trading on any national securities exchange, or a material disruption in securities settlement, payment or clearance services affecting the Securities shall have occurred; or

(vii) any new outbreak or escalation of hostilities, declaration by the United States of America of a national emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Representative, impracticable or inadvisable to proceed with the offering or delivery of the Securities; or

(viii) any rating of the securities of the District payable from or secured under the Resolution by revenues of the District's Water Utility System reflecting the creditworthiness of the District shall have been downgraded, suspended or withdrawn by a national rating service (excepting therefrom any downgrade, suspension or withdrawal of any rating on the Commercial Paper Certificates which results from the termination by the District of the Reimbursement Agreement, dated as of February 1, 2015 with The Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York Branch), which, in the Representative's reasonable opinion, materially adversely affects the marketability or market price of the Securities; or

(ix) the commencement of any action, suit or proceeding described in Section 7(i) hereof which, in the reasonable judgment of the Representative, materially adversely affects the market price of the Securities; or

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

(f) Closing Documents. At or prior to the Closing, the Underwriters shall receive with respect to the Securities the following documents, in each case satisfactory in form and substance to the Representative:

(i) Bond Opinion. Approving opinions of Bond Counsel and Special Counsel dated the date of the Closing and substantially in the forms included as Appendices E and F to the Official Statement, together with letters from such counsel, dated the date of the Closing and addressed to the Representative, to the effect that the foregoing opinions addressed to the District may be relied upon by the Underwriters to the same extent as if such opinions were addressed to it.

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

(A) This Purchase Contract has been duly authorized, executed and delivered by the District and is a valid and binding agreement of the District enforceable in accordance with its terms, except that the rights and obligations under this Purchase Contract 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; and

(B) The statements contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "THE REFUNDING PLAN," "THE 2016 BONDS," "THE CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," and "TAX MATTERS — TAX EXEMPT OBLIGATIONS" and in Appendices B, C, E and F thereto, insofar as such statements purport to summarize certain provisions of the Securities, the Resolution, the Financing Documents and Bond Counsel's and Special Counsel's opinions concerning certain federal and State of California tax matters relating to the Securities, are accurate in all material respects as of the date of the Official Statement and as of the date of Closing.

(iii) [Disclosure Counsel Opinion.]

(iv) Defeasance Opinion. An opinion of Bond Counsel, dated the date of the Closing and addressed to the District, the Representative and U.S. Bank National Association, as trustee (the “Trustee”), in form and substance acceptable to the Representative substantially to the effect that upon the issuance of the Series 2016A Bonds and the application of the proceeds thereof in accordance with the Indenture and the Escrow Agreements, the Commercial Paper Certificates, the Series 2006A Bonds and a portion of the Series 2007A Certificates (collectively, the “Refunded Obligations”) will be deemed to have been paid within the meaning of the documents pursuant to which such Commercial Paper Certificates and Refunded Obligations were issued.

(v) District Counsel Opinion. An opinion of District Counsel, dated the date of the Closing and addressed to the Representative, in form and substance acceptable to the Representative substantially to the following effect:

(A) The District is a special district duly organized and validly existing under the constitution and the laws of the State of California;

(B) The Resolution has been duly adopted at meetings of the board of directors of the District, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and are in full force and effect;

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

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

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

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

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

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

(I) Based on the information made available to him, and without having undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements



contained in the Official Statement (except as set forth in paragraph (F) above), nothing has come to such counsel's attention which would lead him to believe that the Official Statement as of its date and as of the date of Closing (excluding therefrom the financial and statistical data and forecasts included therein, and the information relating to DTC or DTC's book-entry system, as to which no opinion is expressed) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(vi) Corporation Counsel Opinion. An opinion of District Counsel, serving as counsel to the Corporation, dated the Closing Date and addressed to the Underwriters, in form and substance acceptable to the Representative substantially to the following effect:

(A) The Corporation is a nonprofit public benefit corporation, duly created and lawfully existing under the laws and Constitution of the State;

(B) The Trust Agreement, the Installment Purchase Agreement and the Assignment Agreement (collectively, the "Corporation Documents") have been authorized by all necessary corporate action on the part of the Corporation, have been duly executed and delivered by the Corporation and, assuming due authorization, execution and delivery by the other parties thereto, the Corporation Documents constitute legally valid and binding obligations of the Corporation, enforceable against the Corporation in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or equitable principles relating to or limiting creditors' rights generally or by the exercise of judicial discretion in appropriate cases or by limitations or legal remedies against public agencies in the State, and expressing no opinion as to the availability of equitable remedies;

(C) To the best of such counsel's knowledge after due inquiry, execution and delivery or acknowledgment of the Corporation Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not conflict with any existing law, regulation, court order or consent decree to which the Corporation is subject or constitute on the part of the Corporation a breach of or default under any agreement or other instrument to which the Corporation is a party or by which it is bound; and

(D) The statements contained in the Official Statement under the caption "THE CORPORATION" are accurate as of the date of the Official Statement and as of the Closing Date.

(vii) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Representative, to the effect that:

(A) The Trustee is a national banking association, duly organized and validly existing under the laws of the United States of America, having full corporate powers to undertake the trust created under the Indenture and the Trust Agreement;

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

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

(D) The Trustee has duly authenticated the Series 2016A Bonds and executed and delivered the Series 2016C Certificates upon the order of the District;

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

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

(viii) Escrow Agent Counsel Opinion. The opinion of counsel to the Escrow Agent, dated the date of the Closing, addressed to the Representative, to the effect that:

(A) The Escrow Agent is a national banking association, duly organized and validly existing under the laws of the United States of America, having full corporate power to enter into and perform its obligations under the Escrow Agreements;

(B) The Escrow Agreements have been duly authorized, executed and delivered by the Escrow Agent and, assuming due authorization, execution and delivery by the District, the Escrow Agreements constitute the valid and binding obligations of the Escrow Agent enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought; and

(C) The Escrow Agent's actions in executing and delivering the Escrow Agreements is in full compliance with, and does not conflict with any applicable law or governmental regulation and, to the best of such counsel's knowledge, after reasonable inquiry with respect thereto, does not conflict with or violate any contract to which the Escrow Agent is a party or any administrative or judicial decision by which the Escrow Agent is bound.

(ix) Underwriters' Counsel Opinion. An opinion of Nixon Peabody LLP, Underwriters' Counsel, dated the date of the Closing and addressed to the Representative, to the effect that:

(A) The Securities are not subject to the registration requirements of the Securities Act of 1933, as amended, the Securities are municipal securities within the meaning of the Securities Exchange Act of 1934, as amended, and the Resolution, the Indenture and the Trust Agreement are exempt from qualification under the Trust Indenture Act of 1939, as amended;

(B) The Continuing Disclosure Agreements satisfy the Underwriters' obligations under Rule 15c2-12(b)(5); and

(C) Because the primary purpose of their professional engagement was not to establish factual matters and because of the wholly or partially non-legal character of many determinations involved in the preparation of the Official Statement, such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and makes no representation that they have independently verified the accuracy, completeness or fairness of any such statements; however, in their capacity as counsel to the Underwriters during the course of the preparation of the Official Statement, they participated in conferences with representatives of the District, District Counsel, Stradling Yocca Carlson

& Rauth, a Professional Corporation, as bond counsel and special counsel, Public Resources Advisory Group, as financial advisor to the District, and the Underwriters, during which the contents of the Official Statement and related matters were discussed and based on their participation in such conferences, and in reliance thereon and on the certificates, opinions and other documents they have reviewed, no information has come to the attention of the lawyers of such firm rendering professional legal services in connection with the Securities that has caused them to believe that the Official Statement as of its date and as of the date of the Closing (except for any financial statements or other financial information or statistical data or forecasts and the information concerning DTC and the book-entry system included therein, and the Appendices thereto, as to which they express no opinion or view) contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(x) District Certificate. A certificate of the District, dated the date of the Closing, signed on behalf of the District by an “Authorized Officer” of the District as defined in the Resolution, to the effect that:

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

(B) No event affecting the District has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect; and

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

(xi) Corporation Certificate. A certificate of the Corporation, dated the Closing Date, signed on behalf of the Corporation by a duly authorized officer of the Corporation to the effect that:

(A) The Corporation has complied with all of the terms and conditions of this Purchase Contract required to be complied with by the Corporation at or prior to the Closing Date;

(B) No event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an event of default under the Installment Purchase Agreement, the Assignment Agreement or the Trust Agreement (collectively, the “Corporation Documents”);

(C) The Corporation is a nonprofit public benefit corporation duly organized and existing under the Constitution and laws of the State, with full right, power and authority to execute, deliver and perform its obligations under the Corporation Documents and to carry out and consummate the transactions contemplated by the Corporation Documents and the Official Statement;

(D) By all necessary official action of the Corporation, the Corporation has duly authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations contained or described in the Corporation Documents and as of the Closing Date, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered, each Corporation Document will constitute the legally valid and binding obligation of the Corporation enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws or equitable principles relating to or affecting creditors’ rights generally or by the exercise of judicial discretion in appropriate cases or by limitations on legal remedies against public agencies in the State;

(E) The Corporation is not, in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, a default or event of default under any such instruments; and, as of such time, the authorization, execution and delivery of the Corporation Documents and compliance with the provisions of each of such agreements or instruments do not in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other

instrument to which the Corporation (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Corporation Documents;

(F) As of the time of acceptance hereof no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of the Corporation after due investigation, threatened (A) in any way questioning the corporate existence of the Corporation or the titles of the officers of the Corporation to their respective offices or (B) affecting, contesting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Series 2016C Certificates, or in any way contesting or affecting the validity of the Series 2016C Certificates or the Corporation Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest component of Installment Payments from gross income for federal income tax purposes or contesting the powers of the Corporation to enter into the Corporation Documents;

(G) The Corporation will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request in order (A) to qualify the Series 2016C Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate and (B) to determine the eligibility of the Series 2016C Certificates for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Series 2016C Certificates; provided, however, that the Corporation shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction;

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

securities laws of any state in connection with the offering and sale of the Series 2016C Certificates; and

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

(xii) Trustee's Certificate. A certificate, dated the date of Closing, signed by a duly authorized official of the Trustee satisfactory in form and substance to the Representative, to the effect that:

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

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

(C) The Trustee has duly authenticated the Series 2016A Bonds and executed and delivered the Series 2016C Certificates and delivered the Securities to or upon the order of the Underwriters; and

(D) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the authentication and delivery of the Series 2016A Bonds or the execution and delivery of the Series 2016C Certificates or the consummation by the Trustee of its obligations under the Resolution, the Indenture, the Trust Agreement or the Continuing Disclosure Agreements.

(xiii) Escrow Agent's Certificate. A certificate, dated the date of Closing, signed by a duly authorized official of the Escrow Agent satisfactory in form and substance to the Representative, to the effect that:

(A) The Escrow Agent is duly organized and existing as a national banking association under the laws of the United States of America, having the full corporate power and authority to enter into and perform its duties under the Escrow Agreements; and

(B) The Escrow Agent is duly authorized to enter into the Escrow Agreements and has duly executed and delivered the Escrow Agreements, and assuming due authorization and execution by the District, the Escrow Agreements are legal, valid and binding upon the Escrow Agent, and enforceable against the Escrow Agent in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(xiv) Verification Reports. A copy of the Verification Reports prepared by \_\_\_\_\_.

(xv) Transcript. A transcript of all proceedings relating to the authorization, execution, sale and delivery of the Securities.

(xvi) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the District by duly authorized officers of the District.

(xvii) Financing Documents. A certified copy of the Resolution and original executed copy of each of this Purchase Contract and the Financing Documents.

(xviii) District Resolution. Certified copies of the resolution of the District approving the execution and delivery of the Financing Documents and the Certificates and the issuance of the Bonds, certified by the District Clerk.

(xix) Corporation Resolution. Certified copies of the resolution of the Corporation approving the execution and delivery of the Corporation Documents and the Certificates, certified by the Secretary or Assistant Secretary of the Corporation.

(xx) 15c2-12 Certificate of the District. A certificate executed by an Authorized Officer of the District "deeming final" the Preliminary Official Statement for purposes of Rule 15c2-12.

(xxi) Trustee Resolution. Two certified copies of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers and employees of the Trustee, which resolution authorizes the execution and delivery of the Continuing Disclosure Agreements.

(xxii) Escrow Agent Resolution. Two certified copies of the general resolution of the Escrow Agent authorizing the execution and delivery of certain documents by certain officers and employees of the Escrow Agent, which resolution authorizes the execution and delivery of the Escrow Agreements.



(xxiii) 8038-G. Evidence that the federal tax information form 8038-G relating to the Series 2016A Bonds and the Series 2016C Certificates has been prepared for filing.

(xxiv) Tax Certificate. A tax certificate relating to the Series 2016A Bonds and the Series 2016C Certificates in form satisfactory to Bond Counsel.

(xxv) Blue Sky. A copy of any Preliminary Blue Sky Memorandum with respect to the Securities, prepared by Underwriters' Counsel.

(xxvi) CDIAC Statements. A copy of the Notices of Sale required to be delivered to the California Debt Investment and Advisory Commission pursuant to Sections 8855(g) and 53583 of the California Government Code.

(xxvii) Continuing Disclosure Agreement. An executed copy of each of the Continuing Disclosure Agreements.

(xxviii) Ratings. Evidence from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings, Inc. that the Securities have received unsecured ratings of "[\_]," "[\_]" and "[\_]," respectively.

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

If the District or the Corporation shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriters nor the District shall be under further obligation hereunder, except as further set forth in Section 9 hereof.

9. Expenses. The Underwriters shall be under no obligation to pay and the District shall pay or cause to be paid the expenses incident to the performance of the obligations of the District hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Resolution and the Financing Documents and the cost of preparing, printing, issuing and delivering the Securities; (b) the fees and disbursements of any counsel, financial advisors, accountants or other experts or consultants retained by the District; (c) the fees and disbursements of Bond Counsel and District Counsel; (d) the fees and disbursements of the rating agencies; (e) the fees of the Trustee; (f) the cost of printing and distributing the Preliminary Official Statement and any supplements and amendments thereto and the cost of printing and distributing the Official Statement and any

supplements and amendments thereto, including a reasonable number of copies thereof for distribution by the Underwriters; and (g) expenses (included in the expense component of the Underwriters' spread) incurred on behalf of the District's officers or employees which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees.

The Underwriters shall pay and the District shall be under no obligation to pay all expenses incurred by it in connection with the public offering and distribution of the Securities, including any advertising expenses, fees, if any, payable to the California Debt Investment and Advisory Commission in connection with the issuance of the Securities, fees associated with obtaining CUSIP numbers for the Securities, and the Underwriters shall pay any costs and expenses incurred in connection with the preparation and distribution of any blue sky or any legal investment memoranda and the costs and fees of counsel to the Underwriters.

10. Notice. Any notice or other communication to be given to the District under this Purchase Contract may be given by delivering the same in writing to Santa Clara Valley Water District, 5750 Almaden Expressway, San Jose, California 95814-3686, Attention: Chief Executive Officer/General Manager.

Any notice or other communication to be given to the Representative or the Underwriters under this Purchase Contract may be given by delivering the same in writing to Wells Fargo Bank, National Association, 333 South Grand Avenue, 5<sup>th</sup> Floor, Los Angeles, California 90071, Attention: Michael Engelbrecht.

11. Entire Agreement. This Purchase Contract, when accepted by the District, shall constitute the entire agreement between the District and the Underwriters and is made solely for the benefit of the District and the Underwriters (including the successors of the Underwriters). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. The District acknowledges and agrees that (i) the purchase and sale of the Securities pursuant to this Agreement is an arm's-length, commercial transaction between the District and the Underwriters in which each Underwriter is acting solely as a principal and is not acting as a municipal advisor (within the meaning of Section 15B of the Exchange Act), financial advisor or fiduciary to the District, (ii) the Underwriters have not assumed (individually or collectively) any advisory or fiduciary responsibility to the District with respect to this Agreement, the offering of the Securities and the discussions, undertakings and procedures leading thereto (irrespective of whether any Underwriter, or any affiliate of an Underwriter, has provided other services or is currently providing other services to the District on other matters), (iii) the only obligations the Underwriters have to the District with respect to the transactions contemplated hereby are set forth in this Agreement, (iv) the Underwriters have financial and other interests that differ from those of the District and (v) the District has consulted with its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate.

12. Benefit. This Purchase Contract is made solely for the benefit of the District and the Underwriters (including the successors thereof) and no other person, partnership or association, shall acquire or have any right hereunder or by virtue hereof. All representations and agreements by the District in this Purchase Contract shall remain operative and in full force

and effect except as otherwise provided herein, regardless of any investigations made by or on behalf of the Underwriters and shall survive the issuance of and payment of the Securities.

13. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

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

15. State Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State of California.

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16. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriters or the District without the prior written consent of the other party hereto.

Very truly yours,

WELLS FARGO BANK, NATIONAL  
ASSOCIATION  
BARCLAYS CAPITAL INC.  
FIDELITY CAPITAL MARKETS  
SIEBERT BRANDFORD SHANK & CO., LLC  
STIFEL NICOLAUS & COMPANY, INC.

By: WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Representative of the  
Underwriters

By: \_\_\_\_\_  
Authorized Officer

Accepted as of the date  
first stated above:

SANTA CLARA VALLEY WATER DISTRICT

By: \_\_\_\_\_  
Authorized Officer

By: \_\_\_\_\_  
Clerk of the Board of Directors

**EXHIBIT A**

**MATURITY SCHEDULE**

\$ \_\_\_\_\_  
Santa Clara Valley Water District  
Water Utility System Refunding Revenue Bonds  
Series 2016A

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

\$ \_\_\_\_\_  
Santa Clara Valley Water District  
Revenue Certificates of Participation  
(Water Utility System Improvement Projects)  
Series 2016C

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

\_\_\_\_\_  
(1) Priced to par call on \_\_\_\_\_.

**PURCHASE CONTRACT**

\$ \_\_\_\_\_  
**SANTA CLARA VALLEY WATER DISTRICT  
WATER UTILITY SYSTEM REFUNDING REVENUE BONDS  
TAXABLE SERIES 2016B**

\$ \_\_\_\_\_  
**SANTA CLARA VALLEY WATER DISTRICT  
REVENUE CERTIFICATES OF PARTICIPATION  
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS)  
TAXABLE SERIES 2016D**

March \_\_, 2016

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

Ladies and Gentlemen:

The undersigned, J.P. Morgan Securities LLC, as representative (the “Representative”) of itself, Citigroup Global Markets Inc., Goldman, Sachs & Co. and Morgan Stanley & Co., as underwriters (the “Underwriters”), offer to enter into this Purchase Contract (the “Purchase Contract”) with the Santa Clara Valley Water District (the “District”), which will be binding upon the District and the Underwriters upon the acceptance hereof by the District. This offer is made subject to its acceptance by the District by execution of this Purchase Contract and its delivery to the Representative on or before 8:00 p.m., California time, on the date hereof. All terms used herein and not otherwise defined shall have the meanings given to such terms in the Official Statement (as hereinafter defined). The Representative has been duly authorized to execute this Purchase Contract and to take any action hereunder by and on behalf of the Underwriters.

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriters hereby agree to purchase, and the District hereby agrees to cause to be delivered to the Underwriters, all (but not less than all) of the District’s \$\_\_\_\_\_ aggregate principal amount of Water Utility System Refunding Revenue Bonds, Taxable Series 2016B (the “Series 2016B Bonds”) and \$\_\_\_\_\_ Revenue Certificates of Participation (Water Utility System Improvement Projects) Taxable Series 2016D (the “Series 2016D Certificates” and together with the Series 2016B Bonds, the “Securities”). The purchase price for the Series 2016B Bonds shall be \$\_\_\_\_\_ (representing the \$\_\_\_\_\_ par amount of the Series 2016B Bonds [plus] [minus] \$\_\_\_\_\_ of net original issue [premium] [discount] and less \$\_\_\_\_\_ Underwriters’ discount). The purchase price for the Series 2016D Certificates

shall be \$\_\_\_\_\_ (representing \$\_\_\_\_\_ par amount of the Series 2016D Certificates [plus] [minus] \$\_\_\_\_\_ of net original issue [premium] [discount] and less \$\_\_\_\_\_ Underwriters' discount).

2. Description and Purpose of the Series 2016B Bonds. The Series 2016B Bonds shall be issued pursuant to Resolution No. \_\_\_\_ (Water Utility Parity System Master Resolution) adopted by the Board of Directors of the District on February \_\_, 2016 (the "Resolution"), and an Indenture of Trust, dated as of February 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Bond Trustee"), providing for the issuance of the Series 2016B Bonds.

The Series 2016B Bonds shall be dated the date of delivery thereof and shall mature on the dates and in the amounts and shall bear interest at the rates shown on Exhibit A hereto. The Series 2016B Bonds shall be secured under, and shall be as described in, and shall be payable and subject to redemption prior to maturity as provided in, the Resolution and the Indenture.

The Series 2016B Bonds are being issued to provide a portion of the money to (i) refund all of the currently outstanding Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2006A (the "2006A Bonds"); (ii) refund a portion of the currently outstanding Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2007A (the "2007A Certificates"); (iii) pay all or a portion of the outstanding amount of the Santa Clara Valley Water District Commercial Paper Certificates, Series A (Tax-Exempt) (the "Tax-Exempt Commercial Paper Certificates"); and (iv) pay costs of issuance of the Series 2016B Bonds.

Pursuant to the Indenture, the District will deliver a portion of the proceeds of the Series 2016B Bonds to U.S. Bank National Association, as escrow agent (the "Escrow Agent") under the Escrow Agreement (2006A) dated as of February 1, 2016 (the "2006A Escrow Agreement"), by and between the District and the Escrow Agent for deposit in an escrow fund established thereunder.

Pursuant to the Indenture, the District will deliver a portion of the proceeds of the Series 2016B Bonds to the Escrow Agent for deposit in an escrow fund (the "2007A Escrow Fund") established under the Escrow Agreement (2007A) dated as of February 1, 2016 (the "2007A Escrow Agreement"), by and between the District and the Escrow Agent.

3. Description and Purpose of the Series 2016D Certificates. The Series 2016D Certificates shall be executed and delivered pursuant to a Trust Agreement, dated as of February 1, 2016 (the "Trust Agreement"), by and among the District, the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Certificates Trustee"). The Series 2016D Certificates shall mature in the amounts and on the dates and represent interest at the rates set forth in Appendix A hereto. Other terms of the Series 2016D Certificates shall be as described in the Trust Agreement. The Series 2016D Certificates evidence and represent the proportionate undivided interests of the registered owners thereof (the "Owners") in certain installment payments (the "Installment Payments") to be made by the District pursuant to an Installment Purchase

Agreement, dated as of February 1, 2016 (the “Installment Purchase Agreement”), by and between the District and the Corporation.

The proceeds of the Series 2016D Certificates will be used to (a) to finance the cost of certain water utility system improvements, (b) to reimburse the District for costs previously expended on certain water utility system improvements, and (c) to pay the costs of executing and delivering the Series 2016D Certificates.

The District will undertake, pursuant to Continuing Disclosure Agreements (the “Continuing Disclosure Agreements”), dated the Closing Date, by and between the District and U.S. Bank National Association, as dissemination agent, to provide annual reports and notices of certain events in accordance with the requirements of Rule 15c2-12. The form of the Continuing Disclosure Agreement covering the 2016B Bonds is set forth as Appendices G to the Official Statement and the form of the Continuing Disclosure Agreement covering the 2016D Certificates is set forth as Appendices H to the Official Statement.

4. Public Offering. The Underwriters agree to make an initial public offering of all the Securities at the public offering prices (or yields) set forth on Exhibit A hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriters reserve the right to change the public offering prices (or yields) as they deem necessary in connection with the marketing of the Securities, provided that the Underwriters shall not change the interest rates set forth on Exhibit A. The Securities may be offered and sold to certain dealers at prices lower than such initial public offering prices.

5. Delivery of Official Statement and Other Materials. The District has previously authorized the use by the Underwriters prior to the date hereof of the Preliminary Official Statement of the District dated March \_\_\_, 2016 relating to the Securities (which, together with all appendices thereto, is referred to herein as the “Preliminary Official Statement”). The District has deemed final the Preliminary Official Statement as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (“Rule 15c2-12”), except for information permitted to be omitted therefrom by Rule 15c2-12. The District will deliver, within seven business days from the date hereof and in any event not less than two days prior to the date of the Closing (as hereinafter defined), a final printed form of the official statement dated the date hereof (including all information permitted to be omitted by Rule 15c2-12 and any amendments or supplements to such official statement as have been approved by the District and the Representative) (the “Official Statement”) at the request of the Representative in sufficient quantity (not to exceed 50) to enable the Underwriters to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The District hereby approves of the use and distribution by the Underwriters of the Official Statement in connection with the offer and sale of the Securities. At the time of or prior to the date of the Closing, the Underwriters shall file a copy of the Official Statement with the Municipal Securities Rulemaking Board. The District hereby authorizes the use by the Underwriters of the Resolution, the Indenture, the Installment Purchase Agreement, the Trust Agreement, the Escrow Agreements and the Continuing Disclosure Agreement in connection with the public offering and sale of the Securities.



The District further agrees to provide the Underwriters with the advance refunding documents (as defined in MSRB Rule G-32) in a word-searchable PDF format as described in the MSRB's Rule G-32 and shall provide such electronic copy of the word-searchable PDF format of the advance refunding documents to the Underwriters no later than four (4) business days after the Closing to enable the Underwriters to comply with MSRB Rule G-32.

6. The Closing. At 8:00 a.m., California time, on April \_\_, 2016 or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the District and the Representative, the District will cause to be delivered (i) the Securities in book-entry form through the facilities of The Depository Trust Company, New York, New York ("DTC") (delivered through the Trustee via the F.A.S.T. delivery book-entry system of DTC), on behalf of the Underwriters, and (ii) the closing documents hereinafter mentioned at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel"), San Francisco, California or another place to be mutually agreed upon by the District and the Representative. The Underwriters will accept such delivery of the Securities and pay the purchase price of such Securities as set forth in Section 1 hereof in immediately available funds to the order of the District. This payment for and delivery of the Securities, together with the execution and delivery of the aforementioned documents, is herein called the "Closing."

7. District Representations, Warranties and Covenants. The District represents, warrants and covenants to the Underwriters that:

(a) Due Organization, Existence and Authority. The District is a special district duly organized and existing under the Constitution and laws of the State of California, with full right, power and authority to adopt the Resolution and to execute, deliver and perform its obligations under this Purchase Contract, the Indenture, the Installment Purchase Agreement, the Trust Agreement, the Escrow Agreements and the Continuing Disclosure Agreements (collectively, the "Financing Documents"), and to perform its obligations under each of the foregoing, and to carry out and consummate the transactions contemplated by the Financing Documents and the Official Statement.

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

(c) Preliminary Official Statement Accurate and Complete. The Preliminary Official Statement did not, except as revised by the Official Statement and any

supplement or amendment prepared pursuant to paragraph (e) below, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system).

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

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

(f) Amended Official Statement. If the information contained in the Official Statement is amended or supplemented pursuant to paragraph (e) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date that is 25 days after the End of the Underwriting Period for the Securities, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system).

(g) No Material Change in Finances. Except as otherwise described in the Official Statement, there shall not have been any material adverse changes in the financial condition of the District since June 30, 2015.

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

(i) No Litigation. As of the time of acceptance hereof, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of the District after due investigation, threatened (A) in any way questioning the corporate existence of the District or the titles of the officers of the District to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the adoption of the Resolution or the execution or delivery of the Securities, this Purchase Contract, or the Financing Documents, or in any way contesting or affecting the validity of the Securities or this Purchase Contract, the Resolution, the Financing Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Securities from gross income for federal income tax purposes or contesting the powers of the District to adopt the Resolution or to enter into this Purchase Contract or the Financing Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of the District or to its ability to pay the principal of and interest with respect to the Securities when due; or (D) contesting the completeness or accuracy of the Preliminary Official

Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) of this sentence.

(j) Prior Liens on Net Water Utility System Revenues. The Series 2016B Bonds, when issued, authenticated and delivered in accordance with the Resolution and the Indenture, and the installment payments under the Installment Purchase Agreement (the “Installment Payments”) will be valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Resolution; and the Resolution will provide, for the benefit of the holders from time to time of the Securities and any Parity Obligations (as defined in the Resolution) heretofore or hereafter issued under the Resolution, a legally valid and binding interest in and to the funds pledged under the Resolution as described in the Official Statement; except as described in the Official Statement, upon the issuance of the Securities, the District does not and will not have outstanding any obligations which obligations are secured by a lien on the Net Water Utility System Revenues superior to or on a parity with the Series 2016B Bonds and the Installment Payments.

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

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

(m) No Other Obligations. Except as disclosed in the Official Statement, between the date of this Purchase Contract and the date of Closing, the District will not, without the prior written consent of the Underwriters, offer or issue any bonds, notes or

other obligations for borrowed money, or incur any material liabilities, directly or contingently payable from the Net Water Utility System Revenues.

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

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

8. Closing Conditions. The Underwriters have entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the District of its obligations hereunder, both as of the date hereof and as of the date of the Closing. Accordingly, the Underwriters' obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Securities shall be conditioned, at the option of the Representative, upon the performance by the District of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing and also shall be subject to the following additional conditions:

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

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

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

(d) No Default. At the time of the Closing, no default, or any event that with the passage of time would be reasonably likely to result in default, shall have occurred or be existing under the Resolution, or any other agreement or document pursuant to which

any of the District's financial obligations was issued, and the District shall not be in default in the payment of principal or interest on any of its financial obligations which default would materially adversely impact the ability of the District to pay the principal of and interest on the Securities.

(e) Termination Events. Between the date hereof and the date of the Closing, the market price or marketability, at the initial offering price set forth in the Official Statement, of the Securities shall not have been materially adversely affected in the judgment of the Representative (evidenced by a written notice to the District terminating the obligation of the Underwriters to accept delivery of and make any payment for the Securities) by reason of any of the following:

(i) any event occurring, or information becoming known that, in the judgment of the Representative, makes untrue in any material respect any statement or information contained in the Official Statement or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or

(ii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State of California, or a decision by any court of competent jurisdiction within the State of California or any court of the United States of America shall be rendered which, in the reasonable opinion of the Representative, materially adversely affects the market price of the Securities; or

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

(iv) the imposition by the New York Stock Exchange or other national securities exchange or any governmental authority of any material restrictions not now in force with respect to the Securities or obligations of the general character of the Securities or securities generally or the material increase of any such

restrictions now in force, including those relating to the extension of credit by or the charge to the net capital requirements of, the Underwriters; or

(v) the declaration of a general banking moratorium by federal, New York or California authorities or the general suspension of trading on any national securities exchange, or a material disruption in securities settlement, payment or clearance services affecting the Securities shall have occurred; or

(vi) any new outbreak or escalation of hostilities, declaration by the United States of America of a national emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Representative, impracticable or inadvisable to proceed with the offering or delivery of the Securities; or

(vii) any rating of the securities of the District payable from or secured under the Resolution by revenues of the District's Water Utility System reflecting the creditworthiness of the District shall have been downgraded, suspended or withdrawn by a national rating service (excepting therefrom any downgrade, suspension or withdrawal of any rating on the Commercial Paper Certificates which results from the termination by the District of the Reimbursement Agreement, dated as of February 1, 2015 with The Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York Branch), which, in the Representative's reasonable opinion, materially adversely affects the marketability or market price of the Securities; or

(viii) the commencement of any action, suit or proceeding described in Section 7(i) hereof which, in the reasonable judgment of the Representative, materially adversely affects the market price of the Securities; or

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

(f) Closing Documents. At or prior to the Closing, the Underwriters shall receive with respect to the Securities the following documents, in each case satisfactory in form and substance to the Representative:

(i) Bond Opinion. Approving opinions of Bond Counsel and Special Counsel dated the date of the Closing and substantially in the forms included as Appendices E and F to the Official Statement, together with letters from such counsel, dated the date of the Closing and addressed to the Representative, to the effect that the foregoing opinions addressed to the District may be relied upon by the Underwriters to the same extent as if such opinions were addressed to it.

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

(A) This Purchase Contract has been duly authorized, executed and delivered by the District and is a valid and binding agreement of the District enforceable in accordance with its terms, except that the rights and obligations under this Purchase Contract 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; and

(B) The statements contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "THE REFUNDING PLAN," "THE 2016 BONDS," "THE CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," and "TAX MATTERS — TAXABLE OBLIGATIONS" and in Appendices B, C, E and F thereto, insofar as such statements purport to summarize certain provisions of the Securities, the Resolution, the Financing Documents and Bond Counsel's and Special Counsel's opinions concerning certain federal and State of California tax matters relating to the Securities, are accurate in all material respects as of the date of the Official Statement and as of the date of Closing.

(iii) [Disclosure Counsel Opinion.]

(iv) Defeasance Opinion. An opinion of Bond Counsel, dated the date of the Closing and addressed to the District, the Representative and U.S. Bank National Association, as trustee (the "Trustee"), in form and substance acceptable to the Representative substantially to the effect that upon the issuance of the Series 2016B Bonds and the application of the proceeds thereof in accordance with the Indenture and the Escrow Agreements, the Commercial Paper Certificates, the Series 2006A Bonds and a portion of the Series 2007A Certificates (collectively, the "Refunded Obligations") will be deemed to have been paid within the meaning of the documents pursuant to which such Commercial Paper Certificates and Refunded Obligations were issued.

(v) District Counsel Opinion. An opinion of District Counsel, dated the date of the Closing and addressed to the Representative, in form and substance acceptable to the Representative substantially to the following effect:

(A) The District is a special district duly organized and validly existing under the constitution and the laws of the State of California;

(B) The Resolution has been duly adopted at meetings of the board of directors of the District, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and are in full force and effect;



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

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

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

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

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

(H) Except as described in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to such counsel's best knowledge after due investigation, threatened (A) in any way questioning the corporate existence of the District or the titles of the officers of the District to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the adoption of the Resolution or the execution or delivery of the Securities, this Purchase

Contract or the Financing Documents or in any way contesting or affecting the validity of the Securities or this Purchase Contract, the Resolution, or the Financing Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Securities from gross income for federal income tax purposes or contesting the powers of the District to adopt the Resolution or to enter into this Purchase Contract or the Financing Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of the District or to its ability to pay the principal of and interest on the Securities when due; or (D) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) above; and

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

(vi) Corporation Counsel Opinion. An opinion of District Counsel, serving as counsel to the Corporation, dated the Closing Date and addressed to the Underwriters, in form and substance acceptable to the Representative substantially to the following effect:

(A) The Corporation is a nonprofit public benefit corporation, duly created and lawfully existing under the laws and Constitution of the State;

(B) The Trust Agreement, the Installment Purchase Agreement and the Assignment Agreement (collectively, the "Corporation Documents") have been authorized by all necessary corporate action on the part of the Corporation, have been duly executed and delivered by the Corporation and, assuming due authorization, execution and delivery by

the other parties thereto, the Corporation Documents constitute legally valid and binding obligations of the Corporation, enforceable against the Corporation in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or equitable principles relating to or limiting creditors' rights generally or by the exercise of judicial discretion in appropriate cases or by limitations or legal remedies against public agencies in the State, and expressing no opinion as to the availability of equitable remedies;

(C) To the best of such counsel's knowledge after due inquiry, execution and delivery or acknowledgment of the Corporation Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not conflict with any existing law, regulation, court order or consent decree to which the Corporation is subject or constitute on the part of the Corporation a breach of or default under any agreement or other instrument to which the Corporation is a party or by which it is bound; and

(D) The statements contained in the Official Statement under the caption "THE CORPORATION" are accurate as of the date of the Official Statement and as of the Closing Date.

(vii) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Representative, to the effect that:

(A) The Trustee is a national banking association, duly organized and validly existing under the laws of the United States of America, having full corporate powers to undertake the trust created under the Indenture and the Trust Agreement;

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

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

(D) The Trustee has duly authenticated the Series 2016B Bonds and executed and delivered the Series 2016D Certificates upon the order of the District;

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

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

(viii) Escrow Agent Counsel Opinion. The opinion of counsel to the Escrow Agent, dated the date of the Closing, addressed to the Representative, to the effect that:

(A) The Escrow Agent is a national banking association, duly organized and validly existing under the laws of the United States of America, having full corporate power to enter into and perform its obligations under the Escrow Agreements;

(B) The Escrow Agreements have been duly authorized, executed and delivered by the Escrow Agent and, assuming due authorization, execution and delivery by the District, the Escrow Agreements constitute the valid and binding obligations of the Escrow Agent enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought; and

(C) The Escrow Agent's actions in executing and delivering the Escrow Agreements is in full compliance with, and does not conflict with any applicable law or governmental regulation and, to the best of such counsel's knowledge, after reasonable inquiry with respect thereto, does not conflict with or violate any contract to which the Escrow Agent is a party or any administrative or judicial decision by which the Escrow Agent is bound.

(ix) Underwriters' Counsel Opinion. An opinion of Nixon Peabody LLP, Underwriters' Counsel, dated the date of the Closing and addressed to the Representative, to the effect that:

(A) The Securities are not subject to the registration requirements of the Securities Act of 1933, as amended, the Securities are municipal securities within the meaning of the Securities Exchange Act of 1934, as amended, and the Resolution, the Indenture and the Trust Agreement are exempt from qualification under the Trust Indenture Act of 1939, as amended;

(B) The Continuing Disclosure Agreements satisfy the Underwriters' obligations under Rule 15c2-12(b)(5); and

(C) Because the primary purpose of their professional engagement was not to establish factual matters and because of the wholly or partially non-legal character of many determinations involved in the preparation of the Official Statement, such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and makes no representation that they have independently verified the accuracy, completeness or fairness of any such statements; however, in their capacity as counsel to the Underwriters during the course of the preparation of the Official Statement, they participated in conferences with representatives of the District, District Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, as bond counsel and special counsel, Public Resources Advisory Group, as financial advisor to the District, and the Underwriters, during which the contents of the Official Statement and related matters were discussed and based on their participation in such conferences, and in reliance thereon and on the certificates, opinions and other documents they have reviewed, no information has come to the attention of the lawyers of such firm rendering professional legal services in connection with the Securities that has caused them to believe that the Official Statement as of its date and as of the date of the Closing (except for any financial statements or other financial information or statistical data or forecasts and the information concerning DTC and the book-entry system included therein, and the Appendices thereto, as to which they express no opinion or view) contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(x) District Certificate. A certificate of the District, dated the date of the Closing, signed on behalf of the District by an "Authorized Officer" of the District as defined in the Resolution, to the effect that:

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

(B) No event affecting the District has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect; and

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

(xi) Corporation Certificate. A certificate of the Corporation, dated the Closing Date, signed on behalf of the Corporation by a duly authorized officer of the Corporation to the effect that:

(A) The Corporation has complied with all of the terms and conditions of this Purchase Contract required to be complied with by the Corporation at or prior to the Closing Date;

(B) No event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an event of default under the Installment Purchase Agreement, the Assignment Agreement or the Trust Agreement (collectively, the “Corporation Documents”);

(C) The Corporation is a nonprofit public benefit corporation duly organized and existing under the Constitution and laws of the State, with full right, power and authority to execute, deliver and perform its obligations under the Corporation Documents and to carry out and consummate the transactions contemplated by the Corporation Documents and the Official Statement;

(D) By all necessary official action of the Corporation, the Corporation has duly authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations contained or described in the Corporation Documents and as of the Closing Date, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered, each Corporation Document will constitute the legally valid and binding obligation of the Corporation enforceable in accordance with its terms,

except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws or equitable principles relating to or affecting creditors' rights generally or by the exercise of judicial discretion in appropriate cases or by limitations on legal remedies against public agencies in the State;

(E) The Corporation is not, in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, a default or event of default under any such instruments; and, as of such time, the authorization, execution and delivery of the Corporation Documents and compliance with the provisions of each of such agreements or instruments do not in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Corporation Documents;

(F) As of the time of acceptance hereof no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of the Corporation after due investigation, threatened (A) in any way questioning the corporate existence of the Corporation or the titles of the officers of the Corporation to their respective offices or (B) affecting, contesting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Series 2016D Certificates, or in any way contesting or affecting the validity of the Series 2016D Certificates or the Corporation Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest component of Installment Payments from gross income for federal income

tax purposes or contesting the powers of the Corporation to enter into the Corporation Documents;

(G) The Corporation will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request in order (A) to qualify the Series 2016D Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate and (B) to determine the eligibility of the Series 2016D Certificates for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Series 2016D Certificates; provided, however, that the Corporation shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction;

(H) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Corporation of its obligations in connection with, the Corporation Documents or the acquisition of the Project have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Series 2016D Certificates; and

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

(xii) Trustee's Certificate. A certificate, dated the date of Closing, signed by a duly authorized official of the Trustee satisfactory in form and substance to the Representative, to the effect that:

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

(B) The Trustee has duly executed and delivered the Indenture, the Trust Agreement and the Continuing Disclosure Agreements, and assuming due authorization and execution by the other parties thereto, the



Indenture, the Trust Agreement and the Continuing Disclosure Agreements are each legal, valid and binding obligations of the Trustee, and enforceable against the Trustee in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(C) The Trustee has duly authenticated the Series 2016B Bonds and executed and delivered the Series 2016D Certificates and delivered the Securities to or upon the order of the Underwriters; and

(D) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the authentication and delivery of the Series 2016B Bonds or the execution and delivery of the Series 2016D Certificates or the consummation by the Trustee of its obligations under the Resolution, the Indenture, the Trust Agreement or the Continuing Disclosure Agreements.

(xiii) Escrow Agent's Certificate. A certificate, dated the date of Closing, signed by a duly authorized official of the Escrow Agent satisfactory in form and substance to the Representative, to the effect that:

(A) The Escrow Agent is duly organized and existing as a national banking association under the laws of the United States of America, having the full corporate power and authority to enter into and perform its duties under the Escrow Agreements; and

(B) The Escrow Agent is duly authorized to enter into the Escrow Agreements and has duly executed and delivered the Escrow Agreements, and assuming due authorization and execution by the District, the Escrow Agreements are legal, valid and binding upon the Escrow Agent, and enforceable against the Escrow Agent in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(xiv) Verification Reports. A copy of the Verification Reports prepared by \_\_\_\_\_.

(xv) Transcript. A transcript of all proceedings relating to the authorization, execution, sale and delivery of the Securities.

(xvi) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the District by duly authorized officers of the District.

(xvii) Financing Documents. A certified copy of the Resolution and original executed copy of each of this Purchase Contract and the Financing Documents.

(xviii) District Resolution. Certified copies of the resolution of the District approving the execution and delivery of the Financing Documents and the Certificates and the issuance of the Bonds, certified by the District Clerk.

(xix) Corporation Resolution. Certified copies of the resolution of the Corporation approving the execution and delivery of the Corporation Documents and the Certificates, certified by the Secretary or Assistant Secretary of the Corporation.

(xx) 15c2-12 Certificate of the District. A certificate executed by an Authorized Officer of the District “deeming final” the Preliminary Official Statement for purposes of Rule 15c2-12.

(xxi) Trustee Resolution. Two certified copies of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers and employees of the Trustee, which resolution authorizes the execution and delivery of the Continuing Disclosure Agreements.

(xxii) Escrow Agent Resolution. Two certified copies of the general resolution of the Escrow Agent authorizing the execution and delivery of certain documents by certain officers and employees of the Escrow Agent, which resolution authorizes the execution and delivery of the Escrow Agreements.

(xxiii) 8038-G. Evidence that the federal tax information form 8038-G relating to the Series 2016B Bonds and the Series 2016D Certificates has been prepared for filing.

(xxiv) Blue Sky. A copy of any Preliminary Blue Sky Memorandum with respect to the Securities, prepared by Underwriters’ Counsel.

(xxv) CDIAC Statements. A copy of the Notices of Sale required to be delivered to the California Debt Investment and Advisory Commission pursuant to Sections 8855(g) and 53583 of the California Government Code.

(xxvi) Continuing Disclosure Agreement. An executed copy of each of the Continuing Disclosure Agreements.

(xxvii) Ratings. Evidence from Standard & Poor’s Ratings Services, Moody’s Investors Service and Fitch Ratings, Inc. that the Securities have received uninsured ratings of “[\_],” “[\_]”and “[\_]” respectively.

(xxviii) Additional Documents. Such additional legal opinions, certificates, proceedings, instruments and other documents as the Representative, Bond Counsel or Underwriters’ Counsel reasonably may request to evidence the

truth and accuracy, as of the date hereof and as of the date of the Closing, of the District's representations and warranties contained herein and of the statements and information contained in the Official Statement and of the due performance or satisfaction by the District and the Trustee on or prior to the date of the Closing of all material agreements then to be performed and conditions then to be satisfied by any of them in connection with the transactions contemplated hereby and by the Resolution and the Financing Documents.

If the District or the Corporation shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriters nor the District shall be under further obligation hereunder, except as further set forth in Section 9 hereof.

9. Expenses. The Underwriters shall be under no obligation to pay and the District shall pay or cause to be paid the expenses incident to the performance of the obligations of the District hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Resolution and the Financing Documents and the cost of preparing, printing, issuing and delivering the Securities; (b) the fees and disbursements of any counsel, financial advisors, accountants or other experts or consultants retained by the District; (c) the fees and disbursements of Bond Counsel and District Counsel; (d) the fees and disbursements of the rating agencies; (e) the fees of the Trustee; (f) the cost of printing and distributing the Preliminary Official Statement and any supplements and amendments thereto and the cost of printing and distributing the Official Statement and any supplements and amendments thereto, including a reasonable number of copies thereof for distribution by the Underwriters; and (g) expenses (included in the expense component of the Underwriters' spread) incurred on behalf of the District's officers or employees which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees.

The Underwriters shall pay and the District shall be under no obligation to pay all expenses incurred by it in connection with the public offering and distribution of the Securities, including any advertising expenses, fees, if any, payable to the California Debt Investment and Advisory Commission in connection with the issuance of the Securities, fees associated with obtaining CUSIP numbers for the Securities, and the Underwriters shall pay any costs and expenses incurred in connection with the preparation and distribution of any blue sky or any legal investment memoranda and the costs and fees of counsel to the Underwriters.

10. Notice. Any notice or other communication to be given to the District under this Purchase Contract may be given by delivering the same in writing to Santa Clara Valley Water District, 5750 Almaden Expressway, San Jose, California 95814-3686, Attention: Chief Executive Officer/General Manager.

Any notice or other communication to be given to the Representative or the Underwriters under this Purchase Contract may be given by delivering the same in writing to J.P. Morgan Securities LLC, 560 Mission Street, 3<sup>rd</sup> Floor, San Francisco, California 94105, Attention: Alex Burnett.

11. Entire Agreement. This Purchase Contract, when accepted by the District, shall constitute the entire agreement between the District and the Underwriters and is made solely for the benefit of the District and the Underwriters (including the successors of the Underwriters). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. The District acknowledges and agrees that (i) the purchase and sale of the Securities pursuant to this Agreement is an arm's-length, commercial transaction between the District and the Underwriters in which each Underwriter is acting solely as a principal and is not acting as a municipal advisor (within the meaning of Section 15B of the Exchange Act), financial advisor or fiduciary to the District, (ii) the Underwriters have not assumed (individually or collectively) any advisory or fiduciary responsibility to the District with respect to this Agreement, the offering of the Securities and the discussions, undertakings and procedures leading thereto (irrespective of whether any Underwriter, or any affiliate of an Underwriter, has provided other services or is currently providing other services to the District on other matters), (iii) the only obligations the Underwriters have to the District with respect to the transactions contemplated hereby are set forth in this Agreement, (iv) the Underwriters have financial and other interests that differ from those of the District and (v) the District has consulted with its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate.

12. Benefit. This Purchase Contract is made solely for the benefit of the District and the Underwriters (including the successors thereof) and no other person, partnership or association, shall acquire or have any right hereunder or by virtue hereof. All representations and agreements by the District in this Purchase Contract shall remain operative and in full force and effect except as otherwise provided herein, regardless of any investigations made by or on behalf of the Underwriters and shall survive the issuance of and payment of the Securities.

13. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

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

15. State Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State of California.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

16. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriters or the District without the prior written consent of the other party hereto.

Very truly yours,

J.P. MORGAN SECURITIES LLC  
CITIGROUP GLOBAL MARKETS INC.  
GOLDMAN, SACHS & CO.  
MORGAN STANLEY & CO.

By: J.P. MORGAN SECURITIES LLC, as  
Representative of the Underwriters

By: \_\_\_\_\_  
Authorized Officer

Accepted as of the date  
first stated above:

SANTA CLARA VALLEY WATER DISTRICT

By: \_\_\_\_\_  
Authorized Officer

By: \_\_\_\_\_  
Clerk of the Board of Directors

**EXHIBIT A**

**MATURITY SCHEDULE**

\$ \_\_\_\_\_  
Santa Clara Valley Water District  
Water Utility System Refunding Revenue Bonds  
Taxable Series 2016B

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

\$ \_\_\_\_\_  
Santa Clara Valley Water District  
Revenue Certificates of Participation  
(Water Utility System Improvement Projects)  
Taxable Series 2016D

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

\_\_\_\_\_  
(1) Priced to par call on \_\_\_\_\_.

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY \_\_, 2016

NEW ISSUE-Book Entry Only

See "RATINGS" herein.

\$ \_\_\_\_\_\*  
Santa Clara Valley Water District  
Water System Refunding Revenue Bonds  
Series 2016A and Taxable Series 2016B

\$ \_\_\_\_\_\*  
Santa Clara Valley Water District  
Revenue Certificates of Participation  
(Water Utility System Improvement Projects)  
Series 2016C and Taxable Series 2016D

\$ \_\_\_\_\_\*  
Series 2016A

\$ \_\_\_\_\_\*  
Taxable Series 2016B

\$ \_\_\_\_\_\*  
Series 2016C

\$ \_\_\_\_\_\*  
Taxable Series 2016D

**Dated: Date of Delivery**

**Due: June 1, as shown on the inside cover**

The proceeds of the 2016A Bonds and the 2016B Bonds (together, the "2016 Bonds") are being issued to provide a portion of the money to (i) refund all of the currently outstanding Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2006A; (ii) refund a portion of the currently outstanding Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2007A; (iii) pay all or a portion of the outstanding amount of the Santa Clara Valley Water District Commercial Paper Certificates, Series A (Tax-Exempt) and Commercial Paper Certificates, Series B (Taxable); and (iv) pay costs of issuance of the 2016 Bonds, all as more fully described herein. Interest due on the 2016 Bonds is payable on December 1, 2016 and each June 1 and December 1 thereafter.

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

The proceeds of the 2016C Certificates and the 2016D Certificates (together, the "Certificates") will be used (i) to finance the cost of certain water utility system improvements, (ii) to reimburse the District for costs previously expended on certain water utility system improvements, and (iii), pay the costs of executing and delivering the Certificates. Interest represented by the Certificates is payable on December 1, 2016 and each June 1 and December 1 thereafter.

The Certificates are being executed and delivered pursuant to a Trust Agreement (the "Trust Agreement"), dated as of February 1, 2016, by and among the District, the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation"), and U.S. Bank National Association, as trustee thereunder. The Certificates are secured by Installment Payments payable by the District pursuant to the Installment Purchase Agreement dated as of February 1, 2016, by and between the District and the Corporation and amounts on deposit in certain funds and accounts established under the Trust Agreement. **The Certificates are subject to optional, mandatory sinking fund and extraordinary prepayment prior to maturity as described in this Official Statement.**

The 2016 Bonds are being issued in fully registered form and the Certificates are being prepared as fully registered Certificates and, when each of the 2016 Bonds and the Certificates are delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. DTC will act as securities depository for the 2016 Bonds and the Certificates. Purchasers of beneficial interests will not receive certificates representing their interest in the Certificates and the 2016 Bonds. So long as Cede & Co. is the registered owner of the 2016 Bonds or Certificates, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the 2016 Bonds or the Certificates. Individual purchases of the 2016 Bonds and the Certificates will be made in book-entry form only in authorized denominations of \$5,000 or any integral multiple thereof. Principal and interest on the 2016 Bonds and evidenced by the Certificates are payable directly to DTC by U.S. Bank National Association, San Francisco, California, 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 2016 Bonds and the Certificates.

The principal and interest on the 2016 Bonds and the Installment Payments are secured by a pledge of and lien under the Parity Master Resolution on District Water Utility System Revenues and are payable from Net Water Utility System Revenues. The pledge and lien created under the Parity Master Resolution is subordinate to the pledge and lien created under the Senior Master Resolution which secures \$ \_\_\_\_\_ aggregate principal amount of bonds and installment payments relating to certain Senior Obligations and which are payable prior to the 2016 Bonds and the Installment Payments. 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 refunding obligations. 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 2016 Bonds or the Installment Payments.

\* Preliminary, subject to change.

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

*The obligation of the District to pay the principal of and interest on the 2016 Bonds and to make the Installment Payments 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 and Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series 2016A Bonds and the portion of each Installment Payment constituting interest (and original issue discount) with respect to the Series 2016C Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel and Special Counsel, interest on the 2016 Bonds and the portion of each Installment Payment constituting interest (and original issue discount) is exempt from State of California personal income tax. See "TAX MATTERS — Tax-Exempt Obligations" and "TAX MATTERS — Taxable Obligations" herein with respect to tax consequences with respect to the 2016 Bonds and the Certificates.*

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

*The 2016 Bonds and the Certificates are offered when, as and if executed and delivered to the Underwriters, subject to the approval as to the legality of certain matters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel and Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the District and the Corporation by District Counsel, Stan Yamamoto, Esq., for the Underwriters by their counsel, Nixon Peabody LLP, and for the Trustee by its counsel. It is expected that the 2016 Bonds and the Certificates will be available for delivery through the facilities of DTC on or about April \_\_, 2016.*

**Wells Fargo Securities**  
**(Series 2016A Bonds and Series 2016C Certificates)**  
**Co- Managers**

Barclays Capital Inc. Fidelity Capital Markets  
Siebert Brandford Shank & Co., LLC Stifel, Nicolaus & Company, Inc.

**J.P. Morgan**  
**(Taxable Series 2016B Bonds and Taxable Series 2016D Certificates)**  
**Co- Managers**

Citigroup Global Markets Inc. Goldman, Sachs & Co.  
Morgan Stanley & Co.

Dated: March \_\_, 2016



**MATURITY SCHEDULES**

\$ \_\_\_\_\_\*  
**Santa Clara Valley Water District**  
**Water System Refunding Revenue Bonds**  
**Series 2016A and Taxable Series 2016B**

\$ \_\_\_\_\_\*  
**Santa Clara Valley Water District**  
**Revenue Certificates of Participation**  
**(Water Utility System Improvement Projects)**  
**Series 2016C and Taxable Series 2016D**

\$ \_\_\_\_\_\*  
**Series 2016A**

<i>Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>
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\$ \_\_\_\_\_ % 2016A Term Bonds due June 1, 20\_\_ – Yield \_\_\_\_\_% – Price \_\_\_\_\_%

\$ \_\_\_\_\_\*  
**Taxable Series 2016B**

<i>Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>
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\$ \_\_\_\_\_ % 2016B Term Bonds due June 1, 20\_\_ – Yield \_\_\_\_\_% – Price \_\_\_\_\_%

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\* Preliminary, subject to change.

\$ \_\_\_\_\_<sup>\*</sup>  
**Series 2016C**

<i>Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>
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\$ \_\_\_\_\_ % 2016C Term Certificates due June 1, 20\_\_ – Yield \_\_\_\_\_% – Price \_\_\_\_\_%

\_\_\_\_\_<sup>\*</sup>  
**Taxable Series 2016D**

<i>Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>Payment Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>
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\$ \_\_\_\_\_ % 2016D Term Certificates due June 1, 20\_\_ – Yield \_\_\_\_\_% – Price \_\_\_\_\_%

**SANTA CLARA VALLEY WATER DISTRICT**

5750 Almaden Expressway  
San Jose, California 95118

**BOARD OF DIRECTORS AND OFFICERS OF THE DISTRICT**

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

**BOARD OF DIRECTORS AND OFFICERS OF THE  
PUBLIC FACILITIES FINANCING CORPORATION**

David Vanni, President  
Steve M. Mullen, Vice President  
Anthony Bennetti, Director  
Dean Chu, Director  
Maria Oberg, Director/Chief Financial Officer

**DISTRICT STAFF**

Jim Fieldler, [acting Chief Executive Officer, &]  
Chief Operating Officer, Water Utility Enterprises  
Stan Yamamoto, Esq., District Counsel  
Norma Camacho, Chief Operating Officer, Watersheds  
Jesus Nava, Chief Administrative Officer  
Najon Chu, Chief Financial Officer  
Michele L. King, Clerk of the Board

**SPECIAL COUNSEL AND BOND COUNSEL**

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

**TRUSTEE**

U.S. Bank National Association  
San Francisco, California

**FINANCIAL ADVISOR**

Public Resources Advisory Group  
Los Angeles, California

**VERIFICATION AGENT**

Grant Thornton LLP  
Minneapolis, Minnesota

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates or the 2016 Bonds by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as a contract with the purchasers or any of the owners of Certificates or the 2016 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 2016 Bonds and the Certificates have not been registered under the Securities Act of 1933, as amended, nor has the Indenture and the Trust Agreement been qualified under the Trust Indenture Act of 1939, as amended. The registration or qualification of the Certificates or the 2016 Bonds in accordance with applicable provisions of securities laws of any state in which the Certificates or the 2016 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation. Neither those states nor any of their agencies have passed upon the merits of the Certificates or the 2016 Bonds or the accuracy or completeness of this Official Statement.

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

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

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

**IN CONNECTION WITH THE OFFERING OF THE 2016 BONDS AND THE CERTIFICATES, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2016 BONDS AND CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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 Certificates or the 2016 Bonds.

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\$ \_\_\_\_\_<sup>\*</sup>  
**Santa Clara Valley Water District  
Water System Refunding Revenue Bonds  
Series 2016A and Taxable Series 2016B**

\$ \_\_\_\_\_<sup>\*</sup>  
**Santa Clara Valley Water District  
Revenue Certificates of Participation  
(Water Utility System Improvement Projects)  
Series 2016C and Taxable Series 2016D**

\$ \_\_\_\_\_<sup>\*</sup>  
**Series 2016A**

\$ \_\_\_\_\_<sup>\*</sup>  
**Taxable Series 2016B**

\$ \_\_\_\_\_<sup>\*</sup>  
**Series 2016C**

\$ \_\_\_\_\_<sup>\*</sup>  
**Taxable Series 2016D**

## 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) \$ \_\_\_\_\_<sup>\*</sup> aggregate principal amount of the Santa Clara Valley Water District 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”) and (ii) \$ \_\_\_\_\_<sup>\*</sup> aggregate principal amount of Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2016C (the “Series 2016C Certificates”) and Taxable Series 2016D (the “Series 2016D Certificates,” and collectively with the Series 2016C Certificates, the “Certificates”). 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 2016 Bonds and the Certificates and not otherwise defined shall have the meanings set forth in “APPENDIX B—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS.” Capitalized terms used herein with respect to the Senior Obligations (defined below) and not otherwise defined shall have the meanings set forth in “APPENDIX C—SUMMARY OF SENIOR MASTER RESOLUTION.”

### The 2016 Bonds

**General.** The 2016 Bonds will be issued pursuant to Resolution No. \_\_\_\_\_, adopted by the Board of Directors of the District on February \_\_, 2016 (the “Parity Master Resolution”) and an Indenture of Trust, dated as of February 1, 2016 (the “Indenture”) by and between the District and U.S. Bank National Association, as trustee thereunder (the “Trustee”).

**Purpose.** The 2016 Bonds are being issued to provide a portion of the money to (i) refund all of the currently outstanding Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2006A (the “2006A Bonds”); (ii) refund a portion of the currently outstanding Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2007A (the “2007A Certificates”); (iii) pay all or a portion of the outstanding amount of the Santa Clara Valley Water District Commercial Paper Certificates, Series A (Tax-Exempt) and Commercial Paper Certificates, Series B (Taxable) (together, the “Commercial Paper Certificates”); and (iv) pay costs of issuance of the 2016 Bonds. See “PLAN OF FINANCE — The Refunding Plan.”

**Security for the 2016 Bonds.** The 2016 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 AND THE CERTIFICATES — Pledge of Water Utility System Revenues”) and amounts on deposit in certain funds and accounts established under Parity Master Resolution and the Indenture. The obligation of the District to pay principal of and interest on the 2016 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

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<sup>\*</sup> Preliminary, subject to change.

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 2016 Bonds from Net Water Utility System Revenues is subordinate to the District's obligation to pay debt service on the Senior Obligations and on a parity to make Installment Payments (as defined below) which secure the Certificates, and any obligations hereafter issued or incurred on a parity therewith subject to the terms and conditions of the Parity Master Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Pledge of Water Utility System Revenues" and "— Allocation of Water Utility System Revenues — *Senior Master Resolution*."

***No Reserve Fund for the 2016 Bonds.*** No reserve fund has been created or will be funded with respect to the 2016 Bonds.

***Redemption.*** The 2016 Bonds will be subject to optional, mandatory and extraordinary redemption prior to maturity, as more fully described under the caption "THE 2016 BONDS."

### **The Certificates**

***General.*** The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of February 1, 2016 (the "Trust Agreement"), by and among the District, the Santa Clara Valley Water District Public Facilities Financing Corporation, a California non-profit public benefit corporation (the "Corporation") and the Trustee. The Certificates represent a right to receive the installment payments (the "Installment Payments") payable by the District under an Installment Purchase Agreement dated as of February 1, 2016 by and between the District and the Corporation (the "Installment Purchase Agreement").

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

***Security for the Installment Payments.*** The Installment Payments are secured by a pledge of the Water Utility System Revenues of the District's Water Utility System and amounts on deposit in certain funds and accounts established under the Parity Master Resolution and the Trust Agreement. The obligation of the District to pay the Installment Payments is a special obligation of the District payable solely from Net Water Utility System Revenues of the Water Utility System. The District's obligation to make the Installment Payments from Net Water Utility System Revenues is subordinate to the District's obligation to pay debt service on the Senior Obligations and on a parity with the District's obligation to pay debt service on the 2016 Bonds, and any obligations hereafter issued or incurred on a parity therewith subject to the terms and conditions of the Parity Master Resolution. The District's obligation to make the Installment Payments from Net Water Utility System Revenues is absolute and unconditional and the District has covenanted to continue to make such payments whether or not the facilities financed from the proceeds of the Certificates (as more particularly described under the caption "PLAN OF FINANCE — Water Treatment and Other Related Infrastructure Improvements") is operating or operable. Such payments are not subject to annual appropriation or abatement in the event of loss or destruction of the Project. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Pledge of Water Utility System Revenues."

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

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

## Senior Obligations

The District's obligation to pay debt service on the 2016 Bonds and to make Installment Payments from Net Water Utility System Revenues is subordinate to the District's obligation to pay debt service on \$\_\_\_\_\_ aggregate principal amount of the District's Water Utility System Refunding Revenue Bonds Taxable Series 2006B (the "2006B Bonds") and to make \$\_\_\_\_\_ aggregate principal amount of installment payments under an installment purchase agreement dated as of September 1, 2007 (the "2007 Installment Purchase Agreement"), which installment payments secure the 2007A Certificates that remain outstanding after the refunding contemplated herein and \$\_\_\_\_\_ aggregate principal amount of the District's Revenue Certificates of Participation (Water Utility System Improvement Projects) Taxable Series 2007B (the "2007B Certificates") (together, 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

Upon the delivery of the 2016 Bonds and the Certificates, the District will not have any outstanding obligations payable from Net Water Utility System Revenues on a parity with the 2016 Bonds and the Installment Payments. The obligation of the District to pay principal of and interest on the 2016 Bonds and to make the Installment Payments from Net Water Utility System Revenues will be on a parity with the obligation of the District to pay principal of and interest on any obligations hereafter issued or incurred on a parity therewith subject to the terms of the Parity Master Resolution (collectively, the "Parity Obligations"). See "DEBT STRUCTURE OF THE DISTRICT" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Additional Bonds and Contracts."

## Rate Covenants

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

The rate covenant described above applies only to coverage of Debt Service of Senior Obligations and shall not be effective with respect to the 2016 Bonds and the Certificates 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. Debt Service under the Parity Master Resolution includes the principal of and interest on the 2016 Bonds and the Installment Payments.

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 BONDS AND THE CERTIFICATES — 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 Installment Payments and the 2016 Bonds upon satisfaction of certain conditions. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Additional Bonds and Contracts” and in Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — WATER UTILITY MASTER RESOLUTION — Additional Bonds and Contracts.”

### **Rate Stabilization Fund**

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 BONDS AND THE CERTIFICATES — Rate Stabilization Fund.” As of December 31, 2015, approximately \$2,139,000 was on deposit in the Rate Stabilization Fund.

### **Special Purpose Funds**

The Parity Master Resolution authorizes the District to establish Special Purpose Funds. Upon certain determinations by the Board, the District may withdraw all or any portion of the amounts in a Special Purpose Fund and transfer such amounts to the Water Utility System Revenue Fund for application in accordance with the Parity Master Resolution. Amounts transferred from a Special Purpose Fund to the Water Utility System Revenue Fund may be taken into account as Water Utility System Revenues for purposes of the calculations for the rate covenant and the issuance of additional Bonds or Contracts under the Parity Master Resolution but not the Senior Master Resolution. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Special Purpose Funds.” The District has designated the Drought Reserve, the San Felipe Emergency Reserve, the Santa Clara Valley Advanced Water Purification Center Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of December 31, 2015, there was approximately \$6,296,000 on deposit in such Special Purpose Funds.

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

The District has executed and delivered two installment purchase agreements outstanding in the approximate aggregate principal amount of \$\_\_\_\_\_ secured by revenues of the District's Flood Control System (the "Flood Control System Obligations"). No Water Utility System Revenues are pledged to payment of these installment purchase agreements and the revenues of the Flood Control System are not pledged to the payment of the 2016 Bonds or the Installment Payments.

The District also receives parcel tax revenues in connection with its Safe, Clean Water program which are not pledged to the payment of the 2016 Bonds or the Installment Payments.

The District levies property taxes to pay certain costs under the District's State Water Project contract. Such State Water Project contract costs are not Maintenance and Operation Costs of the Water Utility System and such State Water Project property taxes are not pledged to the payment of the 2016 Bonds or the Installment Payments.

### **Limited Obligations**

The obligation of the District to pay principal of and interest on the 2016 Bonds and to make the Installment Payments described herein are secured by a pledge of and lien on, the District's Water Utility System Revenues and are payable from the Net Water Utility System Revenues (which remain after the payment of Maintenance and Operations Costs and the Senior Obligations). The obligation of the District to pay the principal of and interest on the 2016 Bonds and to make Installment Payments 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 2016 Bonds and the Certificates, the security and sources of payment for the 2016 Bonds and the Certificates 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 (see address on the inside cover of this Official Statement).

### **Continuing Disclosure**

The District has covenanted in Continuing Disclosure Agreements for the benefit of the holders and beneficial owners of the 2016 Bonds and the Certificates to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2017, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Reports and the notices of material events will be filed by the District with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth hereto in Appendix G — "FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2016 BONDS" with respect to the 2016 Bonds and in Appendix H — "FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE CERTIFICATES" with respect to the Certificates. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. For a discussion of the District's compliance with prior continuing disclosure undertakings, see the caption "CONTINUING DISCLOSURE UNDERTAKINGS."

## Forward-Looking Statements

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

## PLAN OF FINANCE

### The Refunding Plan

A portion of the proceeds of the 2016 Bonds will be applied to (i) currently refund, together with certain other moneys, all of the outstanding \$ \_\_\_\_\_ aggregate principal amount of the 2006A Bonds, (ii) currently and advance refund a portion of the 2007A Certificates in the amount of \$ \_\_\_\_\_, and (iii) pay all or a portion of the outstanding amounts of the Commercial Paper Certificates.

**2006A Bonds.** The 2006A Bonds were initially issued pursuant to the terms of the Senior Master Resolution, as amended and supplemented, including by the Third Supplemental Resolution to Water Utility System Master Resolution (the “Third Supplemental Resolution”). Pursuant to the Indenture, the District will deliver a portion of the proceeds of the 2016 Bonds to U.S. Bank National Association, as escrow agent (the “Escrow Agent”) under the Escrow Agreement (2006A) dated as of February 1, 2016 (the “2006A Escrow Agreement”), by and between the District and the Escrow Agent for deposit in an escrow fund (the “2006A Escrow Fund”) established thereunder. Such amounts, together with certain amounts transferred to the Escrow Agent from the District and deposited in the 2006A Escrow Fund, will be held in cash or invested in direct general obligations of the United States of America (the “Defeasance Obligations”). The cash and Defeasance Obligations held in the 2006A Escrow Fund will be scheduled to mature in such amounts and at such times and bear interest at such rates to provide amounts sufficient to pay on June 1, 2016 the regularly scheduled payment of interest and principal with respect to the 2006A Bonds and the redemption price of the 2006A Bonds (equal to 100% of the principal amount thereof) maturing on and after June 1, 2017.

The amounts held in the 2006A Escrow Fund are pledged solely to the payment of the 2006A Bonds. The funds deposited in the 2006A Escrow Fund will not be available for the payment of principal or interest with respect to the 2016 Bonds. Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by Grant Thornton LLP, Minneapolis, Minnesota (the “Verification Agent”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2006A Escrow Agreement, the 2006A Bonds will be defeased pursuant to the provisions of the Third Supplemental Resolution, as of the date of issuance of the 2016 Bonds. See the caption “—Verification of Mathematical Computations” below.

**2007A Certificates.** The 2007A Certificates were initially executed and delivered pursuant to a Trust Agreement dated as of September 1, 2007 (the “2007A Trust Agreement”), by and among the Corporation, the

District and U.S. Bank National Association, as trustee. Pursuant to the Indenture, the District will deliver a portion of the proceeds of the 2016 Bonds to the Escrow Agent for deposit in an escrow fund (the “2007A Escrow Fund”) established under the Escrow Agreement (2007A) dated as of February 1, 2016 (the “2007A Escrow Agreement”), by and between the District and the Escrow Agent. Such amounts, together with certain amounts transferred to the Escrow Agent from the District and deposited in the 2007A Escrow Fund, will be held in cash or invested in Defeasance Obligations. The cash and Defeasance Obligations held in the 2007A Escrow Fund will be scheduled to mature in such amounts and at such times and bear interest at such rates to provide amounts sufficient to pay regularly scheduled payments of interest and principal with respect to the 2007A Certificates on and prior to June 1, 2017 and to pay on June 1, 2017, the prepayment price of the 2007A Certificates (equal to 100% of the principal amount thereof) maturing on June 1, 2018 and June 1, 2019 (the “Refunded 2007A Certificates”).

The amounts held in the 2007A Escrow Fund are pledged solely to the payment of the Refunded 2007A Certificates. The funds deposited in the 2007A Escrow Fund will not be available for the payment of principal or interest with respect to the 2016 Bonds. Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by the Verification Agent. Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2007A Escrow Agreement, the Refunded 2007A Certificates will be defeased pursuant to the provisions of the 2007A Trust Agreement, as of the date of issuance of the 2016 Bonds. See the caption “—Verification of Mathematical Computations” below.

**Verification of Mathematical Computations.** Upon delivery of the 2016 Bonds and the Certificates, the Verification Agent, a firm of independent public accountants, will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Underwriters relating to: (a) the adequacy of the maturing principal of and interest earned on the Defeasance Obligations, together with the cash to be concurrently deposited in the 2006A Escrow Fund, to pay on June 1, 2016 regularly scheduled payment of interest and principal with respect to the 2006A Bonds and the redemption price of the 2006A Bonds (equal to 100% of the principal amount thereof) maturing on and after June 1, 2017, (b) the adequacy of the maturing principal of and interest earned on the Defeasance Obligations, together with the cash to be concurrently deposited in the 2007A Escrow Fund, to pay regularly scheduled payments of interest and principal with respect to the 2007A Certificates on and prior to June 1, 2017 and to pay on June 1, 2017, the prepayment price of the Refunded 2007A Certificates (equal to 100% of the principal amount thereof), and (c) the computations of yield of the 2016A Bonds and the Defeasance Obligations which support Bond Counsel’s opinion that interest on the 2016A Bonds is not includable in gross income for federal income tax purposes.

**Commercial Paper Certificates.** The District currently has outstanding \$\_\_\_\_\_ aggregate principal amount of Commercial Paper Certificates executed and delivered by U.S. Bank National Association, as paying agent (the “Paying Agent”) pursuant to a Restated Issuing and Paying Agent Agreement, as amended, by and among the District, the Paying Agent and the Corporation. Pursuant to the Indenture, the District will deliver a portion of the proceeds of the 2016 Bonds to pay on the date of delivery of the 2016 Bonds, all or a portion of the outstanding principal amount of the Commercial Paper Certificates.

The estimated sources and uses of funds with respect to the 2016 Bonds are set forth below.

**Table 1**  
**SANTA CLARA VALLEY WATER DISTRICT**  
**Estimated Sources and Uses of Funds – The 2016 Bonds**

<u>Sources</u>	<u>2016A Bonds</u>	<u>2016B Bonds</u>
Principal Amount of 2016 Bonds		
Transfer from 2006A Bonds Funds <sup>(1)</sup>		
Plus/Less Net Original Issue Premium/Discount		
TOTAL		
<u>Uses</u>		
Deposit to 2006A Escrow Fund		
Deposit to 2007A Escrow Fund		
Transfer to Paying Agent for the Commercial Paper Certificates <sup>(2)</sup>		
Costs of Issuance <sup>(3)</sup>		
TOTAL		

<sup>(1)</sup> Amounts transferred from the reserve fund established with respect to the 2006A Bonds.

<sup>(2)</sup> Equals the outstanding principal amount of the Commercial Paper Certificates and interest accrued to the date of delivery of the 2016 Bonds.

<sup>(3)</sup> Includes fees for the Trustee, Financial Advisor’s fees, legal fees, printing costs, rating agency fees, underwriter’s discount and other costs of delivery.

**Water Treatment and Other Related Infrastructure Improvements**

The District expects to apply a portion of the proceeds of the Certificates to finance and reimburse the District for costs of the acquisition of various capital improvements included in the Fiscal Year 2016 capital improvement program (the “Project”). The Project includes [TO COME]

Environmental approvals for the Project have been prepared or are being prepared. No Certificate proceeds will be expended on any component of the Project for which environmental approval is required prior to compliance with such approval. The District expects that substantially all Certificate proceeds deposited in the acquisition funds under the Installment Purchase Agreement will be expended within three years.



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

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

<u>Sources</u>	<u>2016C Certificates</u>	<u>201D Certificates</u>
Principal Amount of Bonds		
Plus/Less Net Original Issue Premium/Discount		
TOTAL		
<u>Uses</u>		
Deposit to Acquisition and Construction Fund (Tax-Exempt)		
Deposit to Acquisition and Construction Fund (Taxable)		
Costs of Issuance <sup>(1)</sup>		
TOTAL		

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

**THE 2016 BONDS**

**Terms of the 2016 Bonds**

The 2016A Bonds will be issued in the aggregate principal amount of \$\_\_\_\_\_ \* and the 2016B Bonds will be issued in the aggregate principal amount of \$\_\_\_\_\_ \*. The 2016 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 December 1, 2016 and each June 1 and December 1 thereafter (each, an "Interest Payment Date"), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2016 Bonds will be computed on the basis of a 360 day year of twelve 30 day months.

The 2016 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 2016 Bonds. Ownership interests in the 2016 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 2016 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 San Francisco, California (the "Office of the Trustee"). Interest on the 2016 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 2016 Bonds may, at such Owner's option, be paid interest by wire transfer of immediately available funds in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium on the 2016 Bonds will be payable in lawful money of the United States of America.

Interest on any 2016 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

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\* Preliminary, subject to change.

Date, in which case interest thereon will be payable from such Interest Payment Date, or unless such date is on or before November 15, 2016, in which case interest thereon will be payable from the Issuance Date.

### **Redemption of 2016A Bonds**

**Optional Redemption.** The 2016A Bonds with stated maturities on or after June 1, 20\_\_ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after June 1, 20\_\_ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

**Mandatory Sinking Fund Redemption.** The 2016A Bonds with stated maturities on June 1, 20\_\_ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20\_\_ in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced thereby to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date (June 1)</i>	<i>Principal Amount</i>
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\* Final Maturity.

**Redemption from Insurance or Eminent Domain Proceeds.** The 2016A Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the District in a Written Request provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in the Parity Master Resolution, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. See Appendix B under the caption "SUMMARY OF SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — Covenants of the District—Eminent Domain and Insurance Proceeds" for a description of the circumstances under which the 2016A Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

### **Redemption of 2016B Bonds**

**Optional Redemption.** The 2016B Bonds with stated maturities on or after June 1, 20\_\_ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after June 1, 20\_\_ at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

**Mandatory Sinking Fund Redemption.** The 2016B Bonds with stated maturities on June 1, 20\_\_ are subject to mandatory sinking fund redemption in part (by lot), on each June 1 on and after June 1, 20\_\_ in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest

evidenced thereby to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date</i> <i>(June 1)</i>	<i>Principal</i> <i>Amount</i>
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\* Final Maturity.

***Redemption from Insurance or Eminent Domain Proceeds.*** The 2016B Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the District in a Written Request provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in the Parity Master Resolution, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. See Appendix A under the caption “SUMMARY OF SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS — Covenants of the District—Eminent Domain and Insurance Proceeds” for a description of the circumstances under which the 2016B Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

### **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 2016 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 2016 Bonds, the Trustee will send notice of redemption only to the Securities Depositories and Information Services. Notice of redemption to the Securities Depositories shall be given by registered mail, other electronically secure means, or any other method agreed upon and notice of redemption to the Information Services shall be given by mail, other electronically secure means, or any other method agreed upon. Each notice of redemption will state the date of notice, the redemption date, the place or places of redemption, the redemption price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2016 Bonds of any such maturity are to be redeemed, the serial numbers of the 2016 Bonds of such maturity to be redeemed by giving the individual number of each 2016 Bond or by stating that all 2016 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2016 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 2016 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 2016 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 2016 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 2016 Bond. Notice of redemption of 2016 Bonds shall be given by the Trustee at the expense of the District.

With respect to any notice of optional redemption of 2016 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 2016 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 2016 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 2016 Bond of each maturity and series will be issued in the principal amount of the 2016 Bonds of such maturity and series. Such 2016 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 2016 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 2016 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 2016 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2016 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 2016 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 2016 Bond for transfer, the Trustee is to issue a new 2016 Bond or 2016 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 2016 Bond issued upon any transfer. The Trustee may require the payment by any 2016 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 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds it has received.

2016 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2016 Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new 2016 Bond issued upon any exchange except in the case of any exchange of temporary 2016 Bonds for definitive 2016 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 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds it has received.

The Trustee is not required to register the exchange or transfer of any 2016 Bond during the period in which the Trustee is selecting 2016 Bonds for redemption for any 2016 Bond which the Trustee has selected for redemption.

## THE CERTIFICATES

### Terms of the Certificates

The 2016C Certificates will be executed and delivered in the aggregate principal amount of \$\_\_\_\_\_\*, and the 2016D Certificates will be executed and delivered in the aggregate principal amount of \$\_\_\_\_\_. The Certificates will be dated the date of initial delivery thereof, will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable on December 1, 2016 and each June 1 and December 1 thereafter, and will mature on the dates set forth on the inside cover page hereof. Interest on the Certificates will be computed on the basis of a 360 day year of twelve 30 day months.

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

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

### Prepayment of 2016C Certificates

**Optional Prepayment.** The 2016C Certificates with Certificate Payment Dates on or after June 1, 20\_\_ are subject to optional prepayment prior to their respective Certificate Payment Dates by the District on any date on or after June 1, 20\_\_, upon notice as provided in the Trust Agreement, as a whole or in part by lot in such order of maturity as the District may determine, in integral multiples of five thousand dollars (\$5,000), from any source of available funds, at a prepayment price equal to 100% of the principal amount to be prepaid, plus interest, if any, accrued with respect thereto to the date of prepayment, without premium.

**Mandatory Sinking Fund Prepayment.** The 2016C Certificates with a Certificate Payment Date of June 1, 20\_\_ are subject to mandatory prepayment prior to such Certificate Payment Date, in part by lot on the dates shown on the following schedules, in integral multiples of \$5,000 solely from the principal components of scheduled Installment Payments becoming due on such dates, at a price equal to the sum of the principal amount evidenced and represented by the 2016C Certificates to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

### Mandatory Sinking Fund Schedule

<i>Sinking Fund Payment Date (June 1)</i>	<i>Principal Amount</i>
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\* Final maturity.

**Extraordinary Prepayment From Insurance or Condemnation Proceeds.** The 2016C Certificates are subject to extraordinary prepayment by the District on any date prior to their respective Certificate Payment Dates, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each Certificate Payment Date, in such order of prepayment as the District may determine, in integral multiples of

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\* Preliminary, subject to change.

Authorized Denominations, from payments made by the District from the net proceeds received by the District due to the damage, destruction or condemnation of all or any portion of the Water Utility System under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and in the Installment Purchase Agreement, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the 2016C Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

There is no requirement to prepay the 2016C Certificates from insurance or condemnation proceeds on a pro rata or other basis.

**Prepayment of 2016D Certificates**

**Optional Prepayment.** The 2016D Certificates with Certificate Payment Dates on or after June 1, 20\_\_ are subject to optional prepayment prior to their respective Certificate Payment Dates by the District on any date on or after June 1, 20\_\_, upon notice as provided in the Trust Agreement, as a whole or in part by lot in such order of maturity as the District may determine, in integral multiples of five thousand dollars (\$5,000), from any source of available funds, at a prepayment price equal to 100% of the principal amount to be prepaid, plus interest, if any, accrued with respect thereto to the date of prepayment, without premium.

**Mandatory Sinking Fund Prepayment.** The 2016D Certificates with a Certificate Payment Date of June 1, 20\_\_ are subject to mandatory prepayment prior to such Certificate Payment Date, in part by lot on the dates shown on the following schedules, in integral multiples of \$5,000 solely from the principal components of scheduled Installment Payments becoming due on such dates, at a price equal to the sum of the principal amount evidenced and represented by the 2016D Certificates to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

**Mandatory Sinking Fund Schedule**

<i>Sinking Fund Payment Date (June 1)</i>	<i>Principal Amount</i>
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\* Final maturity.

**Extraordinary Prepayment From Insurance or Condemnation Proceeds.** The 2016D Certificates are subject to extraordinary prepayment by the District on any date prior to their respective Certificate Payment Dates, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each Certificate Payment Date, in such order of prepayment as the District may determine, in integral multiples of Authorized Denominations, from payments made by the District from the net proceeds received by the District due to the damage, destruction or condemnation of all or any portion of the Water Utility System under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and in the Installment Purchase Agreement, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the 2016D Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

There is no requirement to prepay the 2016D Certificates from insurance or condemnation proceeds on a pro rata or other basis.

**Notice of Prepayment**

Notice of prepayment shall be given by the Trustee, not less than twenty (20) nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the Certificates designated for prepayment at

their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories and (iii) the Information Services; provided, however, that so long as a book-entry system is used for the Certificates, the Trustee will send notice of prepayment only to the Securities Depositories and Information Services. Notice of prepayment to the Securities Depositories shall be given by registered mail, other electronically secure means, or any other method agreed upon and notice of prepayment to the Information Services shall be given by mail, other electronically secure means, or any other method agreed upon. Each notice of prepayment shall state the series, prepayment date, the prepayment price, if any, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be prepaid, the distinctive certificate numbers of the Certificates of such maturity to be prepaid and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on the prepayment date there will become due and payable on the Certificates to be prepaid, all of the principal amount thereof on the prepayment date, and that from and after such prepayment date interest evidenced and represented by the Certificates shall cease to accrue, and shall require that such Certificates be then surrendered at the address of the Trustee specified in the prepayment notice. Failure by the Trustee to give notice of prepayment pursuant to the Trust Agreement to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for prepayment. Failure by the Trustee to mail notice of prepayment pursuant to the Trust Agreement to any one or more of the respective Owners of any Certificates designated for prepayment shall not affect the sufficiency of the proceedings for prepayment with respect to the Owners to whom such notice was mailed.

In the event of prepayment of Certificates (other than sinking fund prepayments), the Trustee shall give notice of optional prepayment, other than any notice that refers to Certificates that are to be prepaid from proceeds of a refunding bond issue, only if sufficient funds have been deposited with the Trustee to pay the applicable prepayment price of the Certificates to be prepaid. The District shall give the Trustee written notice of its intention to optionally prepay Certificates at least 45 days prior to the intended Prepayment Date.

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

***Effect of Prepayment.*** If notice of prepayment has been duly given as aforesaid and money for the payment of the prepayment price of the Certificates called for prepayment is held by the Trustee, then on the prepayment date designated in such notice, Certificates shall become due and payable, and from and after the date so designated interest evidenced and represented by the Certificates so called for prepayment shall cease to accrue, and the Owners of such Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof. Any prepayment of Certificates pursuant to the Trust Agreement shall cause the schedule of Installment Payments set forth in the Installment Purchase Agreement to be recalculated by the District in accordance with the Installment Purchase Agreement. Such schedule shall be furnished by the District to the Trustee. All Certificates prepaid, pursuant to the provisions of the Trust Agreement shall be cancelled by the Trustee and shall be delivered to, or upon the order of, the District and shall not be redelivered.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES**

### **Pledge of Water Utility System Revenues**

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

Master Resolution and the Parity Master Resolution, amounts held in the Water Utility System Revenue Fund will be accounted for separately and apart from all other accounts, funds, money or other resources of the District.

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

The 2016 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 2016 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 2016 Bonds.

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

Water Utility System Revenues are defined in by 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, 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 2016 Bonds and to make Installment Payments from Net Water Utility System Revenues is absolute and unconditional.

**THE OBLIGATION OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2016 BONDS AND TO MAKE THE INSTALLMENT PAYMENTS WITH RESPECT TO THE CERTIFICATES 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 SUBDIVISION IS PLEDGED FOR THE PAYMENT OF THE 2016 BONDS AND THE INSTALLMENT PAYMENTS. THE OBLIGATION OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2016 BONDS AND TO MAKE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DO NOT CONSTITUTE INDEBTEDNESS OF THE DISTRICT IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION.**

#### **Allocation of Water Utility System Revenues**

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

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

- (a) Such amounts at such times as the District shall require to provide for the payment of Maintenance and Operation Costs;
- (b) To each Trustee to pay Debt Service at the times and in the amounts required by the Senior Obligations;
- (c) To each Trustee for deposit in the reserve funds created with respect to Senior Obligations an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such Senior Obligations reserve funds as and to the extent required by the applicable Senior Obligation;
- (d) On any date prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the Water Utility System (including payment of the principal of and interest on the 2016 Bonds and the payment of the Installment Payments); and
- (e) On the last Business Day of each Fiscal Year, the balance of the money then remaining in the Water Utility System Revenue Fund may be used for any lawful purpose of the District.

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

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

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

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

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

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

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

#### **Rate Covenant**

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

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

**Parity Obligations.** 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 2016 Bonds and Certificates**

No reserve fund has been created with respect to the 2016 Bonds or with respect to the Certificates.

### **Rate Stabilization Fund**

The Parity Master Resolution establishes a special fund designated as the “Rate Stabilization Fund” to be held by 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 2016 Bonds and the Installment Purchase Agreement; provided that amounts on deposit in the Rate Stabilization Fund may be apportioned for such purposes as are expressly permitted in the Parity Master Resolution. Such pledge constitutes a first lien on amounts on deposit in the Rate Stabilization Fund for the payment of Contracts and Bonds in accordance with the terms of the Parity Master Resolution.

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

Under certain circumstances, moneys received in one Fiscal Year may be required or permitted by generally accepted accounting principles applicable to governmental agencies such as the District to be recorded as revenue in a subsequent Fiscal Year, regardless of whether such moneys have been deposited in the Rate Stabilization Fund. See “Appendix A — AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015.”

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

As of December 31, 2015, there was approximately \$2,139,000 on deposit in the Rate Stabilization Fund.

### **Special Purpose Funds**

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

All amounts on deposit in Special Purpose Funds and the Special Purpose Funds are irrevocably pledged to the payment of the Bonds and Contracts, including the 2016 Bonds and the Installment Purchase Agreement, as provided in the Parity Master Resolution; provided that amounts on deposit in the Special Purpose Funds there may be apportioned for such purposes as are expressly permitted therein. Such pledge constitutes a first lien on amounts on deposit in the Special Purpose Funds for the payment of Contracts and Bonds in accordance with the terms of the Parity Master Resolution.

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

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

The District has designated the Drought Reserve, the San Felipe Emergency Reserve, the Santa Clara Valley Advanced Water Purification Center Reserve and the Supplemental Water Supply Reserve as Special Purpose Funds. As of December 31, 2015, there was approximately \$6,296,000 on deposit in such Special Purpose Funds.

### **Additional Bonds and Contracts**

***No 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 2016 Bonds and the Installment Purchase Agreement), provided:

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

(b) The estimated Net Water Utility System Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project, as evidenced by a certificate of an Authorized Officer of the District on file with the District, including (after giving effect to the completion of all such uncompleted Parity Projects) an

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

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

***Subordinate Obligations.*** The District may incur obligations secured by a pledge of Water Utility System Revenues, the Water Utility System Revenue Fund and all amounts on deposit in the Water Utility System Revenue Fund on a basis subordinate to the pledge of the Senior Master Resolution or payable therefrom on a basis subordinate to the pledge of the Parity Master Resolution securing the 2016 Bonds and the Installment Payments. The District currently has tax and revenue notes outstanding in the amount of \$150,000,000 securing the Commercial Paper Certificates which are payable from Net Water Utility System Revenues subordinate to the 2016 Bonds and the Installment Payments. See the caption "DEBT STRUCTURE OF THE DISTRICT" for the amount of commercial paper expected to be outstanding after the issuance of the 2016 Bonds and the execution and delivery of the Certificates.

#### **DEBT SERVICE SCHEDULE**

Set forth below is a schedule of debt service with respect to the 2016 Bonds, the Installment Payments with respect to the Certificates and the schedule debt service of the Senior Obligations due in each annual period ending June 1 of the following years.

**Debt Service Schedule<sup>(1)</sup>**

<i>Year Ending June 30</i>	<i>Senior Obligations<sup>(2)</sup></i>		<i>Bonds</i>				<i>Installment Payments</i>				<i>Total Parity Obligations</i>	
			<i>Series 2016A</i>		<i>Series 2016B</i>		<i>Series 2016C</i>		<i>Series 2016D</i>		<i>Total</i>	<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>		

**Total**

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

<sup>(2)</sup> Includes scheduled debt service on the 2006B Bonds and the outstanding installment payments under the 2007 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”). The District encompasses all of the territory within the County, one of the nine counties which make up the San Francisco Bay Area and constitutes a major portion of “Silicon Valley.”

The District has broad powers relating to the management of flood and storm waters within the District. 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 provides 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 the groundwater basin, and owns and operates three water treatment plants, 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 15 cities (Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Serena, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga and Sunnyvale), two investor-owned companies, one private company, and several mutual water companies. The District also serves the unincorporated areas of the County. These companies or agencies then deliver water to the consumers in the County. The District receives revenue from groundwater charges for water pumped from the groundwater basin, from the sale of treated water and from the sale of non potable 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.

Some of the water retailers within the District also receive supplies from the San Francisco Public Utilities Commission through the Bay Division Pipelines (“SFPUC” or “Hetch Hetchy”). Additional storage and supply is provided by San Jose Water Company, which owns and operates two small surface water reservoirs, Williams and Elsmar, and two small water treatment plants within the County. Some local governmental agencies operate water reclamation projects. The District does not receive revenue from the sale of water from the SFPUC water source, San Jose Water Company local water sources or wastewater reclamation sources other than the Gilroy Reclamation Facility.

The sources of District water are the California State Water Project (“SWP”), the U.S. Bureau of Reclamation’s Central Valley Project (“CVP”), 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 state 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 Sacramento – San Joaquin Bay-Delta. Locally, the District owns and operates ten surface water reservoirs which collect runoff during the winter rains. The District also owns and operates the Silicon Valley Advanced Water Purification Center which has the ability to deliver up to 8,000,000 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 groundwater basin to augment the natural recharge into the groundwater basin. The District uses streams and ponds as recharge facilities. The groundwater basin serves as a natural storage, conveyance, and treatment facility.

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

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

### **Board of Directors and Management**

***Board of Directors.*** In October 2009, then-Governor Arnold Schwarzenegger signed AB 466, which amended the Law. AB 466 replaced the former structure of the Board (which consisted of five elected and two appointed at-large members). Pursuant to AB 466, the current structure of the Board consists of seven members elected from separate districts pursuant to the boundary map that was most recently adopted by Resolution No. 11-63 of the Board (revised to reflect the 2010 federal census results). Members of the Board serve overlapping four-year terms. The current Directors are:

*John Varela (District 1):* Mr. Varela was appointed to the Board in December 2015 to fill the seat vacated by prior Director Dennis Kennedy. Mr. Varela is the current Vice Chair of the Board. Mr. Varela has served as a member of the City Council and Mayor of the City of Morgan Hill and currently sits on the board for the Morgan Hill Chamber of Commerce. In addition, Mr. Varela is active in the Silicon Valley Chamber Coalition Regional Economic Development Initiative. Mr. Varela has experience as an entrepreneur in the solar/clean energy and bio-fuel industries. District 1 encompasses the South County cities of Morgan Hill and Gilroy; the community of San Martin, the Evergreen and Silver Creek neighborhoods of San Jose; parts of south San Jose; and hills east of San Jose and Milpitas.

*Barbara Keegan (District 2):* Ms. Keegan was elected to the Board in November 2012 to represent District 2 and is the current Chair of the Board. 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. Mr. Santos retired as a Fire Captain from the San Jose Fire Department with 33 years of service. While at the San Jose Fire Department, Mr. Santos served for 12 years on the San Jose Police and Fire Retirement Board and was a labor representative of the San Jose Firefighters local union. He was then and is still very active as a volunteer for community services and has spearheaded several civic activity fundraiser projects. Mr. Santos received a bachelor's degree in public administration from Farelston and Nova Colleges and received associates degrees in political science and fire science. He also has a lifetime teaching credential from the California Community College system, where he taught fire science at Mission College. District 3 is in the northeastern portion of the



county and includes the City of Milpitas, portions of San Jose (Berryessa area, the Alum Rock area north of McKee Road and the Alviso area) portions of Sunnyvale and Santa Clara.

*Linda J. LeZotte (District 4):* Ms. LeZotte first became a member of the Board in 2010 and served as Chair of the Board in 2012. Ms. LeZotte previously served for eight years as a member of the City Council of the City of San Jose and for six years as a San Jose Planning Commissioner. In addition, Ms. LeZotte chaired the Joint Venture Silicon Valley Sustainable Buildings Initiative, and served on the Bay Area Climate Collaborative-Green Building Group, and the Cities Association Green Building Collaborative. She currently serves on the Advisory Board of Sustainable Silicon Valley. Ms. Lezotte is an attorney with over 30 years of experience, specializing in the areas of land use, environmental and municipal law, and corporate development. District 4 includes the City of Campbell, portions of the Willow Glen and Cambrian communities, and North Almaden and Blossom Hill areas of San Jose.

*Nai Hsueh (District 5):* Ms. Hsueh was elected to the Board in 2012 to serve District 5. Ms. Hsueh has more than 25 years of experience working on various aspects of water resources issues, including previously serving as Chief Operating Officer, Capital Program Services of the District. During her tenure at the District, she first progressed through the engineering career path from Assistant Engineer to Senior Engineer to one of the District's Chief Operating Officers. In such capacity, Ms. Hsueh was responsible for managing and implementing the District's capital improvement program to support its water supply, flood protection and environmental stewardship missions. Ms. Hsueh is a registered civil engineer in California and received her bachelor's degree in agricultural engineering from National Taiwan University and her master's degree in hydraulic engineering from the University of Iowa. District 5 includes portions of Cupertino, San Jose, Saratoga and Sunnyvale.

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

*Gary Kremen (District 7):* Mr. Kremen was elected to the District Board in 2014. Mr. Kremen has over 30 years of experience in starting and mentoring companies, including Clean Power Finance and WaterSmart Software. Mr. Kremen teaches graduate level courses from time to time at Northwestern University on energy policy, is a member of the Foundation Board of University of California, Merced, and is an advisor, grant proposal evaluator, and judge at Stanford University's TomKat Center for Sustainable Energy. Mr. Kremen has served as President of the Board of Directors of Purissima Hill Water District and as the Secretary of the Water Conservation Committee for Los Altos Hills. Mr. Kremen is a member of the Proposition 39, California Clean Energy Jobs Act Citizen's Oversight Board, appointed by the then-California State Controller, John Chiang. District 7 includes Palo Alto, Los Altos, Los Altos Hills, Mountain View, Monte Sereno, Los Gatos, and the southernmost portion of the San Jose.

**Management.** The District is headed by a Chief Executive Officer, District Counsel, Chief Operating Officer - Water Utility Enterprise, Chief Operating Officer - Watersheds, Chief Administrative Officer and Clerk of the Board.

[The District is conducting a selection process for the interim Chief Executive Officer position, vacated by former Chief Executive Officer, Mr. Beau Goldie. During the selection process, the two Chief Operating Officers and the Chief Administrative Officer will serve as acting Chief Executive Officer on a rotating basis. Mr. James M. Fielder, Chief Operating Officer – Water Utility Enterprises., is currently the

acting Chief Executive Officer. The interim Chief Executive Officer will be selected internally from District staff and is expected to serve until the Board selects a permanent Chief Executive Officer.]

*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's has more than 29 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.

*James M. Fiedler, Chief Operating Officer – Water Utility Enterprise.* Mr. Fiedler is the Chief Operating Officer responsible for management of the District's Water Utility Enterprise. Responsibilities include leading the District's water policy development and program implementation of its water importation, surface reservoir operations, groundwater management, raw and treated water delivery, wholesale treated water, water recycling and water conservation programs. Mr. Fiedler has 30 years of engineering and management experience in the area of water supply and flood control, primarily with the District. His management and technical experience includes regional water resources, flood and environmental planning, design, construction, operations and maintenance of water supply and flood protection infrastructure. He is a registered engineer in California and received his bachelor's degree in civil engineering from Loyola Marymount University, Los Angeles, California and his master's degree in civil engineering from Stanford University.

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

*Jesús Nava, Chief Administrative Officer.* Jesús Nava joined the District in October 2012. Mr. Nava oversees the areas of Finance & Budget Services, Human Resources, Procurement & Operational Services, and Information Management Services. Mr. Nava has 30 years of fiscal, administrative and policy experience. Most recently, Mr. Nava was the Finance Director/Treasurer for the City of Burlingame where he was responsible for all aspects of financial services as well as directing information technology services. Prior to that, Mr. Nava was the Deputy City Manager for the City of San Jose where he served as the chief liaison for the ten-member City Council. Mr. Nava has also served as City Manager for the City of Las Cruces, New Mexico and as Assistant City Manager for the City of Laredo, Texas. Mr. Nava has a master's degree in public administration from the University of Kansas and a bachelor's degree from the University of Texas.

*Michele L. King, CMC, Clerk of the Board.* Ms. King began service with the District in 2004 and has more than 12 years of experience in providing support to elected officials of special districts. As Clerk, Ms. King's responsibilities include ensuring that the District complies with regulations and deadlines for Board and committee meetings, agenda publications, Groundwater Production Charge Protests, Lobbyist Ordinance compliance, public record requests, and the Board, Board Advisory and Ad Hoc Committee, and Clerk of the Board annual budgets. Ms. King is a Certified Municipal Clerk and a member of the Northern California Clerks Association and the International Institute of Municipal Clerks.

**Employee Relations.** The District has three funded positions assigned to the Labor Relations Unit. Employees and management engage in a cooperative relationship, meeting regularly to address problems of concern. Memoranda of Understanding (MOU's), or labor agreements, are entered into between the District and each of these bargaining units. The MOU's cover, among other things, the pension benefits that the

District provides for eligible employees. See the caption "DISTRICT EMPLOYEE RELATIONS" below for a description of the District's pension plans.

## **Insurance**

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

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

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

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

The District maintains blanket property insurance coverage for its buildings and equipment, covering all traditional perils, but excluding earth movement and risks that are usually covered by bonds. The current blanket limit for this coverage is \$250,000,000. There are sublimits for particular perils consistent with normal property policies and appropriate to District loss exposures. The District's dams are not insured.

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

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

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

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

Settled claims have not exceeded commercial insurance coverage in any of the past three Fiscal Years. The District does not carry flood or earthquake insurance.

## **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 consisted with the resource allocation made in the adopted budget.

The current budget for Fiscal Year 2015-16 was approved by the Board on May 12, 2015. As of December 31, 2015, no material amendment to such budget has been approved.

## **PAWS Report**

On February \_\_, 2016, the District released its Annual Report on the Protection and Augmentation of Water Supplies (the "2016 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 2016 PAWS Report forms the basis on which the District will propose its maximum groundwater production and water charges for Fiscal Year 2016-17. Copies of the 2016 PAWS Report may be obtained from the District's website, however, the contents of the 2016 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 February 1, 2016, consisted of the following:

**SCHEDULE OF LONG-TERM INDEBTEDNESS  
(Dollars In Thousands)  
(as of February 1, 2016)**

<i>Type of Indebtedness</i>	<i>Final Maturity</i>	<i>Balance Outstanding</i>
Water Utility System Senior Obligations:		
Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B <sup>(1)</sup>	2035	\$ 78,310
Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2007A and Taxable Series 2007B <sup>(2)</sup>	2037	<u>111,565</u>
Total Senior Water System Obligations		<u>\$189,875</u>
All Other Debt Not Secured by Water Utility System Revenues:		
1994 Installment Purchase Agreement <sup>(3)</sup>	2024	\$46,660
1995 Installment Purchase Agreement <sup>(4)</sup>	2030	60,030
Total Other Debt		<u>\$106,690</u>
Total Long-Term Indebtedness		<u>\$301,172</u>

<sup>(1)</sup> A portion of the proceeds of the 2016 Bonds will be applied to refund the outstanding 2006A Bonds.  
<sup>(2)</sup> A portion of the proceeds of the 2016 Bonds will be applied to refund a portion of the 2007A Certificates.  
<sup>(3)</sup> Installment payments under the Installment Purchase Agreement dated as of June 15, 1994, by and between the District and the Corporation secure the 2004A Certificates and 2012A Certificates. Proceeds of the 2004A Certificates and 2012A Certificates were used to finance and refinance the District’s Flood Control System facilities.  
<sup>(4)</sup> Installment payments under the Installment Purchase Agreement dated as of June 27, 1995, by and between the District and the Corporation secure the 2007A Certificates. Proceeds of the 2007A Certificates were used to finance and refinance the District’s Flood Control System facilities.

Source: District.

**Short-Term Indebtedness.** The District may issue from time to time tax revenue anticipation notes (“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 2015-16 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 are dated May 12, 2015 and mature on October 1, 2016. As of X, 2016, the District had \$X principal amount of Commercial Paper Certificates outstanding, which mature on X, 2016. A portion of the proceeds of the 2016 Bonds will be used to pay all or a portion of the outstanding principal amount of the Commercial Paper Certificates on X, 2016. (Amounts and dates to be filled in when we get closer to publishing the POS)

## WATER UTILITY SYSTEM

### Service Area

The District's service area encompasses all of Santa Clara County, one of nine counties that make up the San Francisco Bay area. The service area is approximately 1,330 square miles and constitutes a major portion of "Silicon Valley." According to the U.S. Census Bureau, the County's population increased by approximately 6.3 percent between 2010 and 2014 to a total of approximately 1,895,000. Of the approximately 300,000 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.

### 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 XIII D to the California Constitution to the District's treated water rates see the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES — Proposition 218." In addition, see the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES" herein for a discussion of certain constitutional limitations applicable to certain rate setting authorities of the Board.

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

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

**Water 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. Zone W-2 refers to the northern area of the County and the Santa Clara Valley Groundwater Subbasin. Zone W-5 refers to the southern area of the County including the Coyote Valley and Llagas Subbasin. The treated water deliveries are all for municipal and industrial water use. The non-contract treated water may be available at the discretion of the District to encourage more treated water use and reduce groundwater pumping to maintain local aquifer storage. The water charges for the northern area of the County are higher than the southern area because the three water treatment plants and most of the distribution system service the northern area of the County. The southern area depends solely on groundwater and recycled water, rather than treated water.

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

<u>Fiscal Year</u>	<u>Zone</u>	<u>Groundwater</u>		<u>Treated Water</u>		<u>Surface Water</u>		<u>Reclaimed Water</u>	
		<u>Non-Agricultural</u>	<u>Agricultural</u>	<u>Non-Contract</u>	<u>Contract</u>	<u>Non-Agricultural</u>	<u>Agricultural</u>	<u>Non-Agricultural</u>	<u>Agricultural</u>
2011-12	W-2	569.00	17.10	619.00	669.00	581.17	29.27	--	--
	W-5	285.00	17.10	--	--	297.17	29.27	275.00	41.50
2012-13	W-2	622.00	17.70	672.00	722.00	634.60	30.30	--	--
	W-5	295.00	17.70	--	--	307.60	30.30	275.00	41.50
2013-14	W-2	680.00	18.30	755.00	780.00	695.31	33.61	--	--
	W-5	305.00	18.30	--	--	320.31	33.61	285.00	42.10
2014-15	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	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

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)**

<u>Fiscal Year</u>	<u>Zone</u>	<u>Groundwater</u>		<u>Treated Water</u>		<u>Surface Water</u>		<u>Reclaimed Water</u>	
		<u>Non-Agricultural</u>	<u>Agricultural</u>	<u>Non-Contract</u>	<u>Contract</u>	<u>Non-Agricultural</u>	<u>Agricultural</u>	<u>Non-Agricultural</u>	<u>Agricultural</u>
2016-17	W-2								
	W-5								
2017-18	W-2								
	W-5								
2018-19	W-2								
	W-5								
2019-20	W-2								
	W-5								

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

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

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

**Deliveries**

<i><u>Fiscal Year Ending</u></i> <i><u>June 30</u></i>	<i><u>Municipal &amp;</u></i> <i><u>Industrial</u></i>	<i><u>Agriculture</u></i>	<i><u>Total</u></i>	<i><u>% Increase/ (Decrease)</u></i>
2011	226,722	24,372	251,094	0.35%
2012	241,402	24,695	266,098	5.98
2013	249,420	28,255	277,676	4.35
2014	256,056	28,729	284,785	2.56
2015 <sup>(1)</sup>	211,050	25,700	236,750	(16.87)

**Sources**

<i><u>Calendar</u></i> <i><u>Year</u></i>	<i><u>Local Surface</u></i> <i><u>Water</u></i> <sup>(2)</sup>	<i><u>Central</u></i> <i><u>Valley</u></i> <i><u>Project</u></i> <sup>(3)</sup>	<i><u>SFPUC</u></i> <i><u>Intertie</u></i> <sup>(4)</sup>	<i><u>State</u></i> <i><u>Water</u></i> <i><u>Project</u></i> <sup>(5)</sup>	<i><u>Other</u></i> <sup>(6)</sup>	<i><u>Total</u></i>
2011	208,700	78,600	1,300	61,000	1,600	351,200
2012 <sup>(7)</sup>	50,900	137,200	(1,700)	63,800	1,900	252,100
2013 <sup>(7)</sup>	45,300	111,800	600	78,600	2,000	238,300
2014 <sup>(7)</sup>	15,400	69,400	(60)	40,000	2,000	126,740
2015	34,400	58,900	(600)	67,400	2,000	162,100

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

<sup>(2)</sup> Reservoir inflows plus supplies from storage, which may include flows to the environment. Calendar Year 2011 had higher environmental flows than is typical.

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

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

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

<sup>(6)</sup> Includes recycled water produced by South County Regional Wastewater Authority.

<sup>(7)</sup> Declines from 2012 through 2014 as a result of dry hydrological conditions.

Note: Table does not include natural groundwater infiltration, SFPUC managed water, South Bay Water Recycling, or SJWC local surface water. The District estimates that natural groundwater infiltration provides an average of approximately 50,000 acre-feet of water per year.

Source: District.

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

Differences in water deliveries and sources may vary significantly from one year to the next. Factors such as voluntary and mandatory water use reductions, hydrologic conditions, environmental conditions, new development, operations of the State Water Project and the Central Valley Project 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 basins managed by the



District during years of wet hydrological conditions accounts for a substantial amount of the difference between the volume of deliveries and the volume of sources in years of dry hydrological conditions. See the captions “DISTRICT FACILITIES – Groundwater Basin” and “SANTA CLARA COUNTY WATER SUPPLY.”

*Projected Water Deliveries and Sources of Water Delivered.* The following table projects water deliveries and sources of water delivered by the Water Utility System of the District for Fiscal Year 2015-16 and the next four fiscal years.

**PROJECTED WATER DELIVERIES AND SOURCES OF WATER DELIVERED**

**(In acre-feet per year)**

<b>Deliveries</b>				
<u><i>Fiscal Year Ending</i></u>	<u><i>Municipal &amp; Industrial</i></u>	<u><i>Agricultural</i></u>	<u><i>Total</i></u>	<u><i>% Increase/Decrease</i></u>
2016				
2017				
2018				
2019				
2020				

<b>Sources</b>					
<u><i>Calendar Year Ending June 30</i></u>	<u><i>Local Surface Water</i></u>	<u><i>Central Valley Project</i></u>	<u><i>State Water Project</i></u>	<u><i>Other<sup>(3)</sup></i></u>	<u><i>Total</i></u>
2016 <sup>(1)</sup>	78,800	68,500	93,700	2,000	243,000
2017 <sup>(2)</sup>	84,720	108,100	64,000	2,000	258,820
2018 <sup>(2)</sup>	84,720	108,100	64,000	2,000	258,820
2019 <sup>(2)(3)</sup>	84,720	108,100	64,000	2,000	258,820
2020 <sup>(2)(3)</sup>	84,720	108,100	64,000	2,000	258,820

<sup>(1)</sup> Calendar Year 2016 assumes median hydrologic year.

<sup>(2)</sup> Calendar Year 2017-20 CVP and SWP sources are based on normal year identified in the 2010 UWMP. CVP and SWP sources exclude carryover.

<sup>(3)</sup> Other sources include recycled water produced by South County Regional Wastewater Authority (SCRWA). [The projection may be refined after the completion of the master plan.]

Note: Total deliveries in 2019 and 2020 exceed sources because the sources projections only include District managed sources. Table does not include natural groundwater infiltration, SFPUC managed water, South Bay Water recycling, or SJWC local surface water. The District estimates that natural groundwater infiltration provides an average of approximately 50,000 acre-feet of water per year.

Source: District.

Projected water deliveries for Fiscal Years 2015-16 reflect mandatory water use reductions as a result of the Statewide drought, as further described under the caption “FACTORS AFFECTING WATER SUPPLIES — California Drought and District Response.” The projected amounts in Fiscal Years 2016-17 and 2017-18 reflect the end of mandatory water use reductions and a gradual return to average water use. Projected deliveries in Fiscal Years 2018-19 and 2019-20 reflect average water use.

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

**Historical Sales Revenues.** The following table shows the District’s historical water sales revenues for the last five fiscal years.

**HISTORICAL SALES REVENUES**

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Groundwater</u>	<u>Treated Water</u>	<u>Surface &amp;</u> <u>Recycled Water</u>	<u>Total</u>	<u>% Increase/</u> <u>(Decrease)</u>
2011	\$50,384,000	\$70,135,000	\$828,000	\$121,347,000	1.00%
2012	48,030,000	92,904,000	849,000	141,783,000	16.84
2013	62,084,000	92,359,000	1,275,000	155,718,000	9.83
2014	84,308,000	86,386,000	1,680,000	172,374,000	10.70
2015	77,095,000	76,799,000	925,000	154,819,000	(10.18)

Source: District.

**Projected Sales Revenues.** The following table shows the annual water sales revenues projected by the District for Fiscal Year 2015-16 and the next four fiscal years. The projections reflect an assumption by District staff that the water charges will be increased by approximately 13.15% in each fiscal year from 2015-16 through 2019-20. Such increases would be required to be approved by the District Board and there can be no assurance that such increases will be implemented as currently projected.

**PROJECTED SALES REVENUES**

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Groundwater</u>	<u>Treated</u> <u>Water</u>	<u>Surface &amp;</u> <u>Recycled Water</u>	<u>Total</u>	<u>% Increase/</u> <u>(Decrease)</u>
2016					
2017					
2018					
2019					
2020					

Source: District.

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

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

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

Under AB 454 (Statutes of 1987, Chapter 921), the State reports to each county auditor-controller only the county-wide unitary taxable value of State-assessed utility property, without an indication of the

distribution of the value among tax rate areas. The provisions of AB 454 apply to all State-assessed property except railroads and non-unitary properties, and do not constitute an elimination of a revision of the method of assessing utilities by the State Board of Equalization. AB 454 allows generally valuation growth or decline of State-assessed unitary property to be shared by all jurisdictions within a county.

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

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not, among other things: (i) shift property taxes from local governments to schools or community colleges; or (ii) change how 1% ad valorem property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature. Beginning in Fiscal Year 2010, 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 2014-15, the District allocated approximately \$5,602,000 (approximately 7.5%) to the Water Utility System.

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

**District Share of 1% Property Tax Levy**

<u>Fiscal Year Ended June 30</u>	<u>District Share of 1% Levy</u>	<u>% Increase/ (Decrease)</u>
2011	\$56,417,000	N/A
2012	57,507,000	1.93%
2013	65,811,000	14.44
2014	68,381,000	3.91
2015	74,700,000	9.24

Source: District.

Property taxes levied by the District to pay State Water Project contract costs are not pledged to the payment of the 2016 Bonds or the Installment Payments and are not included in the amounts shown above.

**SANTA CLARA COUNTY WATER SUPPLY**

The District derives its water supply from three main sources: (i) local natural recharge in the groundwater basin, (ii) local surface water from District reservoirs, (iii) water imported by the District through SWP, and (iv) water imported by the District through CVP. The District also sells a small amount of recycled water from the South County Regional Wastewater Authority’s Wastewater Treatment and Reclamation Facility (SCRWA Reclamation Facility), and delivers purified water from the SVAWPC.

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

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

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

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

<i>Calendar Year</i>	<i>SWP</i>	<i>CVP</i>	<i>SFPUC</i>	<i>Recycled Water</i>	<i>Local Surface Water</i>	<i>Natural Groundwater Recharge</i>	<i>Total</i>
2011	61,000	78,600	49,000	15,000	224,000	40,000	467,600
2012	63,800	137,200	52,000	17,000	54,000	52,000	376,000
2013	78,600	111,800	55,000	21,000	57,000	39,000	362,400
2014	40,000	69,400	47,000	22,000	46,000	53,000	277,400
2015 <sup>(1)</sup>	67,400	58,900	42,000	23,000	35,400	37,000	263,700

<sup>(1)</sup> Estimated.

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

### Surface Water

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

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

The total amount of surface water flowing into the County does not necessarily represent local water supply yield. The yield of the major tributary drainage area is defined as that portion of the historical surface water that can, on a long-term basis, be put to beneficial use through surface diversions and/or groundwater recharge, considering the available storage, recharge, and conveyance capacities of the distribution facilities. The remaining water is released to San Francisco or Monterey Bays. Based on 2010 through 2014 data,

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

### **Groundwater Recharge**

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

### **Imported Supplies**

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

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

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

### **State Water Project**

In 1961, the District contracted with the SWP (the "SWP Contract") for a new water supply. This imported supply provides water for groundwater recharge and for treatment at two District water treatment plants, the Rinconada and Penitencia WTPs. The SWP Contract provides for a maximum annual entitlement of 100,000 acre-feet of water from SWP and a maximum total of 6,510,783 acre feet of water from the SWP over the term of the SWP Contract, which became effective in 1961 and shall remain effective through the project repayment period, or for seventy-five 75 years (2035), whichever period is longer. As of June 30, 2015 the District had received approximately 3,396,882 acre feet of SWP water pursuant to such entitlement. In certain years, the District can receive additional SWP water consisting of temporary flood flow in the Delta which does not count against the entitlement amount. SWP water deliveries began in 1965 and are transported to the District service area via the South Bay Aqueduct.

The SWP Contract requires the District to reimburse the State for capital costs (including interest thereon) and minimum operating, maintenance, power and replacement costs of the SWP transportation and conservation facilities. A property tax is levied by the District to pay the cost of this obligation. Such property taxes are not pledged to the payment of the 2016 Bonds or the Installment Payments 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 is responsible for statewide water supply planning. The California Water Code requires DWR to publish an update of the California Water Plan every five years. Update 2013 is the latest in a series of water plan updates. Update 2013 evaluates water supplies and assesses agricultural, urban, and environmental water uses to quantify the gap between water supplies and uses.

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 August 25, 2015, relating to its Central Valley Project Water System Revenue Bonds Series AU (Index Floating Rate Bonds) (“DWR’s Water Supply Disclosure”). The District incorporates DWR’s Water Supply Disclosure by specific reference in this Official Statement. DWR’s Water Supply Disclosure is the disclosure of DWR and, accordingly, the District does not make any representations as to the accuracy or completeness of DWR’s Water Supply Disclosure or as to the absence of material adverse changes in DWR’s Water Supply Disclosure after the date hereof.

DWR has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated for the benefit of owners of certain outstanding obligations to file with certain information repositories annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act (“Rule 15c2-12”) and annual audited financial statements (the “Department of Water Resources Information”). This information is to be filed by DWR with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>. DWR disclosure documents and annual reports should be reviewed for information pertaining to water supply matters. DWR has not entered into any contractual commitment with the District, the Trustee or the Owners of the 2016 Bonds or the Certificates to provide Department of Water Resources Information to the District or the Owners of the 2016 Bonds or the Certificates. 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 2016 BONDS OR THE CERTIFICATES UNDER RULE 15c2-12.

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

### **Central Valley Project**

On June 7, 1977, the District entered into a contract (the “CVP Contract”) with the United States Bureau of Reclamation (“USBR”) for water service from the San Felipe Division of the CVP. The CVP contract provides for both agricultural and municipal and industrial (“M&I”) water deliveries to the District up to a total contract amount of 152,500 acre-feet per year. 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 as well as for groundwater recharge. The CVP Contract specified initial water rates for agricultural and M&I water service and provides for periodic adjustment of the respective water rates in accordance with prevailing CVP water rate policies commencing in the years 1993 for the in-basin M&I rate component, 1996 for the agricultural O&M rate component and 2001 for the full agricultural water rate. The methodology of CVP water rate setting has historically recovered current year operating costs, and over 50 years, the applicable construction costs.

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

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

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

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

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

## **DISTRICT FACILITIES**

### **Local Reservoirs**

The District owns, operates, and maintains a countywide 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 basin or treatment at the District's water treatment plants. Water from the Anderson/Coyote and the Almaden/Calero Reservoir systems can be delivered to the water treatment plants.



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

**SIGNIFICANT FEATURES OF DISTRICT RESERVOIRS**

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

Sources: SCVWD Urban Water Management Plan 2010 and Protection and Augmentation of Water Supplies Report, February 2015.

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

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

Dam safety operating restrictions have been placed on Almaden, Anderson, Calero, Coyote, and Guadalupe reservoirs and have resulted in loss of about a quarter of the total surface storage capacity.

**Groundwater Basin**

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

The groundwater basin underlying the County is divided into two interconnected groundwater subbasins: Santa Clara Subbasin and Llagas Groundwater Subbasin. The District further delineates Santa Clara Subbasin into two management areas: Santa Clara Plain and the Coyote Valley. These subbasins and their operational storage capacities are described below.

**Santa Clara Subbasin – Santa Clara Plain**

Santa Clara Plain, the northern portion of Santa Clara Subbasin, extends from the northern boundary of the County at the San Francisco Bay to Metcalf Road in the south. It is bounded on the west by the Santa Cruz Mountains and on the east by the Diablo Range. The subbasin is 22 miles long and 15 miles wide with a surface area of 225 square miles. A confined zone within the northern area of the subbasin is underlain with a thick clay layer. The southern area and eastern and western edges are the unconfined zone or forebay where the clay layer does not extend. The forebay is where the District recharges local and imported water. DWR

published Bulletin Number 7 in June 1955 in which the storage volume is estimated at 1,900,000 acre-feet of water in Santa Clara Subbasin, including the Coyote Valley. However, subsidence may occur if groundwater elevations drop below subsidence threshold elevations for an extended period of time. As a result, the District estimates that the Santa Clara Plain has an operational storage capacity of approximately 350,000 acre-feet. The operational groundwater storage estimate does not reflect the total amount of available supply in the basin, which is substantially greater. The operational storage reflects current knowledge and modeling of the volume that can be withdrawn before increased risk of surface subsidence resuming or other negative consequences to portions of the basin, such as salt-water intrusion and high groundwater level nuisance that impact structures located below ground. The District is currently working to refine the operational storage capacity estimate based on historically observed data.

### **Santa Clara Subbasin – Coyote Valley**

The Coyote Valley, the southern portion of Santa Clara Subbasin, extends from Metcalf Road in the north to Cochrane Road in the south. The subbasin is seven miles long and ranges in widths from half a mile to three miles. It has a surface area of approximately 15 square miles. The groundwater subbasin in Coyote Valley is unconfined and has no thick layers of clay. The operational storage capacity for the Coyote Valley is between 23,000 and 33,000 acre-feet of water. The District is currently working to refine the operational storage capacity estimate based on historically observed data.

### **Llagas Subbasin**

Llagas Subbasin extends from Cochrane Road in the north to the Pajaro River at the southern border of the County. This subbasin is approximately 15 miles long, three miles wide at the northern boundary and six miles wide along the Pajaro River. Its surface area is approximately 74 square miles. A thick clay layer extending north from the Pajaro River divides this subbasin into confined and forebay zones. The District's groundwater recharge activities are primarily in the northern area or forebay of this subbasin. Bulletin Number 7 by DWR estimates the storage volume at 510,000 acre-feet of water. The District estimates that the operational storage capacity is between 152,000 and 165,000 acre-feet of water. The District is currently working to refine the operational storage capacity estimate based on historically observed data.

### **Managed Recharge Facilities**

The District owns and operates seven managed aquifer recharge systems. Within these systems, the District supplies off-stream recharge facilities and supplements natural flow in existing stream channels to recharge local and imported water into the groundwater basin. In 2015, it was estimated that the amount of water recharged into the groundwater basins by the District was 55,000 acre-feet. Significant features of these managed recharge systems appear in the following table.

**MANAGED RECHARGE SYSTEMS**

<i>Recharge System</i>	<i>Number of Ponds</i>	<i>Pond Area (in acres)</i>	<i>Miles of Stream</i>	<i>Average Annual Recharge Quantity (acre-feet per year)*</i>
Westside	2	3	20	11,000
Los Gatos	27	71	8	23,000
Guadalupe	20	80	21	16,000
Penitencia	24	21	2	3,000
Coyote	2	40	17	25,000
Upper Llagas	21	25	10	11,000
Lower Llagas	3	25	8	12,000
<b>Total</b>	<b>99</b>	<b>265</b>	<b>86</b>	<b>101,000</b>

\*Average Annual Recharge Quantity is based generally on recharge averaged over CY 2009-13. CY 2014 was excluded since it is an outlier year.

**Raw Water Conveyance System**

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

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

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

**PIPELINES**

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

## Water Treatment and Water Purification

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

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

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

The Santa Teresa WTP is a conventional treatment plant utilizing coagulation, flocculation, sedimentation, filtration, and disinfection. In spring of 2006, the plant completed significant upgrades which were highlighted by the addition of ozone to the treatment process. Ozone is a strong disinfectant that creates less disinfection byproducts than chlorine. Disinfection byproducts at high levels can be a health concern. Drinking water from the plant serves most of the southern portion of the City of San Jose (Almaden Valley, Blossom Valley, Santa Teresa), supplying water to both residential and commercial users.

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

The Penitencia WTP is a conventional treatment plant utilizing coagulation, flocculation, sedimentation, filtration, and disinfection. In the summer of 2006, the plant completed significant upgrades which were highlighted by the addition of ozone to the treatment process. This plant typically serves an area of the northeastern portion of the County, City of San Jose, supplying safe drinking water to approximately 270,000 residential and commercial users in San Jose and Milpitas.

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

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

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

***Silicon Valley Advanced Water Purification Center.*** First operated in March 2014, the Silicon Valley Advanced Water Purification Center (SVAWPC) has the ability to deliver up to eight MGD of purified water. The SVAWPC is District owned and operated. The SVAWPC is an advanced treatment facility that utilizes microfiltration, reverse osmosis and ultra-violet light disinfection processes that purifies the water to near-distilled quality water. This purified water is blended with tertiary treated recycled water and South Bay Water Recycling retailers receive this recycled water that is then used for irrigation and industrial uses that offset potable water supplies.

**Treated Water Storage and Distribution System**

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

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

**WATER TREATMENT AND STORAGE FACILITIES  
AND DISTRIBUTION SYSTEM**

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

**Seismic Considerations**

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

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

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

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

**Summary of Recent Seismic Stability Evaluations of District Dams**

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

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

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

minimizing loss of water and impacts to level of service. Recent independent studies indicate that some District facilities might be subject to damage from fault displacement or moderate earthquakes on faults previously thought to be low-risk. The District conducts periodic engineering studies, inspections and maintenance of District facilities, including District dams, which informs the District’s future planning and design work.

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

**Water Distribution System**

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



## Water Usage

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

Approximately 87 percent of the District's water use is by the water retailers and the larger mutual water companies listed below.

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

	Fiscal Year 2013-14			Fiscal Year 2014-15		
	Groundwater	Treated Water	Total	Groundwater	Treated Water	Total
<b>WATER RETAILERS</b>						
San Jose Water Company	71,539.55	65,645	137,184.55	56,907.81	54,701	111,608.81
Santa Clara, City of	14,445.45	4,292	18,737.45	13,362.13	3,378	16,740.13
California Water Service	5,611.06	8,950	14,561.06	5,270.67	6,516	11,786.67
San Jose, City of	791.90	14,863	1,5654.9	1,252.62	11,691	12,943.62
Great Oaks Water Co	12,078.55	--	12,078.55	9,996.29	--	9,996.29
Sunnyvale, City of	1,037.69	10,321	11,358.69	1,163.38	7,523	8,686.38
Gilroy, City of	8,810.94	--	8,810.94	7,609.08	--	7,609.08
Morgan Hill, City of	8,618.25	--	8,618.25	6,804.11	--	6,804.11
Milpitas, City of	--	3,067	3,067.00	--	3,556	3,556.00
Cupertino, City of	--	3,198	3,198.00	--	2,389	2,389.00
Mountain View City of	480.65	1,215	1,695.65	563.51	919	1,482.51
West San Martin Water Co	393.72	--	393.72	371.81	--	371.81
New Avenue Mutual Water	184.24	--	184.24	31.51	--	31.51
Subtotals						
Water Retailers	123,992.00	111,551	235,543.00	103,332.92	90,673	194,005.92
All Others	9,299.68	0	9,299.68	8,434.84	0	8,434.84
Total	133,291.68	111,551	244,842.68	111,767.76	90,673	202,440.76

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

Fiscal Year Ended June 30	Groundwater		Treated Water	Surface Water	Recycled Water	Total
	Agricultural	Non- Agricultural				
2011	23,035.80	111,515.72	113,264	2,884.41	695.31	251,395.24
2012	23,539.95	100,118.58	138,977	3,391.31	960.36	266,987.20
2013	26,681.78	117,172.95	129,547	3,584.73	893.54	277,880.00
2014	26,984.55	141,796.96	111,551			280,332.51
2015			90,672			90,672.00

Source: District.



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

	Fiscal Year 2013-14			Fiscal Year 2014-15		
	<u>Groundwater</u>	<u>Treated Water</u>	<u>Total</u>	<u>Groundwater</u>	<u>Treated Water</u>	<u>Total</u>
<b>WATER RETAILERS</b>						
San Jose Water Company	\$48,610,514	\$51,069,954	\$99,680,468	\$42,480,561	\$46,331,662	\$88,812,223
Santa Clara, City of	9,822,906	3,346,737	13,169,643	9,981,511	2,861,200	12,842,711
San Jose, City of	400,713	11,581,125	11,981,838	810,042	9,901,862	10,711,904
California Water Service	3,815,521	6,520,870	10,336,391	3,937,190	5,518,823	9,456,013
Sunnyvale, City of	705,629	8,035,065	8,740,694	869,045	6,371,854	7,240,899
Great Oaks Water Co	6,621,895		6,621,895	5,753,015		5,753,015
Milpitas, City of		2,390,714	2,390,714		3,011,703	3,011,703
Gilroy, City of	2,687,337		2,687,337	2,427,297		2,427,297
Cupertino, City of	168,674	2,493,883	2,662,557	364,783	2,023,720	2,388,503
Morgan Hill, City of	2,628,566		2,628,566	2,170,511		2,170,511
Mountain View, City of	326,842	947,489	1,274,331	420,942	778,063	1,199,005
West San Martin Water Co	120,085		120,085	118,607		118,607
New Avenue Mutual Water	56,193		56,196	10,052		10,052
Subtotals						
Water Retailers	\$75,964,875	\$86,385,837	\$162,350,712	\$69,343,556	\$76,798,887	\$146,142,443
All Others	4,807,250	0	4,807,250	4,428,585	0	4,428,585
Individual groundwater customers	3,535,875	0	3,535,875	3,322,859	0	3,322,859
Total	\$84,308,000	\$86,385,837	\$170,693,837	\$77,095,000	\$76,798,887	\$153,893,887

Source: District.

**San Jose Water Company.** San Jose Water Company is the largest water retailer served by the District and currently provides water service to over 1,000,000 customers. San Jose Water Company is currently owned by SJW Corporation, a public traded company. For the fiscal year ended June 30, 2015, the District received \$88,812,000 in charges for treated water and groundwater from the San Jose Water Company consisting of approximately 57.4 percent of the water sales revenues of the District's Water Enterprise.

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

San Jose Water Company and SJW Corporation are not obligors with respect to the 2016 Bonds or the Installment Purchase Agreement. The 2016 Bonds and the Installment Purchase Agreement are obligations of the District payable from the District's Net Water Utility System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES," herein. References made herein to San Jose Water Company and SJW Corporation are for informational purposes only. The District makes no representations as to the accuracy or the adequacy of any of the filings of SJW Corporation with the Securities Exchange Commission (the "Commission") described below. The filings described below are strictly those of SJW Corporation and not of the District and such filings are not incorporated by reference herein.

SJW Corporation is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Commission. The Annual Report on Form 10-K (the "Form 10-K") for the year ended December 31, 2014, has been filed by SJW Corporation with the Commission. The Form 10-K and other annual and periodic reports of the SJW Corporation (including financial information) may be inspected and copied at the public reference facilities of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 and the Securities Exchange Commission's regional offices.

## FACTORS AFFECTING WATER SUPPLIES

### General

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

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

The District completed its 2010 Urban Water Management Plan ("UWMP") on May 24, 2011 (District Resolution No. 11-36), 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 2010 UWMP updates the District's water demand projections based upon the Association of Bay Area Governments 2009 projected increases in population and job growth to 2035 and demands projected by major water retailers. The 2010 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. The 2015 UWMP is being developed and will be submitted to DWR by the July 1, 2016 due date.

A key finding of the UWMP 2010 is that, in addition to investing in new supplies, the District must also make significant investments to maintain and safeguard existing water supplies, infrastructure, and programs to ensure a reliable water supply into the future. The District's 2012 Water Supply and Infrastructure Master Plan has three elements – secure existing supplies and infrastructure, optimize the use of existing supplies and infrastructure, and increase water recycling (including potable reuse) and conservation to meet future needs – in its strategy to provide a reliable water supply into the future.

### Endangered Species Act Issues

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

**Delta Litigation.** Various legal challenges have been filed impacting the conveyance of water through the Delta by the California Department of Water Resources ("DWR") via the SWP and by the United States Bureau of Reclamation ("Bureau") via the CVP. These have included such cases as *Watershed Enforcers v. Broderick (California Department of Fish and Game), et al.* (Alameda County Superior Court, J. Smith, presiding) (the "Watershed Smelt Litigation"), which relates to the SWP; *Natural Resources Defense Council*

*v. Kempthorne (United States Department of the Interior)* (United States District Court for the Eastern District of California, J. Wanger, presiding) (the “Delta Smelt OCAP Litigation”) and *Pacific Coast Federation of Fisherman’s Association/Institute for Fisheries Resources v. Gutierrez* (United States Department of Commerce) (United States District Court for the Eastern District of California, J. Wanger, presiding) (the “Salmon OCAP Litigation”), which relate to the coordinated operations of the CVP and SWP; and *State Water Contractors (“SWC”), San Luis and Delta Mendota Water Authority (“SLDMWA”), Westlands Water District (“WWD”), et al. v. California Department of Fish and Game* (Sacramento Superior Court) (“Longfin Smelt Litigation”), which also relates to the operations of the SWP.

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

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

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

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

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

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

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

On May 25, 2010, the court granted the plaintiffs' request for preliminary injunction in the Consolidated Salmon Cases, restraining enforcement of two requirements under the salmon BO that limit exported water during the spring months based on San Joaquin River flows into the Bay-Delta and reverse flows on the Old and Middle Rivers. Hearings on motions for summary judgment in the Consolidated Salmon Cases were held on December 16, 2010. On September 20, 2011, Judge Wanger issued a decision on summary judgment, finding that the salmon BO was flawed, and that some but not all of the project restrictions in the Salmon BO were arbitrary and capricious. On December 12, 2011, Judge O'Neill (who was assigned to this case following Judge Wanger's retirement) issued a final judgment in the Consolidated Salmon Cases. The final judgment remands the 2009 salmon BO to the National Marine Fisheries Service ("NMFS"), and directs that a new draft salmon BO be issued by October 1, 2014, and that a final BO be issued by February 1, 2016, after completion of environmental impact review under NEPA. On January 19, 2012, Judge O'Neill approved a joint stipulation of the parties that specifies how to comply with one of the salmon BO restrictions that applies to water project operations in April and May of 2012. In January and February 2012, the federal defendants and environmental intervenors filed appeals of the final judgment in the Consolidated Salmon Cases, and the SWP and CVP contractors filed cross-appeals, but the NEPA holding was not appealed and thus stands. A hearing before the U.S. Court of Appeals for the Ninth Circuit was held in September 2014, and on December 22, 2014, the Ninth Circuit reversed the district court decision and upheld the Salmon BO. The remand order related to the 2009 Salmon BO was rescinded. The Ninth Circuit issued a mandate on February 17, 2015. The district court issued the final order on May 5, 2015.

*Longfin Smelt Litigation.* The California Fish and Game Commission listed the longfin smelt as a threatened species under CESA in March 2009. On February 23, 2009, in anticipation of the listing

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

*The SWP and CVP have been operating under the 2008 Delta Smelt BO and 2009 Salmon BO since they were issued. Deliveries of water supply from the SWP and CVP are not likely to increase in the near future unless new information or projects are developed that support a reconsultation and reconsideration of project operations. The District believes that any future decision or order by a State or Federal court related to one or more of the above-described BOs and leading to adverse decisions reducing SWP or CVP supplies would not have a material impact on the District's ability to pay debt service on the 2016 Bonds or to make the Installment Payments.*

### **California Water Policy Framework**

The District's water supply under its contracts with the SWP and CVP is imported through the San Francisco Bay/Sacramento San Joaquin River Delta Estuary ("Bay-Delta" or "Delta"). The Bay-Delta is the largest estuary on the west coast and supports more than 750 species of plants and wildlife. Water diverted and re-diverted from the Bay-Delta also provides water supply to more than two-thirds of the population in the state and to agriculture in the Central Valley and the San Felipe Division of the CVP. However, decades of competing demands have taken a toll on the Bay-Delta and today it no longer functions as a healthy ecosystem. Regulatory actions to protect threatened or endangered fisheries have reduced the reliability of Bay-Delta water supplies. Water quality is 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.

In 1995, the State Water Resources Control Board (the "SWRCB") adopted a Water Quality Control Plan for the Sacramento-San Joaquin Delta estuary. The Water Quality Control Plan's standards protect municipal, industrial and agricultural beneficial uses as well as fish and wildlife resources. In January 2003, the SWRCB completed its water rights process for implementing the Water Quality Control Plan.

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.

Earlier this year, the State separated the focus of the BDCP into two efforts: the California Eco Restore ("EcoRestore") Project and the California Water Fix. California EcoRestore aims to accelerate and implement a comprehensive suite of habitat restoration actions to support the long-term health of the Bay-Delta's native fish and wildlife. California Water Fix focuses on protecting the State's water supplies from climate change through water system upgrades that protect against the impacts of sea level rise and earthquakes while improving river flows and reducing entrainment for threatened fish species. The Bay-Delta diversion facilities previously proposed in the BDCP are now captured within the California Water Fix effort. The State released the Recirculated Draft Environmental Impact Report ("RDEIR")/Supplemental Draft Environmental Impact Statement ("SDEIS") on July 10, 2015, with comments due by August 31, 2015. On July 22, 2015, the comment period was extended to October 30, 2015. [UPDATE] The RDEIR/SDEIS addresses the environmental impacts of the diversion facilities. The current estimated cost of the California Water Fix is approximately \$15.8 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.

### **Allocation of Water Deficiencies**

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

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

### **Water Banking**

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

In May 1996, the Board took the first step in implementing the banking strategy when it approved an agreement with Semitropic Water Storage District to store 45,000 acre-feet of State Water Project water. In 1997, the Board approved a long-term agreement with Semitropic. 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, 2015], the District had approximately 208,000 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 project water may be conveyed through or is stored in San Luis Reservoir and is available, deliveries from the Semitropic Groundwater Banking Program could be accomplished through the San Felipe Division.

## **District's Local Water Right Permit and Licenses**

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

In 1997, the District commenced settlement negotiations with GCRCD as well as with National Marine Fisheries Service ("NMFS"), U.S. Fish and Wildlife Service ("FWS"), California Department of Fish and Wildlife ("CDFW"), and other interested non-governmental non-profit organizations in an effort to resolve GCRCD's complaint (Collectively referred to as the "Settlement Parties"). Settlement negotiations occurred through a District established process called the Fisheries and Aquatic Habitat Collaborative Effort ("FAHCE"). On May 27, 2003, a conditional settlement was initiated by the Settlement Parties, which set forth a pathway to resolve the water rights complaint. This settlement agreement, entitled, Settlement Agreement Regarding Water Rights of the Santa Clara Valley Water District on Coyote, Guadalupe, and Stevens Creeks ("FAHCE Settlement Agreement") committed the District to carrying out certain condition precedents 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 precedents 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 precedents 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 condition precedents have not been completed. From the date the FAHCE Settlement Agreement was initiated in May of 2003 to 2014, the District actively pursued completion of the condition precedent of obtaining federal incidental take coverage of Steelhead trout from NMFS under the ESA through a Habitat Conservation Plan. Because of past and likely ongoing protracted negotiations with NMFS, the District shifted its focus to complete the other conditions precedent specified in the FAHCE Settlement Agreement required for state regulatory approval. Once these other conditions precedent are completed, the District intends to carry out the FAHCE Restoration Program, while pursuing federal incidental take coverage of Steelhead trout either through Section 7 or Section 10 of the ESA.

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

## **California Drought and Response**

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

On April 1, 2015, Governor Brown issued an executive order (the “2015 Executive Order”) mandating, among other provisions, a 25% reduction in potable urban water usage in California (as compared to potable water usage in 2013) through February 28, 2016. The 2015 Executive Order provides that the actual mandatory reduction required of each water supplier by the SWRCB will vary based on per capita water usage, with those areas with high per capita water usage being required to achieve proportionately higher reductions than those areas with lower per capita water usage.

On May 5, 2015, following a formal rulemaking process and public comment period, the SWRCB adopted an emergency regulation to implement the 2015 Executive Order. The regulation became effective immediately upon approval by the Office of Administrative Law on May 15, 2015, and will remain in effect for 270 days from such date. Under the regulation, 411 urban water providers in the State are classified into nine tiers and assigned a required conservation standard which is imposed on each tier. The tier classifications are based upon a water supplier’s per capita water usage in the three month period from July to September 2014. The conservation standard applied to the tiers ranges from a 4% reduction in total potable water production (although no water providers were proposed to be classified in such tier absent the demonstration by a water provider of satisfaction of certain specified criteria) to a 36% reduction in total potable water production from 2013 levels. As adopted, the regulation requires areas with high per capita water usage to achieve proportionately greater reductions in water use than those with low use. The regulation provides that the 2,600 “small water suppliers” in the State that serve fewer than 3,000 customers or deliver less than 3,000 acre-feet of water annually are required to either achieve a 25% conservation standard or restrict outdoor irrigation to no more than two days per week. Commercial, industrial and institutional properties that are not served by a water supplier (or are self-supplied) are similarly required to either achieve a 25% conservation standard or restrict outdoor irrigation to no more than two days per week. Under the regulation, compliance by the 411 urban water suppliers will be assessed for the period of June 2015 through February 2016 as compared to water usage in the corresponding prior timespan of June 2013 through February 2014. In addition to the total monthly water production and specific reporting on residential use and enforcement action previously adopted by the SWRCB, the regulation adopted May 5, 2015 also includes new reporting requirements for urban water suppliers to include information on water use in the commercial, industrial and institutional sectors. In order to enforce compliance by water suppliers, the regulation authorizes the SWRCB to issue informational orders, conservation orders or cease and desist orders requiring additional specific actions by a water supplier that is not meeting its conservation standard. Failure to provide information requested pursuant to an informational order within the required timeframe would be subject to civil liability of up to \$500 per day for each day out of compliance. Water agencies that violate cease and desist orders may be subject to a civil liability of up to \$10,000 a day.

While the 2015 Executive Order as implemented by the SWRCB does not require the District, as a wholesaler, to reduce water sales, the Board adopted Resolution 14-11 on February 25, 2014, implementing a water use reduction target in the County of 20 percent in 2014 compared to 2013. On March 24, 2015, the Board adopted Resolution 15-24 that increased the water use reduction target to 30 percent. On November 24, 2015, the Board adopted Resolution 15-70, extending the water use reduction target set forth in Resolution 15-24 through June 30, 2016.

[The 2015 Executive Order as implemented does apply to retail water agencies within the District. The major water retailers reduced water use by approximately 13 percent in 2014. Through October 2015, water retailer savings were approximately 27 percent. Such reductions in water sales may adversely affect the District’s projected operating results set forth under the caption “FINANCIAL INFORMATION OF THE DISTRICT—Projected Operating Results and Debt Service Coverage.” The District is obligated under the Parity Master Resolution to set rates and charges which are reasonably expected to provide Net Water Utility System Revenues at least to 1.25 times the sum of all Debt Service due in each Fiscal Year as more particularly described under the caption “SECURITY FOR THE 2016 BONDS—Rate Covenant.”]

***District Drought Response Actions and Impact.*** The District projects that it will be able to meet existing demands for imported water in Fiscal Years 2015-16 and 2016-17 even if dry conditions continue,



provided retailers continue to achieve high levels of water savings. The District plans to continue to call for water use reductions, outreach to community and customers, operate the Water Waste Inspector program, provide water conservation rebates, retrieve water from the Semitropic Groundwater Banking Program, purchase supplemental water supplies, work with local agencies and retailers on water shortage contingency plans and ordinance development, consider and pursue legislation, and develop potable reuse to augment local water supplies.

## **QUALITY OF DISTRICT'S WATER**

### **Groundwater**

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

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

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

The District is currently updating its Groundwater Management Plan to comply with the Sustainable Groundwater Management Act. This plan will help the District ensure the long-term viability of local groundwater resources.

### **Surface Water**

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

The District's imported supplies from the SWP and the CVP are occasionally low in quality because of elevated levels of bromide and organic content. Since both the SWP and the CVP water is pumped out of the Bay-Delta Estuary, the quality of those supplies is affected by tidal influences, natural organic materials of

the peat soil in the Delta and discharge from agricultural and urban runoff. Constituents such as bromide and organics are of concern to the District because they are disinfection by-product precursors.

### **Treated Water**

The District produces treated water that meets or exceeds all current requirements of the Safe Drinking Water Act (“SDWA”) and the regulations of the State Water Resources Control Board’s Division of Drinking Water.

In recent years the EPA has enacted, and California has subsequently adopted, new drinking water regulations affecting the treatment of surface waters. These key regulations are the Interim Enhanced Surface Water Treatment Rule (IESWTR), the Long Term 1 and Long Term 2 Surface Water Treatment Rules (LT1 and LT2), and the Stage 1 and Stage 2 Disinfectant/Disinfection ByProducts Rules (DDBPR). The regulations were enacted in segments with the IESWTR and the DDBPR (Stage 1) going into effect by 2001 and the LT2 and DDBPR (Stage 2) becoming effective in January of 2006. In order to assure compliance with these regulations the District developed major capital improvement projects for its treatment plants. The projects are referred to as the Treated Water Improvement Project Stage 1 (TWIP1) and the Treated Water Improvement Project Stage 2 (TWIP2), and correspond to the grouping of the four regulations. The TWIP1 was implemented at all three of the District’s drinking water treatment plants and completed in 2002. The TWIP2 was implemented at two treatment plants and was completed in 2006. The third plant is incorporating upgrades of the TWIP2 into a larger project known as the Reliability Improvement Project (RIP) that is targeted for completion in 2020.

The District’s three water treatment plants: Santa Teresa WTP, Rinconada WTP, and Penitencia WTP, provide high-quality treated water to the residences and businesses in the County. The treatment plants utilize a conventional treatment process of flocculation, sedimentation, filtration, and disinfection to provide high-quality water. As part of TWIP2, two of the treatment plants added advanced treatment technologies, including ozone as the primary disinfectant, in order to continue ensuring high-quality drinking water that meets recent and future more stringent drinking water standards. The District brought ozone systems on-line at Santa Teresa WTP in January 2006 and at Penitencia WTP in July 2006. Construction of the comparable RIP recently broke ground at Rinconada WTP, our oldest treatment facility.

## **CAPITAL IMPROVEMENT PROGRAM**

### **Future Water Utility System Improvements**

The District currently expects to undertake approximately \$X billion of improvements to the Water Utility System from Fiscal Years 2016-17 through 2020-21. Such improvements will be funded with approximately \$X million of commercial paper, approximately \$X million of additional long-term debt issuance, approximately \$X million from pay-as-you go, and approximately \$X million with bond proceeds to be issued over such timeframe.

The District is currently exploring alternative delivery methods of producing up to 45,000 acre-feet per year of purified water for indirect potable reuse (the “Expedited Purified Water Program”). The total Expedited Purified Water Program is expected to cost between \$640,000,000 and \$1,600,000,000. The preliminary Capital Improvement Program for Fiscal Years 2016-17 through 2020-21 includes \$50,500,000 to partially fund these activities. Annual expenditures over such five-year period may be as high as \$390,000,000 if the District proceeds with construction of the Expedited Purified Water Program. Decisions that will be made by the Board in the next 12 to 18 months will determine the scope and costs of the program and significantly impact the level of funding needed support District expenditures on the purified water program. Request for qualifications for both traditional and alternative delivery methods were issued on January 15, 2016 [and responses are due on March 11, 2016]. No decision with respect to the selection of the contractors is currently expected before May 2016.

## FINANCIAL INFORMATION OF THE DISTRICT

### Financial Statements

Copies of the most recent audited financial statements of the District prepared by Vavrinek, Trine Day & Co., LLP, Palo Alto, California (the “Auditor”) are attached as Appendix A hereto (the “Financial Statements”). The Auditor letter concludes that the audited financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2015 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.

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 2010-11 through Fiscal Year 2014-15. Historical results have been derived from the Financial Statements of the District but exclude certain non-cash items and include certain other adjustments. The table has not been audited by the Auditor.

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, 2015.” Except as otherwise expressly noted herein, all financial information derived from the District’s audited financial statement reflect the application of GAAP.

Compared to Fiscal Year 2013-14, total revenues in Fiscal Year 2014-15 relating to the Water Utility System decreased by \$18,800,000 while expenses increased by \$12,500,000. Key elements of the changes in revenues and expenses in Fiscal Year 2014-15 from Fiscal Year 2013-14 are as follows:

(a) Charges for services went down by \$17,600,000 or 10.2%. The decrease was due to conservation efforts made by users in response to the historic drought that the State is experiencing. The volumes of ground water and treated water deliveries decreased by 16.1 % and 9.5%, respectively, compared to Fiscal Year 2013-14. The decreases in the volume of water deliveries were mitigated by the 32% average rate increases for ground water, surfaced water, reclaimed water and treated water rates.

(b) Operating grants and contributions increased by \$917,000 or 74.4%. The increase was the result of higher cost sharing funds received from various agencies for the Water Conservation Program, as well as receipt of \$324,000 contribution from Cinnabar Hills to partially fund the District’s effort to develop recycled water.

(c) Due to the drought that continued into Fiscal Year 2014-15, water enterprise expenses increased by \$12,500,000 or 7.2% mainly from the higher cost incurred for water purchases and the increased spending on a District water conservation rebate program.

For further information with respect to the District’s operating results for Fiscal Year 2014-15, see “Appendix A — AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015.”

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

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
<b>Water Utility System Revenues</b>					
Groundwater Charges	\$ 50,384	\$ 48,030	\$ 62,084	\$ 84,308	\$ 77,095
Treated Water Charges	70,135	92,904	92,359	86,386	76,799
Surface and Recycled Water Charges	828	849	1,275	1,680	925
Property Taxes <sup>(2)</sup>	4,199	4,289	4,711	5,104	5,634
Investment Income	1,779	1,082	1,163	1,624	1,621
Operating Grants	1,458	1,111	980	1,232	2,149
Net Transfers In	2,372	3,281	3,729	--	--
Net Transfers Out <sup>(3)</sup>	--	--	--	(272)	(11,406)
Other <sup>(4)</sup>	<u>2,521</u>	<u>3,203</u>	<u>4,765</u>	<u>2,233</u>	<u>1,879</u>
Total Revenues	\$ 133,676	\$ 154,750	\$ 171,066	\$ 182,295	\$ 154,696
<b>Maintenance and Operation Costs</b>					
Sources Of Supply <sup>(5)</sup>	\$ 54,871	\$ 51,371	\$ 47,898	\$ 53,812	\$ 68,294
Water Treatment	25,020	28,281	30,287	31,843	29,941
Transmission And Distribution					
Raw Water	8,910	9,777	11,137	9,322	9,585
Treated Water	2,845	1,998	1,636	1,868	1,539
Administration and General <sup>(6)</sup>	<u>16,447</u>	<u>20,078</u>	<u>20,162</u>	<u>21,313</u>	<u>21,556</u>
Total Operating Expenses	\$ 108,093	\$ 111,505	\$ 111,120	\$ 118,158	\$ 130,915
<b>Net Water Utility System Revenues</b>	\$ 25,583	\$ 43,245	\$ 59,946	\$ 64,137	\$ 23,781
<b>Debt Service</b>					
Series 2006 Bonds	\$ 6,264	\$ 6,336	\$ 6,275	\$ 6,373	\$ 6,515
Series 2007 Installment Payments	6,373	6,437	7,893	7,751	7,981
DWR Loan	401	401	401	401	401
Commercial Paper <sup>(7)</sup>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>60</u>
Total Debt Service	\$ 13,039	\$ 13,174	\$ 14,569	\$ 14,525	\$ 14,957
<b>Debt Service Coverage</b>	1.96	3.28	4.11	4.42	1.59
<b>Revenues Remaining for Capital Improvements</b>					
	\$ 12,545	\$ 30,071	\$ 45,377	\$ 49,612	\$ 8,824

(1) Amounts rounded to nearest thousand.

(2) Includes adjustments for homeowners' property tax relief and certain other property tax receipts not constituting Water Utility System Revenues.

(3) Fiscal Year 2014-15 amount includes a transfer out of approximately \$13,200,000 to the general fund for the drought emergency response project and a transfer in of approximately \$1,880,000 from the general fund and watershed and stream stewardship fund relating to subsidies provided for agricultural rates and charges.

(4) 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.

(5) Increase in Fiscal Year 2013-14 as result of supplemental water purchases. See the discussion under "— Historical and Projected Operating Results and Debt Service Coverage" above.

(6) Excludes certain capital expenditures. Includes certain adjustments for OPEB costs and accrued compensated absences.

(7) 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 2015-16 through Fiscal Year 2019-20 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)<sup>(1)</sup>**  
**[TO BE UPDATED WITH 2016 PAWS REPORT]**

	<u>2015-16<sup>(2)</sup></u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
<b>Water Utility System Revenues</b>					
Groundwater Charges <sup>(3)</sup>	\$ 62,431	\$ 78,707	\$ 99,053	\$ 123,012	\$ 153,565
Treated Water Charges <sup>(4)</sup>	91,448	110,400	123,556	138,276	153,824
Surface and Recycled Water Charges <sup>(5)</sup>	1,885	2,264	2,526	2,796	3,081
Property Taxes <sup>(6)</sup>	5,680	5,879	6,085	6,298	6,518
Investment Income <sup>(7)</sup>	1,080	633	891	1,196	1,588
Intergovernmental Services	2,703	1,845	1,864	1,380	1,395
Net Transfers In	--	--	--	--	--
Net Transfers Out	--	--	--	--	--
Other	<u>16,542</u>	<u>2,987</u>	<u>5,092</u>	<u>5,367</u>	<u>5,659</u>
Total Revenues	\$181,769	\$202,715	\$239,067	\$278,325	\$325,630
<b>Maintenance and Operation Costs</b>					
Sources Of Supply <sup>(8)</sup>	\$ 90,954	\$ 76,854	\$ 79,997	\$ 77,360	\$ 77,829
Water Treatment <sup>(9)</sup>	36,494	37,002	38,069	39,436	40,722
Transmission And Distribution <sup>(10)</sup>					
Raw Water	11,016	13,087	12,841	13,232	13,710
Treated Water	1,406	1,592	1,662	1,723	1,782
Administration and General <sup>(11)</sup>	<u>22,597</u>	<u>26,254</u>	<u>30,526</u>	<u>25,501</u>	<u>26,374</u>
Total Operating Expenses	\$162,467	\$154,789	\$163,095	\$157,252	\$160,417
<b>Net Water Utility System Revenues</b>	\$ 19,302	\$47,926	\$ 75,972	\$121,073	\$165,213
<b>Debt Service on Senior Obligations</b>					
Series 2006B Bonds	\$ 2,992	\$ 1,777	\$ 1,781	\$ 1,778	\$ 4,037
2007 Installment Purchase Agreement	<u>4,575</u>	<u>6,837</u>	<u>6,829</u>	<u>6,814</u>	<u>8,150</u>
Total Senior Debt Service	\$ 7,568	\$ 8,614	\$ 8,611	\$ 8,592	\$ 12,187
Transfers to (-)/from (+) Rate Stabilization Fund	--	--	--	--	--
Transfers from Special Purpose Funds	--	--	--	--	--
<b>Net Water Utility System Revenues Available for Parity Obligations Debt Service</b>	\$ 11,734	\$ 39,312	\$ 67,361	\$112,481	\$153,026
<b>Debt Service on Parity Obligations</b>					
2016 Bonds <sup>(12)</sup>	\$ 2,016	\$ 9,148	\$ 9,148	\$ 9,148	\$ 9,148
2016 Installment Purchase Agreement <sup>(13)</sup>	1,060	5,610	7,770	8,085	15,197
Future Debt Issuances <sup>(14)</sup>	<u>--</u>	<u>--</u>	<u>7,497</u>	<u>29,155</u>	<u>45,574</u>
Total Parity Debt Service	\$ 3,076	\$ 14,758	\$ 24,415	\$ 46,388	\$ 69,919
<b>Parity Obligations Debt Service Coverage</b>	3.81	2.66	2.76	2.42	2.19
<b>Debt Service on Subordinate Obligations</b>					
Commercial Paper <sup>(15)</sup>	\$ 3,197	\$ 3,245	\$ 3,995	\$ 4,745	\$ 5,270
<b>Total Debt Service on Senior, Parity and Subordinate Obligations</b>	\$ 13,840	\$ 26,618	\$ 37,021	\$ 59,725	\$ 87,376
<b>Revenues Remaining for Capital Improvements</b>	\$ 5,462	\$ 21,308	\$ 38,951	\$ 61,348	\$ 77,837

(1) Amounts rounded to nearest thousand.

(2) Reflects budgeted amounts, with the exception of revenues from Groundwater Charges, which has been adjusted downward due to projected reduction in water usage in Fiscal Year 2015-16.

(3) Projected to increase by approximately \_\_\_% per annum over Fiscal 2014-15 levels. Assumes the water rates and charges set forth under the caption "PRIMARY SOURCES OF REVENUES — Water Charges."

(Footnotes continued on following page)

(Continued from previous page)

- (4) Projected to increase by approximately \_\_\_% per annum over Fiscal 2014-15 levels. Assumes the water rates and charges set forth under the caption “PRIMARY SOURCES OF REVENUES — Water Charges.”
- (5) Projected to increase by approximately \_\_\_% per annum over Fiscal 2014-15 levels. Assumes the water rates and charges set forth under the caption “PRIMARY SOURCES OF REVENUES — Water Charges.”
- (6) Projected to increase by approximately 3.5% per annum over Fiscal 2015-16 levels.
- (7) Reflects projected interest earnings at a rate of 0.75% in Fiscal Years 2016-17 through 2018-19 and increasing to 1.5% in Fiscal Year 2019-20.
- (8) Fiscal Year 2015-16 amount includes projected costs for supplemental water purchases of approximately \$15,000,000 and costs for expanded conservation efforts of approximately \$5,000,000. Fiscal Years 201\_ - \_\_ includes projected amounts for costs related to California Water Fix. See the caption “FACTORS AFFECTING WATER SUPPLIES —California Water Policy Framework.” Projected costs related to California Water Fix are subject to Board approval.
- (9) Projected to increase by approximately 2.8% per annum over Fiscal 2015-16 levels.
- (10) Projected to increase by approximately 5.7% per annum over Fiscal 2015-16 levels.
- (11) Fiscal Years 2016-17 and 2017-18 include projected one-time capital costs of approximately \$\_\_\_\_\_.
- (12) Projected at an all in true interest cost of \_\_\_% per annum and an aggregate principal amount of \$\_\_\_\_\_.
- (13) Projected at an all in true interest cost of \_\_\_% per annum and an aggregate principal amount of \$\_\_\_\_\_.
- (14) Projected at an all in true interest cost of \_\_\_% per annum and an aggregate principal amount of \$\_\_\_\_\_.
- (15) Interest only on Commercial Paper Certificates at an assumed rate of \_\_\_% per annum on projected outstanding Commercial Paper Certificates balance.

Source: District.

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

The following table shows the projected debt service coverage for Fiscal Year 2015-16 through Fiscal Year 2019-20 calculated in accordance with the Senior Master Resolution. See the caption SECURITY AND SOURCES OF PAYMENT FOR THE BONDS AND THE CERTIFICATES — Rate Covenant — *Senior Obligations*. The coverage figures set forth below have been calculated based on the District’s projected Water Utility System Revenues, Maintenance and Operation Costs, and projected debt service on Senior Obligations and all Contracts and Bonds (as defined in the Senior Master Resolution, including the 2016 Bonds, the Certificates and TRANS supporting the Commercial Paper Certificates) payable on a basis subordinate to the pledge of the Senior Master Resolution, all as presented in the “Projected Operating Results and Debt Service Coverage Table” above.

**SANTA CLARA VALLEY WATER DISTRICT  
PROJECTED DEBT SERVICE COVERAGE  
UNDER SENIOR MASTER RESOLUTION  
FISCAL YEAR ENDING JUNE 30  
(Dollars in Thousands)**

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
<b>Senior Obligations Debt Service Coverage<sup>(1)</sup></b>	2.55	5.56	8.82	14.09	13.56
<b>Senior, Parity and Subordinate Obligations Debt Service Coverage<sup>(2)</sup></b>	1.39	1.80	2.05	2.03	1.89

<sup>(1)</sup> Reflects coverage of projected Net Water Utility System Revenues over projected debt service on total Senior Obligations as presented in the “Projected Operating Results and Debt Service Coverage Table” above.

<sup>(2)</sup> Reflects coverage of projected Net Water Utility System Revenues over projected total debt service on Senior Obligations, Parity Obligations and Subordinate Obligations presented in the “Projected Operating Results and Debt Service Coverage Table” above.

## DISTRICT EMPLOYEE RELATIONS

### **Bargaining Units**

On August 26, 2014, the Board approved new multi-year agreements between the District and the bargaining units. The agreements became effective on January 1, 2015 and expire on December 31, 2017. The current agreements include across the board salary adjustments of 3.0% in 2015, 2016 and 2017. Under the current MOU's, the District will continue to participate in the California Public Employment Retirement System ("CalPERS"), a cost sharing multiple-employer defined benefit plan operated on a statewide basis. The District's contract with CalPERS includes a three-tier benefit level: (1) benefits at the 2.5% of fiscal year compensation benefit level for every year of service for employees at age 55 ("2.5% @ 55") hired prior to March 19, 2012; (2) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 60 ("2% @ 60") hired on or after March 19, 2012 and before January 1, 2013, and (3) benefits at the 2% of fiscal year compensation benefit level for every year of service for employees at age 62 ("2.0% @ 62") hired on or after January 1, 2013 (See the caption "Employees Retirement Plan – Benefits Provided" below). During the term of the current MOU's: (1) employees participating in the 2.5% @ 55 tier will pay 50% of the normal cost as determined by CalPERS, with a minimum contribution of 8% and a maximum of 11%; (2) employees participating in the 2.0% @ 60 tier will pay 50% of the normal cost as determined by CalPERS, with a minimum contribution of 7% and a maximum of 10%; and (3) employees participating in the 2% @ 62 tier will pay 50% of the normal cost as determined by CalPERS, which is currently 6.75%. The foregoing deductions will be pre-tax.

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

### **Employees' Retirement Plan**

All qualified permanent and probationary employees are eligible to participate in the agent multiple-employer defined benefit pension plan (the "Plan") administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and District's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website (<https://www.calpers.ca.gov/>).

**Benefits Provided.** CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of 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 Public Employees' Retirement Law.



The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

<i>Hire Date</i>	<i>Prior to 3/19/2012</i>	<i>3/19/2012 to 12/31/2012</i>	<i>On or After 1/1/2013</i>
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years' service	5 years' service	5 years' service
Benefit payments	monthly	monthly	monthly
Minimum Retirement age	55	60	62
Monthly benefits, as a % of eligible compensation <sup>(1)</sup>	2% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 1.08%*	7.0% + 2.08%*	6.75%
Required employer contribution rates	21.147%	21.147%	21.147%

\* Member additional contribution towards District's CalPERS cost in effect at June 30, 2015; See the caption "— Employee Relations" above for a description of the maximum employee contributions per negotiated agreement with the bargaining units.

<sup>(1)</sup> With respect to the 2%@60 and 2%@62 benefit formulas, the monthly benefits earned as a percentage of eligible compensation increases at a rate set by CalPERS for each quarter worked beyond age 60.

**Employees Covered** – At June 30, 2015, the following number of employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	409
Active employees	651

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

**Net Pension Liability.** The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The available net pension liability of the Plans was most recently measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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, 2013 actuarial valuations were determined using the following actuarial assumptions:

<b>Valuation date</b>	June 30, 2013
<b>Measurement date</b>	June 30, 2014
<b>Actuarial cost method</b>	Entry-age normal cost method
<b>Discount rate</b>	7.50%
<b>Inflation</b>	2.75%
<b>Salary increases</b>	Varies by entry age and service
<b>Investment rate of return<sup>(1)</sup></b>	7.5%
<b>Mortality rate table<sup>(2)</sup></b>	Derived using CalPERS' membership data for all funds
<b>Post retirement benefit increase</b>	Contract COLA up to 2.75% unit purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

<sup>(1)</sup> Net of pension plan investment expenses, including inflation.

<sup>(2)</sup> 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.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results an actuarial 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**

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.

**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 6/30/2013 <sup>(1)</sup>	\$622,149,061	\$434,729,646	\$187,419,415
Changes Recognized for the Measurement Period:			
Service Cost	14,351,245		14,351,245
Interest on Total Pension Liability	46,261,670		46,261,670
Changes if Benefit Terms	--	--	--
Different between Expected and Actual Experience	--	--	--
Changes of Assumptions	--	--	---
Contribution from Employer	--	13,804,460	(13,804,460)
Contribution from Employees	--	9,036,853	(9,036,853)
Net Investment Income <sup>(2)</sup>	--	75,675,314	(75,675,314)
Benefit Payments, including Refunds of Employee Contribution	(25,004,849)	(25,004,849)	-
Net Changes During 2013-14	5,608,066	73,511,778	(37,903,712)
Balance at 6/30/2014 <sup>(1)</sup>	\$657,757,127	\$508,241,424	\$149,515,703

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

<sup>(2)</sup> Net of administrative expenses.

<sup>(3)</sup> Based on actuarial valuation.

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

	<i>Discount Rate - 1%</i>	<i>Current Discount 7.5%</i>	<i>Current Discount + 1%</i>
	<i>6.50%</i>		<i>8.50%</i>
Plan Net Pension Liability/(Assets)	\$237,533,470	\$149,515,703	\$76,397,766

**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, 2015, the District recognized pension expense of \$10,500,000. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<i>Deferred Outflow of Resources</i>	<i>Deferred Inflow of Resources</i>
Pension contribution subsequent to measurement date	\$13,948,105	-
Net differences between projected and actual earnings on plan investments	-	\$(34,629,299)
<b>Total</b>	<b>\$13,948,105</b>	<b>\$ 34,629,299</b>

Approximately \$13,900,000 is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<i>Measurement Period</i>	<i>Net Decrease in Pension Expense</i>
2014-15	\$ 8,657,325
2015-16	8,657,325
2016-17	8,657,325
2017-18	8,657,324
<b>Total</b>	<b>\$34,629,299</b>

**Payable to the Pension Plan.** At June 30, 2015, the District reported a payable of \$149,500,000 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

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

**Post-Employment Benefits.** The District provides post-employment health care benefits, in accordance with the negotiated MOUs with employee groups adopted by the Board for retired employees and/or their surviving spouses who meet the eligibility requirements and elect the option. As of June 30, 2015, there were 409 retirees and surviving spouses receiving such benefits.

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

The District participates in the CalPERS California Employer’s Retiree Benefit Trust Program (“CERBT”), a prefunding plan trust fund. On June 24, 2008, the Board approved the reallocation of \$17,700,000 from its existing reserves for the initial prefunding of the unfunded liability as part of its multi-year financial planning strategy. The difference between the funded amount and the actuarially determined Annual Required Contribution (“ARC”) cost. Subsequent years’ funding, pursuant to the annual budget approved by the Board, would be phased in to gradually reach full funding of the ARC by the sixth year in order to limit its immediate impact on groundwater charge increases and the funding of core services within limited available revenues. The District expects to fund 100% of the ARC in Fiscal Year 2015-16.

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

The following table shows the components of the District’s annual OPEB cost for Fiscal Year 2014-15, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the plan

Annual required contribution		\$11,112,254
Interest on net OPEB obligation		106,853
Adjustment to annual required contribution		(96,598)
Annual OPEB cost (expense)		<u>11,122,509</u>
Contributions made- FY2015 cost	\$(11,122,509)	
Contributions made- Prior years' unfunded ARC	<u>(1,278,942)</u>	
Total Contributions made in Fiscal Year 2015-16		<u>(12,401,451)</u>
Increase (decrease) in Net OPEB obligations		(1,278,942)
Net OPEB obligation, June 30, 2014		<u>1,556,814</u>
Net OPEB obligation, June 30, 2015		\$277,872

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the Fiscal Year ended June 30, 2013 through 2015 are summarized in the table below.

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
6/30/2013	\$11,080,800	138.47%	\$7,065,773
6/30/2014	11,174,939	149.30	1,556,814
6/30/2015	11,122,509	111.50	277,872

As of July 1, 2015, the latest valuation date, the estimated funded status of the OPEB plan for Fiscal Year 2014-15, was as follows.

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

The July 1, 2013 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a discount rate of 7.5% and a 3.25% inflation rate. Healthcare cost trend rates ranged from an initial rate range of 8% to 4.5%. The unfunded liability is being amortized as a percent of payroll over 30 years on a closed basis. The remaining years in the amortization period at June 30, 2015 was 23 years.

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

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

The District has established a deferred compensation plan for employees wishing to defer part of their salaries. Under certain conditions, the District makes matching contributions. In the Fiscal Year ended June 30, 2015, the District contributed \$770,000 to the deferred compensation plan.

## THE CORPORATION

The Santa Clara Valley Water District Public Facilities Financing Corporation is a nonprofit public benefit corporation formed December 21, 1987 under the California Nonprofit Public Benefit Corporation Law. The specific and primary purpose of the corporation is to provide assistance to the District in financing the acquisition, design, construction, improvement, and installation of public facilities.

In order to carry out its specific purpose, the Corporation has all powers conferred upon nonprofit public benefit corporations of the State of California. Under its articles of incorporation, the Corporation may never engage in any activity other than those activities incidental to and for the purpose of carrying out the primary purpose for which it was formed.

The board of directors of the Corporation consists of five positions appointed by the District Board. The offices of president, vice president, and chief financial officer are members of the Corporation board and are elected by vote of the Corporation board. The president serves as chief executive officer of the Corporation, and may sign and execute, in the name of the Corporation, deeds, mortgages, leases, bonds, contracts, and other instruments duly authorized by the Corporation board. The vice president may perform the duties of the president in the event of the absence or disability of the President. The chief financial officer is in charge of all funds of the Corporation.

The members of the board of directors of the Corporation are David Vanni, President; Steve M. Mullen, Vice President; Maria Oberg, Chief Financial Officer; Anthony Bennetti; and Dean Chu. The Corporation Board has appointed the Clerk of the Board of Directors of the District to serve as the Secretary of the Corporation.

## **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 2016 Bonds, the Certificates, the Indenture, the Installment Purchase Agreement or the Trust Agreement. Neither the creation, organization or existence of the District, nor the title of the present directors or officers of the District to their respective office is being contested. While the District has certain other ongoing litigation with respect to the Water Utility System, District Counsel does not believe such litigation is material to the finances or operation of the Water Utility System, except as described below under the caption “—Great Oaks Matter.”

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

### **Great Oaks Matter**

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

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

On February 3, 2010, the Honorable Kevin Murphy issued Judgment After Trial and decided that the District owes Great Oaks a refund of groundwater charges in the amount of \$4,623,096 plus interest at 7% per annum. The award of pre-judgment interest as of December 1, 2009, amounted to \$1,285,524. Judge Murphy

also awarded post-judgment interest at the rate of \$886.62 per day until the date of the entry of judgment. Judge Murphy also decided that the District owes Great Oaks damages in the amount of \$1,306,830. Recovery of this damages amount is in the alternative to the award of refund described above. The District appealed this decision to the Sixth District Court of Appeals.

During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, the District has recorded a liability in the amount of \$5,930,000, which includes the Judgment After Trial decision amount plus interest in fiscal year 2008-09. The District recorded \$160,000 in Fiscal Year 2009-10, \$324,000 in Fiscal Year 2010-11, \$325,000 in Fiscal Year 2011-12, and \$324,000 in Fiscal Years 2012-13 and 2013-14 as liability for the post-judgment interest from January 1, 2010 through June 30, 2014 at the rate of \$886.62 per day. The total liability as of June 30, 2015 in the amount of \$7,386,000 is presented under the caption "Litigation Claim" in the Statement of Net position – Proprietary Funds in the District's Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

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

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

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

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

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

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

The District is currently reviewing its estimates of potential liability with respect to this case as well as other cases filed by Great Oaks and other plaintiffs or potential claimants which have either been stayed or are

subject to tolling agreements. The District expects to update such estimates in connection with the preparation of its audited financial statements for the fiscal year ending June 30, 2016.

## 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. The agency may, but is not required to, condition the fee or charge on approval of two-thirds of the property owners. Under Article XIID, however, this voter-approval requirement does not apply to fees or charge for sewer, water or refuse-collection services.

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

Based upon the California Second District Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIID did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. In a decision rendered in February, 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District* (S105078) upheld a Third District Court of Appeal decision that water connection fees were not property-related fees or charges subject to Article XIID while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court's dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal held in *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal. App. 4th 914 (2005) that an "in lieu" fee which is payable to the City of Fresno's general fund from its water utility and which is included in the city's water rate structure was invalid. In reaching its decision, the court concluded that the city's water rates were "property related" fees, governed by the limitations of Article XIID. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006 the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. The Court restated the dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing domestic water service through an existing connection were property related fees and charges under Article XIID.

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

**Article XIIC.** Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms "local tax," "assignment," "fee" or "charge." On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIIC included rates and fees charged for domestic water use. The Supreme Court noted, however, that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations of the public agency involved in the litigation. The District and its District Counsel do not believe that Article XIIC grants to the voters within the jurisdiction of the District the power to repeal or reduce wholesale rates and charges or groundwater charges in a manner which would be inconsistent with the statutory or contractual obligations of the legislative body of District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2016 Bonds or the Certificates. Remedies available to beneficial owners of the 2016 Bonds and the Certificates 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 2016 Bonds and the Certificates are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinions of Bond Counsel and Special Counsel (the forms of which are attached as Appendix E and F, respectively), will be similarly qualified.

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

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

### **Future Initiatives**

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

## **CERTAIN LIMITATIONS ON RIGHTS AND OBLIGATIONS**

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2016 Bonds and the Certificates are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial

discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinions of Bond Counsel and Special Counsel (the forms of which are attached as Appendix E and F, respectively), will be similarly qualified.

## **TAX MATTERS – TAX EXEMPT OBLIGATIONS**

### **2016A 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 2016A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2016A Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2016A Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Bond Counsel's opinion as to the exclusion from gross income of interest on the 2016A 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 2016A Bonds to assure that interest on the 2016A 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 2016A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016A Bonds. The District has covenanted to comply with all such requirements.

The difference between the issue price of a 2016A Bond (the first price at which a substantial amount of the 2016A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2016A 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, and original issue discount will accrue to a 2016A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2016A Bond Owner will increase the 2016A Bond Owner's basis in the applicable 2016A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the 2016A Bond Owner is excluded from gross income of such 2016A 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 and corporations. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the 2016A Bond Owner is exempt from State of California personal income tax.

The amount by which a 2016A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2016A 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 2016A Bond Owner's basis in the applicable 2016A Bond (and the amount of tax-exempt interest received with respect to the 2016A 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 2016A Bond Owner realizing a taxable gain when a 2016A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016A Bond to the Owner. Purchasers of the 2016A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

## **2016C Certificates**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the portion of each Installment Payment with respect to the 2016C Certificates constituting interest is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Installment Payment with respect to the 2016C Certificates constituting interest is exempt from State personal income tax. Special Counsel notes that, with respect to corporations, the portion of each Installment Payment with respect to the 2016C Certificates constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Installment Payment with respect to the 2016C Certificates constituting interest is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District comply with all requirements of the Code, that must be satisfied subsequent to the execution and delivery of the 2016C Certificates to assure that the portion of each Installment Payment with respect to the 2016C Certificates constituting interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Installment Payment with respect to the 2016C Certificates constituting interest to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2016C Certificates. The District has covenanted to comply with all such requirements.

The difference between the issue price of a 2016C Certificate (the first price at which a substantial amount of the 2016C Certificate of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2016C Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2016C Certificate Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2016C Certificate Owner will increase the 2016C Certificate Owner's basis in the applicable 2016C Certificate. Original issue discount that accrues for the 2016C Certificate Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 4 above) and is exempt from State of California personal income tax.

The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2016C Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2016C Certificate premium, which must be amortized under Section 171 of the Code; such amortizable 2016C Certificate premium reduces the 2016C Certificate Owner's basis in the applicable 2016C Certificate (and the amount of tax-exempt interest received with respect to the 2016C Certificates), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2016C Certificate premium may result in a 2016C Certificate Owner realizing a taxable gain when a 2016C Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner. Purchasers of the 2016C Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2016C Certificate premium.

## **General**

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the 2016A Bonds and the 2016C Certificates will be selected for audit by the IRS. It is also possible that the market value of the 2016A

and the 2016C Certificates Bonds might be affected as a result of such an audit of the 2016A Bonds and the 2016C Certificates (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2016A Bonds and the execution and delivery of the 2016C Certificates to the extent that it adversely affects the exclusion from gross income of interest on the 2016A Bonds or the portion of each Installment Payment with respect to the 2016C Certificates constituting interest or the market values of the 2016A Bonds and the 2016C Certificates.

It is possible that subsequent to the issuance of the 2016A Bonds and the execution and delivery of the 2016C Certificates there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the 2016A Bonds and the 2016C Certificates or the market value of the 2016A Bonds and the 2016C Certificates. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the 2016A Bonds and the 2016C Certificates. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2016A Bonds and the 2016C Certificates. No assurance can be given that subsequent to the issuance of the 2016A Bonds and the execution and delivery of the 2016C Certificates such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the 2016A Bonds or 2016C Certificates, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the 2016A Bonds and the 2016C Certificates.

Bond Counsel and Special Counsel's opinions with respect to the 2016A Bonds and the 2016C Certificates, respectively, may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel and Special Counsel have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture, the Installment Purchase Agreement, the Trust Agreement and the Tax Certificates relating to the 2016A Bonds and the 2016C Certificates, as applicable, permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel or Special Counsel is provided with respect thereto. Bond Counsel and Special Counsel express no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2016A Bond or the portion of each Installment Payment with respect to the 2016C Certificates constituting interest if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel and Special Counsel have rendered opinions that interest on the 2016A Bonds and the portion of each Installment Payment with respect to the 2016C Certificates 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 2016A Bonds and the 2016C Certificates and the accrual or receipt of interest on the 2016A Bonds and the 2016C Certificates may otherwise affect the tax liability of certain persons. Bond Counsel and Special Counsel express no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2016A Bonds or the 2016C Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2016A Bonds or the 2016C Certificates.

## **TAX MATTERS – TAXABLE OBLIGATIONS**

### **2016B Bonds**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2016B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code but interest (and original issue discount) on the 2016B Bonds is exempt from State of California personal income tax.

Except for certain exceptions, the difference between the issue price of a 2016B Bond (the first price at which a substantial amount of 2016B Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2016B 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 2016B Bond Owner will increase the 2016B Bond Owner's basis in the 2016B Bond. 2016B Bond Owners should consult their own tax advisor with respect to taking into account any original issue discount on the 2016B Bonds.

The amount by which a 2016B Bond Owner's original basis for determining loss on sale or exchange in the applicable 2016B Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which the 2016B Bond Owner may elect to amortize under Section 171 of the Code. Such amortizable bond premium reduces the 2016B Bond Owner's basis in the applicable 2016B 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 2016B Bond premium may result in the 2016B Bond Owner realizing a taxable gain when a 2016B Bond is sold by the 2016B Bond Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016B Bond to the 2016B Bond Owner. The 2016B Bond Owners that have a basis in the 2016B Bond that is greater than the principal amount of the 2016B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

The federal tax and State of California personal income tax discussion set forth above with respect to the 2016B Bonds is included for general information only and may not be applicable depending upon a 2016B Bond Owner's particular situation. The ownership and disposal of a 2016B Bond and the accrual or receipt of interest with respect to the 2016B Bond may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences.

## **2016D Certificates**

In the opinion of Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of each Installment Payment with respect to the 2016D Certificates constituting interest is not excluded from gross income for federal income tax purposes under Section 103 of the Code but the portion of each Installment Payment with respect to the 2016D Certificates constituting interest (and original issue discount) is exempt from State of California personal income tax.

Except for certain exceptions, the difference between the issue price of a 2016D Certificate (the first price at which a substantial amount of 2016D Certificates of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2016D Certificate (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 2016D Certificate Owner will increase the 2016D Certificate Owner's basis in the 2016D Certificate. 2016D Certificate Owners should consult their own tax advisor with respect to taking into account any original issue discount on the 2016D Certificate.

The amount by which a 2016D Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2016D Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which the 2016D Certificate Owner may elect to amortize under Section 171 of the Code. Such amortizable bond premium reduces the 2016D Certificate Owner's basis in the applicable 2016D Certificate (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 2016D Certificate premium may result in the 2016D Certificate Owner realizing a taxable gain when a 2016D Certificate is sold by the 2016D Certificate Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016D Certificate to the 2016D Certificate Owner. The 2016D Certificate Owners that have a basis in the 2016D Certificate that is greater than the principal amount of the 2016D Certificate

should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

The federal tax and State of California personal income tax discussion set forth above with respect to the 2016D Certificate is included for general information only and may not be applicable depending upon a 202016D Certificate Owner's particular situation. The ownership and disposal of a 2016D Certificate and the accrual or receipt of interest with respect to the 2016D Certificate otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences.

## **RATINGS**

The District expects that Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") will assign the 2016 Bonds and the Certificates the rating of "\_\_\_," that Moody's Investors Service, Inc. ("Moody's") will assign the 2016 Bonds and the Certificates the rating of "\_\_\_," and that Fitch Ratings, Inc. ("Fitch") will assign the 2016 Bonds and the Certificates the rating of "\_\_\_." There is no assurance that any credit rating given to the 2016 Bonds and the Certificates will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P, 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 2016 Bonds and the Certificates. Such ratings reflect only the views of S&P, Moody's and Fitch, as the case may be, and an explanation of the significance of such ratings may be obtained from S&P, 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.

The District has covenanted in Continuing Disclosure Agreements for the 2016 Bonds and the Certificates to file on EMMA, notices of any ratings changes on the 2016 Bonds and the Certificates. See the caption "CONTINUING DISCLOSURE UNDERTAKING" below and Appendices G and H. Notwithstanding such covenant, information relating to ratings changes on the 2016 Bonds and the Certificates 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 2016 Bonds and the Certificates are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the 2016 Bonds and the Certificates after the initial issuance of the 2016 Bonds and delivery of the Certificates.

## **CONTINUING DISCLOSURE UNDERTAKINGS**

The District has covenanted in Continuing Disclosure Agreements for the benefit of the holders and beneficial owners of the 2016 Bonds and the Certificates to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2017, to provide notices of the occurrence of certain enumerated events, and to provide notices of the occurrence of certain other enumerated events, if material. The Annual Reports and the notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. The specific nature of the information to be contained in the Annual Report and the notice of material events with respect to the 2016 Bonds and the Certificates are set forth in Appendix G—"FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2016 BONDS" and in Appendix H—"FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE CERTIFICATES," respectively. These covenants have been made in order to assist the Underwriters in complying with Section (b)(5) of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934.

Over the past five years, the District has been subject to obligations under various continuing disclosure certificates, including but not limited to the 2006A Bonds, the 2006B Bonds, the 2007A Certificates, the 2007B Certificates, and the Refunding and Improvement Certificates of Participation, Series

2004A and Refunding and Improvement Certificates of Participation, Series 2012A executed and delivered to finance and refinance facilities of the District's Flood Control System (collectively, the "Prior Continuing Disclosure Undertakings"). Pursuant to the Prior Continuing Disclosure Undertakings, the District agreed to file its audited financial reports, certain operating data with respect to the Water Utility System and Flood Control System, as well as notices of certain enumerated events, if material.

[TO BE UPDATED]

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

In order to ensure compliance by the District with its continuing disclosure undertakings in the future, the Board of Directors approved disclosure procedures on February \_\_, 2016 (the "Disclosure Procedures"). Pursuant to the Disclosure Procedures, the Treasury/Debt Officer is required to take steps to ensure that continuing disclosure filings are prepared and filed in a timely manner. A copy of the Disclosure Procedures has been provided to the Underwriters and is available from the Treasury/Debt Officer of the District at 5750 Almanden Expressway, San Jose, California Telephone: (408) 265-2600.

### **UNDERWRITING**

The 2016 Bonds and the Certificates are being purchased by two underwriting syndicates consisting of Wells Fargo Securities ("Wells Fargo") and J.P. Morgan Securities LLC ("JPMS"), acting as representatives of the other underwriters listed below each representative on the cover page hereto (collectively, the "Underwriters").

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association ("WFBNA"), the representative of the underwriters of the 2016A Bonds and the 2016C Certificates, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the 2016A Bonds and the 2016C Certificates. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2016A Bonds and the 2016C Certificates with WFA. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the 2016A Bonds and the 2016C Certificates. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

JPMS, one of the representative of the underwriters of the 2016B Bonds and the 2016D Certificates, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of CS&Co. and LPL will purchase the 2016B Bonds and the 2016D Certificates from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2016B Bond and 2016D Certificate that such firm sells.

[Distribution language for Co-Managers to come]

### **Tax-Exempt Obligations**

The 2016A Bonds and the 2016C Certificates (collectively, the "Tax-Exempt Obligations") will be purchased by the Tax-Exempt Obligations Underwriters (as defined below) pursuant to a Purchase Contract,



dated March \_\_, 2016 (the “Tax-Exempt Purchase Contract”), by and between the District and Wells Fargo, as representative of itself and the underwriters listed below Wells Fargo on the cover page hereto (collectively, the “Tax-Exempt Obligations Underwriters”). Under the Tax-Exempt Purchase Contract, the Tax-Exempt Obligations Underwriters have agreed to purchase all, but not less than all, of the 2016A Bonds for an aggregate purchase price of \$ \_\_\_\_\_ (representing the principal amount of the 2016A Bonds, less an underwriter’s discount of \$ \_\_\_\_\_, plus/less a net original issue premium/discount of \$ \_\_\_\_\_) and the 2016C Certificates for an aggregate purchase price of \$ \_\_\_\_\_ (representing the principal amount of the 2016C Certificates, less an underwriter’s discount of \$ \_\_\_\_\_, plus/less a net original issue premium/discount of \$ \_\_\_\_\_). The Tax-Exempt Purchase Contract provides that the Tax-Exempt Obligations Underwriters will purchase all of the Tax Exempt Obligations, if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Tax-Exempt Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

### **Taxable Obligations**

The 2016B Bonds and the 2016D Certificates (collectively, the “Taxable Obligations”) will be purchased by the Taxable Obligations Underwriters (as defined below) pursuant to a Purchase Contract, dated March \_\_, 2016 (the “Taxable Purchase Contract”), by and between the District and JPMS, as representative of itself and the underwriters listed below JPMS on the cover page hereto (collectively, the “Taxable Obligations Underwriters”). Under the Taxable Purchase Contract, the Taxable Obligations Underwriters have agreed to purchase all, but not less than all, of the 2016B Bonds for an aggregate purchase price of \$ \_\_\_\_\_ (representing the principal amount of the 2016B Bonds, less an underwriter’s discount of \$ \_\_\_\_\_, plus/less a net original issue premium/discount of \$ \_\_\_\_\_) and the 2016D Certificates for an aggregate purchase price of \$ \_\_\_\_\_ (representing the principal amount of the 2016D Certificates, less an underwriter’s discount of \$ \_\_\_\_\_, plus/less a net original issue premium/discount of \$ \_\_\_\_\_). The Taxable Purchase Contract provides that the Taxable Obligations Underwriters will purchase all of the Taxable Obligations, if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Taxable Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

### **General**

The initial public offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2016 Bonds and the Certificates to certain dealers (including dealers depositing 2016 Bonds and Certificates into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

### **FINANCIAL ADVISOR**

The District has retained Public Resources Advisory Group, of Los Angeles, California, as financial advisor (the “Financial Advisor”) in connection with the issuance of the 2016 Bonds and the execution and delivery of the Certificates. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Resources Advisory Group is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Financial Advisor for the 2016 Bonds and the Certificates is contingent upon the issuance and the execution and delivery thereof, respectively.

### **CERTAIN LEGAL MATTERS**

Bond Counsel will render an opinion with respect to the 2016 Bonds substantially in the form set forth in Appendix E hereto and Special Counsel will render an opinion with respect to the Certificates substantially in the form set forth in Appendix F hereto. Copies of such opinions will be furnished to the Underwriters at the time of delivery of the 2016 Bonds and the Certificates, respectively. Certain legal matters will be passed

upon for the District and the Corporation by District Counsel to the District, Stan Yamamoto, Esq. for the Underwriters by their counsel, Nixon Peabody LLP and for the Trustee by its counsel. The payment of the fees of Bond Counsel is contingent upon the issuance of the 2016 Bonds and the payment of the fees of Special Counsel is contingent upon the execution and delivery of the Certificates. Bond Counsel and Special Counsel express no opinion to the owners of the 2016 Bonds and the Certificates as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2016 Bonds and the Certificates and expressly disclaims any duty to advise the Owners of the 2016 Bonds and the Certificates as to matters related to this Official Statement.

**MISCELLANEOUS**

This Official Statement has been duly approved, executed and delivered by the District and the Corporation. 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 2016 Bonds and the Certificates, information with respect to the book-entry only system relating to the 2016 Bonds and the Certificates, the forms of opinions of Bond Counsel and Special Counsel and the form of the proposed Continuing Disclosure Agreements are attached hereto as Appendices. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

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

SANTA CLARA VALLEY WATER DISTRICT

By: \_\_\_\_\_  
Acting Chief Executive Officer

Attest:

\_\_\_\_\_  
Clerk of the Board of Directors

**APPENDIX A**  
**AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

## **APPENDIX B**

### **SUMMARY OF PRINCIPAL LEGAL DOCUMENTS WITH RESPECT TO PARITY OBLIGATIONS WITH RESPECT TO PARITY OBLIGATIONS**

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

## APPENDIX C

### SUMMARY OF SENIOR MASTER RESOLUTION

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

## APPENDIX D

### BOOK-ENTRY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2016 Bonds and the Certificates (the "Obligations"), payment of principal, premium, if any, accreted value, if any, and interest on the Obligations to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Obligations and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

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

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

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

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

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

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

## APPENDIX E

### FORM OF BOND COUNSEL OPINION WITH RESPECT TO THE 2016 BONDS

*Upon issuance of the 2016 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 2016A and Taxable Series 2016B*

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 2016A (the "2016A Bonds") and Taxable Series 2016B (the "2016B Bonds" and together with the 2016A 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 pursuant to Resolution No. \_\_\_\_\_ adopted on February \_\_, 2016 (the "Resolution") by the Board of Directors of the District and an Indenture of Trust, dated as of February 1, 2016 (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 (and original issue discount) on the 2016A Bonds is excluded from gross income for federal income tax



purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

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

5. The amount by which a 2016A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2016A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the 2016A Bond Owner's basis in the applicable 2016A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2016A Bond premium may result in a 2016A Bond Owner realizing a taxable gain when a 2016A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016A Bond to the Owner. Purchasers of the 2016A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

6. The difference between the issue price of a 2016A Bond (the first price at which a substantial amount of the 2016A Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2016A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2016A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2016A Bond Owner will increase the 2016A Bond Owner's basis in the applicable 2016A Bond. Original issue discount that accrues for the 2016A Bond Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 3 above) and is exempt from State of California personal income tax.

The opinions expressed herein as to the exclusion from gross income of interest on the 2016A 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 2016A Bonds to assure that such interest on the 2016A 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 2016A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016A 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 2016A 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 2016A Bonds for federal income tax purposes with respect to any 2016A 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 2016A 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 2016A Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the

exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

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

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

Respectfully submitted,

**APPENDIX F**

**FORM OF SPECIAL COUNSEL OPINION WITH RESPECT TO THE CERTIFICATES**

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

[Closing Date]

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

*Re:     \$\_\_\_\_\_ Santa Clara Valley Water District, Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2016C and Taxable Series 2016D*

Members of the Board of Directors:

We have acted as Special Counsel to the Santa Clara Valley Water District (the "District") in connection with the execution and delivery of \$\_\_\_\_\_ aggregate principal amount of Revenue Certificates of Participation, Series 2016C (the "2016C Certificates") and Taxable Series 2016D (the "2016D Certificates" and together with the 2016C Certificates, the "Certificates") dated the date hereof, each evidencing and representing an interest of the registered owner thereof in the right to receive Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Installment Purchase Agreement (the "Agreement"), dated as of February 1, 2016, by and between the District and the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation"), which right to receive such Installment Payments has been assigned by the Corporation to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to the Assignment Agreement, dated as of February 1, 2016, by and between the Trustee and the Corporation. The Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement, dated as of February 1, 2016 (the "Trust Agreement"), by and among the District, the Corporation and the Trustee.

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

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

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

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

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

4. Under existing statutes, regulations, rulings and judicial decisions, the portion of each Installment Payment with respect to the 2016C Certificates constituting interest is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. With respect to corporations, the portion of each Installment Payment with respect to the 2016C Certificates constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

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

6. The amount by which a 2016C Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2016C Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2016C Certificate premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable 2016C Certificate premium reduces the 2016C Certificate Owner's basis in the applicable 2016C Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2016C Certificate premium may result in a 2016C Certificate Owner realizing a taxable gain when a 2016C Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016C Certificate to the Owner.

7. The difference between the issue price of a 2016C Certificate (the first price at which a substantial amount of the 2016C Certificate of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2016C Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2016C Certificate Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2016C Certificate Owner will increase the 2016C Certificate Owner's basis in the applicable 2016C Certificate. Original issue discount that accrues for the 2016C Certificate Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 4 above) and is exempt from State of California personal income tax.

The opinions expressed herein as to the exclusion from gross income of the portion of each Installment Payment with respect to the 2016C Certificates constituting interest are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the delivery of the 2016C Certificates to assure that such portion of each Installment Payment with respect to the 2016C Certificates constituting interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the portion of each Installment Payment with respect to the 2016C Certificates constituting interest to be included in gross income for federal income tax purposes retroactive to the date of delivery of the 2016C Certificates. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether

any such actions or events are taken or do occur. The Agreement, the Trust Agreement and the Tax Certificate relating to the 2016C Certificates permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of the portion of each Installment Payment with respect to the 2016C Certificates constituting interest for federal income tax purposes with respect to any 2016C Certificates if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2016C Certificates.

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

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

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

Respectfully submitted,

**APPENDIX G**

**FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE 2016 BONDS**

**APPENDIX H**

**FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE CERTIFICATES**

## CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT dated March \_\_, 2016 (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 Utility System Refunding Revenue Bonds, Series 2016A (the “Series 2016A Bonds”) and Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Taxable Series 2016B (the “Series 2016B Bonds” and together with the Series 2016A Bonds, the “Bonds”). The Bonds are being issued pursuant to Resolution No. \_\_\_\_\_ adopted on February \_\_, 2016 (the “Resolution”) by the Board of Directors of the District and an Indenture of Trust, dated as of February 1, 2016, 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 Internet at <http://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 and the Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2016C and Taxable Series 2016D, dated March \_\_, 2016.

“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.

“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, 2017, 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 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, stating the date it was provided and listing all the Repositories to which 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 the most recent fiscal year of the District then ended only, as described in the following tables in the Official Statement:

- Term Indebtedness;
- (i) DEBT STRUCTURE OF THE DISTRICT — Schedule of Long-
  - (ii) WATER UTILITY SYSTEM — Historic Water Rates (Dollars (\$) per Acre-Foot);
  - (iii) WATER UTILITY SYSTEM — Historic Sales Revenues; and
  - (iv) FINANCIAL INFORMATION OF THE DISTRICT — Santa Clara Valley Water District Historic 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 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; and
- 9. bankruptcy, insolvency, receivership or similar proceedings.

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; and

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

(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.

**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.

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 a Owners or Beneficial Owner 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 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 obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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: March \_\_, 2016

SANTA CLARA VALLEY WATER DISTRICT

By: \_\_\_\_\_  
[Title]

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 UTILITY  
SYSTEM REFUNDING REVENUE BONDS SERIES 2016A AND  
TAXABLE SERIES 2016B  
Date of Issuance: March \_\_, 2016

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]

## CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT dated March \_\_, 2016 (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 execution and delivery of the Santa Clara Valley Water District, Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2016C (the “Series 2016C Certificates”) and Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Taxable Series 2016D (the “Series 2016D Certificates” and together with the Series 2016C Certificates, the “Certificates”). The Certificates are being executed and delivered pursuant to Resolution No. \_\_\_\_\_ adopted on February \_\_, 2016 (the “Resolution”) by the Board of Directors of the Santa Clara Valley Water District Public Facilities Financing Corporation (the “Corporation”) and a Trust Agreement, dated as of February 1, 2016, by and among the District, the Corporation and U.S. Bank National Association, as trustee (the “Trust Agreement”). 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 Certificates and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

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

“Annual Report” shall mean any Annual Report provided by 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 Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“Dissemination Agent” shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by 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 Internet at <http://emma.msrb.org/>.

“Installment Purchase Agreement” shall mean the Installment Purchase Agreement, dated as of February 1, 2016, by and between the District and the Corporation.

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

“Official Statement” shall mean the Official Statement relating to the Certificates and the District’s Water Utility System Refunding Revenue Bonds, Series 2016A and Taxable Series 2016B, dated March \_\_, 2016.

“Participating Underwriter” shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“Repository” shall mean EMMA.

“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, 2017, 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 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, stating the date it was provided and listing all the Repositories to which 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 the most recent fiscal year of the District then ended only, 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 — Historic Water Rates (Dollars (\$) per Acre-Foot);
- (iii) WATER UTILITY SYSTEM — Historic Sales Revenues; and
- (iv) FINANCIAL INFORMATION OF THE DISTRICT — Santa Clara Valley Water District Historic 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 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 Certificates in a timely manner not more than ten (10) Business Days after the event:

- 1. principal and interest payment delinquencies;
- 2. unscheduled draws on debt service reserves reflecting financial difficulties;
- 3. unscheduled draws on credit enhancements reflecting financial difficulties;
- 4. substitution of credit or liquidity providers, or their failure to perform;
- 5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
- 6. tender offers;
- 7. defeasances;

8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

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 Certificates, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other events affecting the tax status of the Certificates;
2. modifications to the rights of Certificate holders;
3. optional, unscheduled or contingent Certificate prepayments;
4. release, substitution or sale of property securing repayment of the Certificates;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving 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; and
7. appointment of a successor or additional trustee or the change of the name of a trustee.

(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.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, 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.

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 Certificates 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 Certificates with respect to the accuracy of the information contained in any such filing or otherwise without the approval in writing of Owner or Beneficial Owner of at least 50% of the aggregate principal amount of the Certificates. A default under this Disclosure Agreement shall not

be deemed an Event of Default under the Installment Purchase Agreement or the Trust Agreement, 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 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 obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

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 Certificates, and shall create no rights in any other person or entity.

Date: March \_\_, 2016

SANTA CLARA VALLEY WATER DISTRICT

By: \_\_\_\_\_  
[Title]

U.S. BANK NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligated Person: SANTA CLARA VALLEY WATER DISTRICT  
Name of Obligations: SANTA CLARA VALLEY WATER DISTRICT REVENUE  
CERTIFICATES OF PARTICIPATION (WATER UTILITY  
SYSTEM IMPROVEMENT PROJECTS) SERIES 2016C AND  
SERIES 2016D  
Date of Execution and Delivery: March \_\_, 2016

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

Dated: \_\_\_\_\_

SANTA CLARA VALLEY WATER DISTRICT

By: [no signature required; form only]

**ESCROW AGREEMENT (SERIES 2006A)**

THIS ESCROW AGREEMENT (SERIES 2006A), dated as of February 1, 2016 (the "Agreement"), by and between the Santa Clara Valley Water District (the "District") and U.S. Bank National Association, Los Angeles, California, as escrow agent (the "Escrow Agent"), is entered into in accordance with Resolution No. \_\_\_\_\_ adopted on February \_\_, 2016 (the "Resolution") by the Board of Directors of the District, the Indenture of Trust dated as of February 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"), and Resolution No. 06-80 of the District adopted on November 28, 2006 (the "2006A Resolution"), to refund the outstanding Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2006A (the "2006A Bonds").

**WITNESSETH:**

WHEREAS, the District previously authorized the issuance of the 2006A Bonds pursuant to the 2006A Resolution;

WHEREAS, the District has determined that a portion of the proceeds of the \$\_\_\_\_\_ aggregate principal amount of the Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2016A (the "Bonds") issued pursuant to the Resolution and the Indenture, will be used to provide a portion of the funds to pay on June 1, 2016, the regularly scheduled payment of interest and principal with respect to the 2006A Bonds, and to pay on June 1, 2016 the principal with respect to the 2006A Bonds maturing on and after June 1, 2017, without premium (the "Redemption Price"); and

WHEREAS, by irrevocably depositing with the Escrow Agent moneys (as permitted by, in the manner prescribed by, and all in accordance with the 2006A Resolution), which moneys will be used to purchase securities as described on Schedule A hereto (the "Federal Securities"), which Federal Securities satisfy the criteria set forth in Section 8.1 of the 2006A Resolution, provided the principal of and the interest on which when paid will provide money which, together with the moneys deposited with the Escrow Agent at the same time pursuant to this Agreement, will be fully sufficient to pay and discharge the 2006A Bonds;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Escrow Agent agree as follows:

**SECTION 1. Deposit of Moneys.** The Escrow Agent hereby acknowledges receipt of (i) \$\_\_\_\_\_ from the Trustee from a portion of the net proceeds of the sale of the Bonds and (ii) \$\_\_\_\_\_ received from the District. The District hereby instructs the Escrow Agent to deposit the foregoing amounts into the Escrow Fund established hereunder.

The Escrow Agent shall hold all such amounts in irrevocable escrow separate and apart from other funds of the District and the Escrow Agent in a fund hereby created and established to be known as the "Escrow Fund" and to be applied solely as provided in this Agreement. The District represents that the moneys set forth above are at least equal to an amount sufficient to purchase the Federal Securities listed in Schedule A hereto, and to hold \$\_\_\_\_\_ uninvested as cash.

SECTION 2. Investment of Moneys. The Escrow Agent acknowledges receipt of the moneys described in Section 1 and agrees immediately to invest such moneys in the Federal Securities listed on Schedule A hereto and to deposit such Federal Securities in the Escrow Fund. The Escrow Agent shall be entitled to rely upon the conclusion of \_\_\_\_\_ (the "Verification Agent"), that the Federal Securities listed on Schedule A hereto mature and bear interest payable in such amounts and at such times as, together with cash on deposit in the Escrow Fund, will be sufficient to pay on June 1, 2016, the regularly scheduled payment of interest and principal with respect to the 2006A Bonds and to pay on June 1, 2016 the Redemption Price of the 2006A Bonds maturing on and after June 1, 2017.

SECTION 3. Investment of Any Remaining Moneys. At the written direction of the District, the Escrow Agent shall reinvest any other amount of principal and interest, or any portion thereof, received from the Federal Securities prior to the date on which such payment is required for the purposes set forth herein, in noncallable Federal Securities maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, at the written direction of the District, as verified in a report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of political subdivisions to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay on June 1, 2016, the regularly scheduled payment of interest and principal with respect to the 2006A Bonds, and to pay on June 1, 2016 the Redemption Price of the 2006A Bonds maturing on and after June 1, 2017, and provided that the District has obtained and delivered to the Escrow Agent an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the 2006A Bonds or interest on the Bonds. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section 3 which is not required for the purposes set forth in Section 5, as verified in the letter of the Verification Agent originally obtained by the District with respect to the refunding of the 2006A Bonds or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of tax-exempt obligations of political subdivisions, shall be paid to the District promptly upon the receipt of such interest income by the Escrow Agent. The determination of the District as to whether an accountant qualifies under this Escrow Agreement shall be conclusive.

SECTION 4. Substitution of Securities. Upon the written request of the District, and subject to the conditions and limitations herein set forth and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities, provided that there are substituted therefor from the proceeds of the Federal Securities other Federal Securities, but only after the District has obtained and delivered to the Escrow Agent: (i) an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, to the effect that the substitution of securities is permitted under the legal documents in effect with respect to the 2006A Bonds and that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the 2006A Bonds or interest with respect to the Bonds; and (ii) a report by a firm of independent certified public accountants to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay the regularly scheduled payment of interest and principal with respect to the 2006A Bonds on June 1, 2016, and to pay on June 1, 2016 the Redemption Price of the 2006A Bonds maturing on and after June 1, 2017. The Escrow Agent

shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Agreement and in full compliance with the provisions hereof.

SECTION 5. Payment of 2006A Bonds.

(a) Payment. From the maturing principal of the Federal Securities and the investment income and other earnings thereon and other moneys on deposit in the Escrow Fund, the Escrow Agent shall apply the amounts on deposit in the Escrow Fund to pay on June 1, 2016, the regularly scheduled payment of interest and principal with respect to the 2006A Bonds, and to pay on June 1, 2016 the Redemption Price of the 2006A Bonds maturing on and after June 1, 2017.

(b) Irrevocable Instructions to Provide Notice. The forms of the notice required to be mailed pursuant to Sections 4.3 and 10.1 of the 2006A Resolution are substantially in the forms attached hereto as Exhibits A and B. The District hereby irrevocably instructs the Escrow Agent to mail a notice of prepayment and a notice of defeasance of the 2006A Bonds in accordance with Sections 2.2 and 8.1, respectively, of the 2006A Resolution, as required to provide for the redemption of the 2006A Bonds in accordance with this Section 5.

(c) Unclaimed Moneys. Any moneys which remain unclaimed for two years after June 1, 2016 shall be repaid by the Escrow Agent to the District.

(d) Priority of Payments. The owners of the 2006A Bonds shall have a first and exclusive lien on all moneys and securities in the Escrow Fund until such moneys and such securities are used and applied as provided in this Agreement.

(e) Termination of Obligation. As provided in the 2006A Resolution, upon deposit of moneys with the Escrow Agent in the Escrow Fund as set forth in Section 1 hereof and the purchase of the various Federal Securities as provided in Section 2 hereof, all covenants, agreements and other obligations of the District under the 2006A Resolution with respect to the 2006A Bonds shall cease, terminate and become void and be discharged and satisfied.

SECTION 6. Application of Certain Terms of the 2006A Resolution. All of the terms of the 2006A Resolution relating to the making of payments of principal and interest with respect to the 2006A Bonds and relating to the exchange or transfer of the 2006A Bonds are incorporated in this Agreement as if set forth in full herein. The procedures set forth in Section 5.1 of the 2006A Resolution relating to the resignation and removal and merger of U.S. Bank National Association, as fiscal agent under the 2006A Resolution are also incorporated in this Agreement as if set forth in full herein and shall be the procedures to be followed with respect to any resignation or removal of the Escrow Agent hereunder.

SECTION 7. Performance of Duties. The Escrow Agent agrees to perform only the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 8. Escrow Agent's Authority to Make Investments. Except as provided in Section 2 hereof, the Escrow Agent shall have no power or duty to invest any funds held under this Agreement or to sell, transfer or otherwise dispose of the moneys or Federal Securities held hereunder.



SECTION 9. Indemnity. The District hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the District or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities deposited therein, the retention of the proceeds thereof and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement; provided, however, that the District shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's respective employees or the willful breach by the Escrow Agent of the terms of this Agreement. In no event shall the District or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement.

SECTION 10. Responsibilities of Escrow Agent. The Escrow Agent and its agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the retention of the Federal Securities or the proceeds thereof, the sufficiency of the Federal Securities to pay the 2006A Bonds or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the District, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the proceeds to accomplish the refunding of the 2006A Bonds or to the validity of this Agreement as to the District and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter may be deemed to be conclusively established by a certificate signed by an officer of the District.

SECTION 11. Amendments. This Agreement is made for the benefit of the District and the owners from time to time of the 2006A Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such owners, the Escrow Agent and the District; provided, however, that the District and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Agreement or enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Agreement, the Law (as such term is defined in the Indenture), or the 2006A

Resolution, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Agreement; (ii) to grant to, or confer upon, the Escrow Agent for the benefit of the owners of the 2006A Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (iii) to include under this Agreement additional funds. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of Stradling Yocca Carlson & Rauth, A Professional Corporation, with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the owners of the various 2006A Bonds or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 12. Term. This Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of either: (i) the date upon which the 2006A Bonds have been paid in accordance with this Agreement; or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent pursuant to Section 5(c) of this Agreement.

SECTION 13. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent and the District and any other reasonable fees and expenses of the Escrow Agent approved by the District; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien or assert any lien whatsoever on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Agent under this Agreement.

SECTION 14. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the District or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

SECTION 15. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 16. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED UNDER THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 17. Insufficient Funds. If at any time the Escrow Agent has actual knowledge that the moneys and investments in the Escrow Fund, including the anticipated proceeds of and earnings thereon, will not be sufficient to make all payments required by this Agreement, the Escrow Agent shall notify the District in writing, of the amount thereof and the reason therefor to the extent known to it. The Escrow Agent shall have no responsibility regarding any such deficiency.

SECTION 18. Notice to District and Escrow Agent. Any notice to or demand upon the Escrow Agent may be served or presented, and such demand may be made, at the principal corporate trust office of the Escrow Agent at U.S. Bank National Association, One California Street, Suite 2100, San Francisco, California 94111, Attention: Global Corporate Trust Services, Reference: Santa Clara Valley Water District, Series 2006A. Any notice to or demand upon the District shall be deemed to have been sufficiently given or served for all purposes by being mailed by registered or certified mail, and deposited, postage prepaid, in a post office letter box, addressed to the District at Santa Clara Valley Water District, 5750 Almaden Expressway, San Jose, California 95118,

Attention: Chief Executive Officer/General Manager (or such other address as may have been filed in writing by the District with the Escrow Agent).

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers and attested as of the date first above written.

SANTA CLARA VALLEY WATER DISTRICT

\_\_\_\_\_  
[Title]

U.S. BANK NATIONAL ASSOCIATION,  
as Escrow Agent

By: \_\_\_\_\_  
Authorized Officer

**SCHEDULE A**

Federal Securities

<i>Security</i>	<i>Maturity</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
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## EXHIBIT A

### NOTICE OF REDEMPTION

SANTA CLARA VALLEY WATER DISTRICT  
WATER UTILITY SYSTEM REFUNDING REVENUE BONDS, SERIES 2006A

BASE CUSIP NO. 80168Q

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Bonds (the "Bonds") pursuant to Resolution No. 06-80, adopted by the Board of Directors of the Santa Clara Valley Water District (the "District") on November 28, 2006 (the "2006A Resolution"), that the outstanding Bonds in the amount of \$\_\_\_\_\_ have been called for redemption on June 1, 2016 (the "Redemption Date").

<u>CUSIP</u>	<u>MATURITY</u> <u>(June 1)</u>	<u>RATE</u>	<u>AMOUNT</u>	<u>PRICE</u>
CV2	2017	5.00%	\$2,435,000	100%
CW0	2018	5.00	2,555,000	100
CX8	2019	5.00	2,685,000	100
CY6	2020	4.00	2,815,000	100
CZ3	2021	4.00	2,930,000	100
DA7	2022	4.50	3,050,000	100
DB5	2023	4.50	3,190,000	100
DC3	2025	3.75	6,785,000	100
DD1	2028	3.75	11,155,000	100
DE9	2030	4.25	8,175,000	100
DF6	2035	4.25	9,175,000	100

The Bonds will be payable on the Redemption Date at a Redemption Price of 100% of the principal amount plus accrued interest to such date (the "Redemption Price"). The Redemption Price of the Bonds will become due and payable on the Redemption Date. Interest with respect to the Bonds to be redeemed will cease to accrue on and after the Redemption Date, and such Bonds will be surrendered to U.S. Bank National Association, (the "2006A Fiscal Agent") as fiscal agent under the 2006A Resolution.

All Bonds are required to be surrendered to the principal corporate office of the 2006A Fiscal Agent, on the Redemption Date at the following location. If the Bonds are mailed, the use of registered, insured mail is recommended:

U.S. Bank National Association  
One California Street, Suite 2100  
San Francisco, California 94111  
Attention: Global Corporate Trust Services  
Reference: Santa Clara Valley Water District, Series 2006A

If the Owner of any Bonds subject to optional redemption fails to deliver such Bond to the 2006A Fiscal Agent on the Redemption Date, such Bond shall nevertheless be deemed redeemed on

the Redemption Date and the Owner of such Bond shall have no rights in respect thereof except to receive payment of the Redemption Price from funds held by the 2006A Fiscal Agent for such payment.

A form W-9 must be submitted with the Bonds. Failure to provide a completed form W-9 will result in 31% backup withholding pursuant to the Interest and Dividend Tax Compliance Act of 1983. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, 28% will be withheld if the tax identification number is not properly certified.

U.S. BANK NATIONAL ASSOCIATION,  
as Fiscal Agent

DATED this \_\_\_\_ day of \_\_\_\_\_, 2016.

## EXHIBIT B

### NOTICE OF DEFEASANCE

#### SANTA CLARA VALLEY WATER DISTRICT WATER UTILITY SYSTEM REFUNDING REVENUE BONDS, SERIES 2006A

BASE CUSIP NO. 80168Q

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (as further defined below, the “2006A Bonds”) that the Santa Clara Valley Water District (the “District”), has deposited with U.S. Bank National Association, as fiscal agent (the “2006A Fiscal Agent”) pursuant to Resolution No. 06-80, adopted by the Board of Directors of the District on November 28, 2006 (the “2006A Resolution”), cash and federal securities, the principal of and interest on which when paid will provide moneys sufficient to pay on June 1, 2016 the regularly scheduled payment of interest and principal with respect to the 2006A Bonds, and to pay on June 1, 2016, the principal with respect to the 2006A Bonds maturing on and after June 1, 2017.

The 2006A Bonds to be defeased are as follows:

<u>CUSIP</u>	<u>MATURITY</u> <u>(June 1)</u>	<u>RATE</u>	<u>AMOUNT</u>	<u>PRICE</u>
CU4	2016	5.00%	\$2,320,000	100%
CV2	2017	5.00	2,435,000	100
CW0	2018	5.00	2,555,000	100
CX8	2019	5.00	2,685,000	100
CY6	2020	4.00	2,815,000	100
CZ3	2021	4.00	2,930,000	100
DA7	2022	4.50	3,050,000	100
DB5	2023	4.50	3,190,000	100
DC3	2025	3.75	6,785,000	100
DD1	2028	3.75	11,155,000	100
DE9	2030	4.25	8,175,000	100
DF6	2035	4.25	9,175,000	100

In accordance with the 2006A Resolution, the 2006A Bonds are deemed to have been paid in accordance with Section 8.1 thereof and the covenants, agreements and other obligations of the District under the 2006A Resolution with respect to the 2006A Bonds shall cease, terminate and become void and be discharged and satisfied.

DATED this \_\_\_\_ day of \_\_\_\_, 2016.



**ESCROW AGREEMENT (SERIES 2007A)**

THIS ESCROW AGREEMENT (SERIES 2007A), dated as of February 1, 2016 (the "Agreement"), by and between the Santa Clara Valley Water District (the "District") and U.S. Bank National Association, Los Angeles, California, as escrow agent (the "Escrow Agent"), is entered into in accordance with Resolution No. \_\_\_\_\_ adopted on February \_\_, 2016 (the "Resolution") by the Board of Directors of the District, the Indenture of Trust dated as of February 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"), and a Trust Agreement, dated as of September 1, 2007 (the "2007A Trust Agreement"), by and among the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation"), U.S. Bank National Association, as trustee (the "2007A Trustee"), and the District to refund a portion of the outstanding Santa Clara Valley Water District Revenue Certificates of Participation (Water Utility System Improvement Projects), Series 2007A (the "Refunded 2007A Certificates").

**WITNESSETH:**

WHEREAS, the District previously authorized the execution and delivery of the Refunded 2007A Certificates pursuant to the 2007A Trust Agreement;

WHEREAS, the District has determined that a portion of the proceeds of the \$\_\_\_\_\_ aggregate principal amount of the Santa Clara Valley Water District Water Utility System Refunding Revenue Bonds, Series 2016A (the "Bonds") issued pursuant to the Resolution and the Indenture, will be used to provide a portion of the funds to pay on and prior to June 1, 2017, all regularly scheduled payments of interest and principal with respect to the Refunded 2007A Certificates, and to pay on June 1, 2017 the principal with respect to the Refunded 2007A Certificates maturing on June 1, 2018 and June 1, 2019, without premium (the "Prepayment Price"); and

WHEREAS, by irrevocably depositing with the Escrow Agent moneys (as permitted by, in the manner prescribed by, and all in accordance with the 2007A Trust Agreement), which moneys will be used to purchase securities as described on Schedule A hereto (the "Federal Securities"), which Federal Securities satisfy the criteria set forth in Section 10.01 of the 2007A Trust Agreement, provided the principal of and the interest on which when paid will provide money which, together with the moneys deposited with the Escrow Agent at the same time pursuant to this Agreement, will be fully sufficient to pay and discharge the Refunded 2007A Certificates;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Escrow Agent agree as follows:

**SECTION 1. Deposit of Moneys.** The Escrow Agent hereby acknowledges receipt of (i) \$\_\_\_\_\_ from the Trustee from a portion of the net proceeds of the sale of the Bonds, and (ii) \$\_\_\_\_\_ received from the District. The District hereby instructs the Escrow Agent to deposit the foregoing amounts into the Escrow Fund established hereunder.

The Escrow Agent shall hold all such amounts in irrevocable escrow separate and apart from other funds of the District and the Escrow Agent in a fund hereby created and established to be known as the "Escrow Fund" and to be applied solely as provided in this Agreement. The District

represents that the moneys set forth above are at least equal to an amount sufficient to purchase the Federal Securities listed in Schedule A hereto, and to hold \$\_\_\_\_ uninvested as cash.

SECTION 2. Investment of Moneys. The Escrow Agent acknowledges receipt of the moneys described in Section 1 and agrees immediately to invest such moneys in the Federal Securities listed on Schedule A hereto and to deposit such Federal Securities in the Escrow Fund. The Escrow Agent shall be entitled to rely upon the conclusion of \_\_\_\_\_ (the “Verification Agent”), that the Federal Securities listed on Schedule A hereto mature and bear interest payable in such amounts and at such times as, together with cash on deposit in the Escrow Fund, will be sufficient to pay when due all regularly scheduled payments of interest and principal with respect to the Refunded 2007A Certificates on and prior to June 1, 2017 and to pay on June 1, 2017 the Prepayment Price of the Refunded 2007A Certificates maturing on June 1, 2018 and June 1, 2019.

SECTION 3. Investment of Any Remaining Moneys. At the written direction of the District, the Escrow Agent shall reinvest any other amount of principal and interest, or any portion thereof, received from the Federal Securities prior to the date on which such payment is required for the purposes set forth herein, in noncallable Federal Securities maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, at the written direction of the District, as verified in a report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of political subdivisions to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay when due all regularly scheduled payments of interest and principal with respect to the Refunded 2007A Certificates on and prior to June 1, 2017, and to pay on June 1, 2017 the Prepayment Price of the Refunded 2007A Certificates maturing on June 1, 2018 and June 1, 2019, and provided that the District has obtained and delivered to the Escrow Agent an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Installment Payments (as such term is defined in the 2007A Trust Agreement) or interest on the Bonds. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section 3 which is not required for the purposes set forth in Section 5, as verified in the letter of the Verification Agent originally obtained by the District with respect to the refunding of the Refunded 2007A Certificates or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of tax-exempt obligations of political subdivisions, shall be paid to the District promptly upon the receipt of such interest income by the Escrow Agent. The determination of the District as to whether an accountant qualifies under this Escrow Agreement shall be conclusive.

SECTION 4. Substitution of Securities. Upon the written request of the District, and subject to the conditions and limitations herein set forth and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities, provided that there are substituted therefor from the proceeds of the Federal Securities other Federal Securities, but only after the District has obtained and delivered to the Escrow Agent: (i) an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, to the effect that the substitution of securities is permitted under the legal documents in effect with respect to the Refunded 2007A Certificates and that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Installment Payments (as such term is defined in the 2007A Trust Agreement) or interest with respect to the Bonds; and (ii) a report by a firm of independent certified public accountants to the effect that the reinvestment

described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay when due all regularly scheduled payments of interest and principal with respect to the Refunded 2007A Certificates on and prior to June 1, 2017, and to pay on June 1, 2017 the Prepayment Price of the Refunded 2007A Certificates maturing on June 1, 2018 and June 1, 2019. The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Agreement and in full compliance with the provisions hereof.

**SECTION 5. Payment of Refunded 2007A Certificates.**

(a) Payment. From the maturing principal of the Federal Securities and the investment income and other earnings thereon and other moneys on deposit in the Escrow Fund, the Escrow Agent shall on each December 1 and June 1, commencing June 1, 2016 through and including June 1, 2017, apply the amounts on deposit in the Escrow Fund to pay when due all regularly scheduled payments of interest and principal with respect to the Refunded 2007A Certificates, and to pay on June 1, 2017 the Prepayment Price of the Refunded 2007A Certificates maturing on June 1, 2018 and June 1, 2019.

(b) Irrevocable Instructions to Provide Notice. The forms of the notice required to be mailed pursuant to Sections 3.04 and 10.01 of the 2007A Trust Agreement are substantially in the forms attached hereto as Exhibits A and B. The District hereby irrevocably instructs the Escrow Agent to mail a notice of prepayment and a notice of defeasance of the Refunded 2007A Certificates in accordance with Sections 3.04 and 10.01, respectively, of the 2007A Trust Agreement, as required to provide for the prepayment of the Refunded 2007A Certificates maturing on June 1, 2018 and June 1, 2019 in accordance with this Section 5.

(c) Unclaimed Moneys. Any moneys which remain unclaimed for two years after June 1, 2017 shall be repaid by the Escrow Agent to the District.

(d) Priority of Payments. The owners of the Refunded 2007A Certificates shall have a first and exclusive lien on all moneys and securities in the Escrow Fund until such moneys and such securities are used and applied as provided in this Agreement.

(e) Termination of Obligation. As provided in the 2007A Trust Agreement, upon deposit of moneys with the Escrow Agent in the Escrow Fund as set forth in Section 1 hereof and the purchase of the various Federal Securities as provided in Section 2 hereof, all agreements, covenants and other obligations of the District and the Corporation under the 2007A Trust Agreement with respect to the Refunded 2007A Certificates shall cease, terminate and become void and be discharged and satisfied. As provided in Section 9.1 of the Installment Purchase Agreement, dated as of September 1, 2007 (the "2007A Installment Purchase Agreement"), by and between the District and the Corporation, the obligations of the District under the 2007A Installment Purchase Agreement with respect to the portion of the Installment Payments (as such term is defined in the 2007A Trust Agreement) relating to the Refunded 2007A Certificates shall cease, terminate, become void and be discharged and satisfied.

**SECTION 6. Application of Certain Terms of the 2007A Trust Agreement.** All of the terms of the 2007A Trust Agreement relating to the making of payments of principal and interest with respect to the Refunded 2007A Certificates and relating to the exchange or transfer of the Refunded 2007A Certificates are incorporated in this Agreement as if set forth in full herein. The

procedures set forth in Section 8.3 of the 2007A Trust Agreement relating to the resignation and removal and merger of the 2007A Trustee under the 2007A Trust Agreement are also incorporated in this Agreement as if set forth in full herein and shall be the procedures to be followed with respect to any resignation or removal of the Escrow Agent hereunder.

SECTION 7. Performance of Duties. The Escrow Agent agrees to perform only the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 8. Escrow Agent's Authority to Make Investments. Except as provided in Section 2 hereof, the Escrow Agent shall have no power or duty to invest any funds held under this Agreement or to sell, transfer or otherwise dispose of the moneys or Federal Securities held hereunder.

SECTION 9. Indemnity. The District hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the District or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities deposited therein, the retention of the proceeds thereof and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement; provided, however, that the District shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's respective employees or the willful breach by the Escrow Agent of the terms of this Agreement. In no event shall the District or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement.

SECTION 10. Responsibilities of Escrow Agent. The Escrow Agent and its agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the retention of the Federal Securities or the proceeds thereof, the sufficiency of the Federal Securities to pay the Refunded 2007A Certificates or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the District, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the proceeds to accomplish the refunding of the Refunded 2007A Certificates or to the validity of this Agreement as to the District and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this

Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter may be deemed to be conclusively established by a certificate signed by an officer of the District.

SECTION 11. Amendments. This Agreement is made for the benefit of the District and the owners from time to time of the Refunded 2007A Certificates and it shall not be repealed, revoked, altered or amended without the written consent of all such owners, the Escrow Agent and the District; provided, however, that the District and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Agreement or enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Agreement, the Law (as such term is defined in the 2007A Installment Purchase Agreement), or the 2007A Trust Agreement, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Agreement; (ii) to grant to, or confer upon, the Escrow Agent for the benefit of the owners of the Refunded 2007A Certificates, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (iii) to include under this Agreement additional funds. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of Stradling Yocca Carlson & Rauth, A Professional Corporation, with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the owners of the various Refunded 2007A Certificates or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 12. Term. This Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of either: (i) the date upon which the Refunded 2007A Certificates have been paid in accordance with this Agreement; or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent pursuant to Section 5(c) of this Agreement.

SECTION 13. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent and the District and any other reasonable fees and expenses of the Escrow Agent approved by the District; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien or assert any lien whatsoever on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Agent under this Agreement.

SECTION 14. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the District or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

SECTION 15. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 16. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED UNDER THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 17. Insufficient Funds. If at any time the Escrow Agent has actual knowledge that the moneys and investments in the Escrow Fund, including the anticipated proceeds of and earnings thereon, will not be sufficient to make all payments required by this Agreement, the Escrow Agent shall notify the District in writing, of the amount thereof and the reason therefor to the extent known to it. The Escrow Agent shall have no responsibility regarding any such deficiency.

SECTION 18. Notice to District and Escrow Agent. Any notice to or demand upon the Escrow Agent may be served or presented, and such demand may be made, at the principal corporate trust office of the Escrow Agent at U.S. Bank National Association, One California Street, Suite 2100, San Francisco, California 94111, Attention: Global Corporate Trust Services, Reference: Santa Clara Valley Water District, Series 2007A. Any notice to or demand upon the District shall be deemed to have been sufficiently given or served for all purposes by being mailed by registered or certified mail, and deposited, postage prepaid, in a post office letter box, addressed to the District at Santa Clara Valley Water District, 5750 Almaden Expressway, San Jose, California 95118, Attention: Chief Executive Officer/General Manager (or such other address as may have been filed in writing by the District with the Escrow Agent).

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers and attested as of the date first above written.

SANTA CLARA VALLEY WATER DISTRICT

\_\_\_\_\_  
[Title]

U.S. BANK NATIONAL ASSOCIATION,  
as Escrow Agent

By: \_\_\_\_\_  
Authorized Officer

**SCHEDULE A**

Federal Securities

<i>Security</i>	<i>Maturity</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
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## EXHIBIT A

### NOTICE OF PREPAYMENT

SANTA CLARA VALLEY WATER DISTRICT  
REVENUE CERTIFICATES OF PARTICIPATION  
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS), SERIES 2007A

BASE CUSIP NO. 80168F

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Certificates (the "Certificates") pursuant to the Trust Agreement, dated as of September 1, 2007 (the "2007A Trust Agreement"), by and among the Santa Clara Valley Water District (the "District"), the Santa Clara Valley Water District Public Facilities Financing Corporation and U.S. Bank National Association, as trustee (the "2007A Trustee"), that the Certificates set forth below in the aggregate principal amount of \$3,985,000 have been called for prepayment on June 1, 2017 (the "Prepayment Date").

<u>CUSIP</u>	<u>MATURITY</u> <u>(June 1)</u>	<u>RATE</u>	<u>AMOUNT</u>	<u>PRICE</u>
KH8	2018	4.00%	\$1,945,000	100%
KJ4	2019	5.00	2,040,000	100

The Certificates will be payable on the Prepayment Date at a prepayment price of 100% of the principal amount plus accrued interest to such date (the "Prepayment Price"). The Prepayment Price of the Certificates will become due and payable on the Prepayment Date. Interest with respect to the Certificates to be prepaid will cease to accrue on and after the Prepayment Date, and such Certificates will be surrendered to the 2007A Trustee.

All Certificates are required to be surrendered to the principal corporate office of the 2007A Trustee, on the Prepayment Date at the following location. If the Certificates are mailed, the use of registered, insured mail is recommended:

U.S. Bank National Association  
One California Street, Suite 2100  
San Francisco, California 94111  
Attention: Global Corporate Trust Services  
Reference: Santa Clara Valley Water District, Series 2007A

If the Owner of any Certificate subject to optional prepayment fails to deliver such Certificate to the 2007A Trustee on the Prepayment Date, such Certificate shall nevertheless be deemed prepaid on the Prepayment Date and the Owner of such Certificate shall have no rights in respect thereof except to receive payment of the Prepayment Price from funds held by the 2007A Trustee for such payment.

A form W-9 must be submitted with the Certificates. Failure to provide a completed form W-9 will result in 31% backup withholding pursuant to the Interest and Dividend Tax Compliance Act of 1983. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, 28% will be withheld if the tax identification number is not properly certified.

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

DATED this \_\_\_\_ day of \_\_\_\_\_, 2017.

**EXHIBIT B**

**NOTICE OF DEFEASANCE**

**SANTA CLARA VALLEY WATER DISTRICT  
REVENUE CERTIFICATES OF PARTICIPATION  
(WATER UTILITY SYSTEM IMPROVEMENT PROJECTS), SERIES 2007A**

**BASE CUSIP NO. 80168F**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned certificates of participation that the Santa Clara Valley Water District (the "District"), has deposited with U.S. Bank National Association, as trustee (the "2007A Trustee") under the Trust Agreement, dated as of September 1, 2007 (the "2007A Trust Agreement"), by and among the District, the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation") and the 2007A Trustee, cash and federal securities, the principal of and interest on which when paid will provide moneys sufficient to pay on and prior to June 1, 2017 the regularly scheduled payments of interest and principal with respect to the 2007A Certificates, and to pay on June 1, 2017, the principal with respect to the 2007A Certificates maturing on June 1, 2018 and June 1, 2019.

The 2007A Certificates to be defeased are as follows (the "Refunded 2007A Certificates"):

<u>CUSIP</u>	<u>MATURITY</u> <u>(June 1)</u>	<u>RATE</u>	<u>AMOUNT</u>	<u>PRICE</u>
KF2	2016	4.00%	\$1,770,000	100%
KG0	2017	4.00	1,860,000	100
KH8	2018	4.00	1,945,000	100
KJ4	2019	5.00	2,040,000	100

In accordance with the 2007A Trust Agreement, the Refunded 2007A Certificates are deemed to have been paid in accordance with Section 10.01 thereof and the covenants, agreements and other obligations of the District and the Corporation under the 2007A Trust Agreement and the Installment Purchase Agreement, dated as of September 1, 2007, by and between the District and the Corporation, with respect to the Refunded 2007A Certificates shall thereupon cease, terminate and become void and be discharged and satisfied.

DATED this \_\_\_\_ day of \_\_\_\_, 2016.