

\$78,780,000
SANTA CLARA VALLEY WATER DISTRICT
Refunding and Improvement Certificates of Participation, Series 2007A

Dated: Date of Delivery

Due: February 1, as shown below

The proceeds of the 2007A Certificates will be used (a) to refinance the \$73,050,000 outstanding principal amount of 2000 Certificates, (b) to finance the cost of certain flood control improvements, (c) to finance the cost of a reserve fund surety bond, and (d) to pay the costs of issuing the 2007A Certificates.

Interest represented by the 2007A Certificates is payable on August 1, 2007 and each February 1 and August 1 thereafter. The 2007A Certificates will be prepared as fully registered 2007A Certificates and, when 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 of the 2007A Certificates. Purchasers of beneficial interests will not receive certificates representing their interest in the 2007A Certificates. So long as CEDE & Co. is the registered owner of the 2007A 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 2007A Certificates. Individual purchases of the 2007A Certificates will be made in book-entry form only in authorized denominations of \$5,000 or any integral multiple thereof. Principal and interest 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 to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the 2007A Certificates.

The 2007A Certificates are payable from the 1995 Installment Payments. The obligation of the District to make the 1995 Installment Payments is payable from, and is secured by a pledge of and lien on, the District's Flood Control System Revenues. The 1995 Installment Payments are payable on a parity with \$100,020,000 aggregate principal amount of the 1994 Installment Payments.

The obligation of the District to make the 1995 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.

The 2007A Certificates are subject to optional and mandatory prepayment prior to maturity as described herein.

MATURITY SCHEDULE

<u>Payment Date</u> <u>(February 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Payment Date</u> <u>(February 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2008	\$2,240,000	4.00%	3.48%	2015	\$2,705,000	5.00%	3.84%
2009	2,055,000	4.00	3.56	2016	2,835,000	5.00	3.88
2010	2,135,000	4.50	3.60	2017	2,980,000	4.00	3.94
2011	2,235,000	5.00	3.64	2018	3,095,000	5.00	4.00*
2012	2,345,000	5.00	3.67	2019	3,250,000	4.25	4.17*
2013	2,460,000	4.50	3.71	2020	3,390,000	4.25	4.24*
2014	2,575,000	5.00	3.78	2027	1,200,000	5.00	4.24*

\$7,255,000 5.000% Term Certificates due February 1, 2022, Price: 107.192*

\$7,990,000 5.000% Term Certificates due February 1, 2024, Price: 106.771*

\$8,810,000 5.000% Term Certificates due February 1, 2026, Price: 106.436*

\$19,225,000 5.000% Term Certificates due February 1, 2030, Price: 105.936*

*Priced to call on February 1, 2017 at 100%.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, 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 1995 Installment Payment 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 1995 Installment Payment constituting interest is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences with respect to the 2007A Certificates.

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

The 2007A 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, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the District and the Corporation by District Counsel, Debra L. Cauble, Esq., for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, for the Surety Bond Provider by its counsel and for the Trustee by its counsel. It is expected that the 2007A Certificates in book-entry form will be available for delivery through the facilities of DTC on or about February 27, 2007.

MORGAN STANLEY

LEHMAN BROTHERS

DE LA ROSA & CO., INC.

BACKSTROM MCCARLEY BERRY & CO., LLC

Dated: February 6, 2007

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 2007A Certificates 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 2007A Certificates. 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. The information and expressions of opinion herein are subject to change without notice and neither the 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 reliance upon exemptions contained in such acts, the 2007A Certificates have not been registered under the Securities Act of 1933, as amended, nor has the Trust Agreement been qualified under the Trust Indenture Act of 1939, as amended. The registration or qualification of the 2007A Certificates in accordance with applicable provisions of securities laws of any state in which the 2007A Certificates 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 2007A Certificates 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 2007A CERTIFICATES, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2007A 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 2007A Certificates.

SANTA CLARA VALLEY WATER DISTRICT
5750 Almaden Expressway
San Jose, California 95118

BOARD OF DIRECTORS AND OFFICERS OF THE DISTRICT

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Gregory A. Zlotnick, Vice-Chair District 5
Rosemary Kamei, Director District 1
Joe Judge, Director District 2
Richard P. Santos, Director District 3
Larry Wilson, Director District 4
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Debra L. Cauble, District Counsel
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Nai Hsueh, Chief Operating Officer, Capital Program Services
Lauren L. Keller, Clerk of the Board

SPECIAL COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
San Francisco, 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

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\$78,780,000
Santa Clara Valley Water District
Refunding and Improvement Certificates of Participation
Series 2007A

INTRODUCTION

This Official Statement, including the cover page, inside cover page, and Appendices, is provided to furnish certain information in connection with the offering of \$78,780,000 aggregate principal amount of Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2007A (the "2007A 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.

The 2007A Certificates will be delivered pursuant to a Trust Agreement, dated as of November 1, 2005 (the "2007 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 U.S. Bank National Association, San Francisco, California, as trustee (the "2007 Trustee"). The 2007A Certificates represent a right to receive the installment payments (the "1995 Installment Payments") payable by the District under an Installment Purchase Agreement dated as of June 27, 1995, by and between the District and the Corporation, as amended by Amendment No. 1 to the Installment Purchase Agreement, dated as of February 15, 2000 and as further amended by Amendment No. 2 to the Installment Purchase Agreement, dated November 1, 2005, by and between the District and the Corporation (collectively, the "1995 Installment Purchase Agreement").

Pursuant to an Assignment Agreement, dated as of February 15, 2000, by and between the Corporation and U.S. Bank National Association, as successor trustee to State Street Bank and Trust Company of California, N.A., as amended by Amendment No. 1 to the Assignment Agreement, dated as of November 1, 2005, by and between the Corporation and the 2007 Trustee (collectively referred to as the "Assignment Agreement"), the Corporation assigned to the 2007 Trustee, for the benefit of the registered owners of the 2007A Certificates, all of its rights to receive the 1995 Installment Payments and certain other rights and interests of the Corporation in the 1995 Installment Purchase Agreement.

Purpose. The proceeds of the 2007A Certificates will be used (a) to refund the \$73,050,000 aggregate principal amount of the Santa Clara Valley Water District Certificates of Participation, Parity Obligations, Series 2000A and Santa Clara Valley Water District Certificates of Participation, Subordinate Obligations, Series 2000B (collectively, the "2000 Certificates"), (b) to finance and reimburse the cost of certain flood control improvements, (c) to finance the cost of a reserve fund surety bond, and (d) to pay the costs of issuing the 2007A Certificates, all as more particularly described under the captions "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT."

Security for the 1995 Installment Payments. The 1995 Installment Payments are payable from, and are secured by a pledge of and lien on, the District Flood Control System Revenues (as described under the caption "SECURITY AND SOURCES OF PAYMENT — Flood Control System Revenues"). A portion of the Flood Control System Revenues is comprised of Flood Control Benefit Assessments which the District is authorized to levy on any parcel of property within the District. The District has covenanted at all times to fix, prescribe and collect or lease to be collected Flood Control Benefit Assessments in an amount equal to 125 percent of the Maximum Annual Debt Service on the then outstanding 1994 Installment Payments, the 1995 Installment Payments, and any payments pursuant to any installment agreements which are on a parity therewith (the "Parity Obligations") (as described under the caption "SECURITY AND SOURCES OF PAYMENT — Rate Covenant"). The District's obligation to make the 1995 Installment Payments from Flood Control System Revenues is absolute and unconditional and the District has covenanted to continue such payments whether or not the 1995 Project is operating or operable. Such payments are not subject to annual

appropriation or abatement in the event of loss or destruction of the 1995 Project. The District's obligation to make the 1995 Installment Payments is payable from Flood Control System Revenues on a parity with the 1994 Installment Payments (as defined herein).

Outstanding Flood Control System Obligations. On June 23, 1994 the District adopted Resolution No. 94-60, entitled "A Resolution of the Board of Directors of the Santa Clara Valley Water District Providing for the Allocation of Flood Control System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Flood Control System Revenues" (the "Master Resolution"). Pursuant to the Master Resolution and resolutions of the District, the District approved the 1994 Installment Purchase Agreement which requires the District to make the 1994 Installment Payments to the Corporation for certain flood control improvements. The 1994 Installment Payments secure the payments of principal and interest with respect to the \$85,715,000 aggregate original principal amount of Santa Clara Valley Water District Refunding and Improvement Certificates of Participation Series 2003A (the "2003A Certificates") and the \$32,965,000 original aggregate principal amount of Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2004A (the "2004A Certificates").

Pursuant to the Master Resolution and resolutions of the District, the District approved the 1995 Installment Purchase Agreement. The principal and interest with respect to the 2007A Certificates are being paid from the 1995 Installment Payments. The 1995 Installment Payments are payable from and are secured by a pledge of and lien on, the District's Flood Control System Revenues on a parity with the 1994 Installment Purchase Agreement.

Additional Debt Test. In addition to the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement, the Master Resolution provides for the issuance of additional bonds, contracts, other parity obligations and subordinate obligations upon satisfaction of certain conditions. See the caption "SECURITY AND SOURCES OF PAYMENT — Additional Parity Obligations" and in Appendix B — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — FLOOD CONTROL MASTER RESOLUTION-Additional Bonds and Contracts and Other Parity Obligations."

Debt Service Reserve Fund. A municipal bond debt service reserve insurance policy (the "Surety Bond") to be issued by Financial Security Assurance Inc. (the "Surety Bond Provider") has been deposited in a reserve fund (the "Series 2007A Reserve Fund") established under the 2007 Trust Agreement as security for the 2007A Certificates in an amount equal to \$5,764,000 (the "Series 2007A Reserve Fund Requirement"). The Surety Bond provides that upon notice from the 2007 Trustee to the Surety Bond Provider to the effect that insufficient amounts are on deposit in the payment fund with respect to the 2007A Certificates (the "Series 2007A Payment Fund") to pay the principal of and interest with respect to the 2007A Certificates, the Surety Bond Provider will promptly deposit with the 2007 Trustee an amount sufficient to pay the principal of and interest with respect to the 2007A Certificates or the available amount of the Surety Bond, whichever is less. See the caption "SECURITY AND SOURCES OF PAYMENT — Debt Service Reserve Fund" herein.

Prepayment. The 2007A Certificates will be subject to prepayment prior to maturity, including optional prepayment in whole or in part and mandatory prepayment in whole or in part, as more fully described under the caption "THE 2007A CERTIFICATES."

Limited Obligations. The obligation of the District to make the 1995 Installment Payments described herein are payable from, and are secured by a pledge of and lien on, the District's Flood Control System Revenues. The obligation of the District to make 1995 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 2007A Certificates, the security and sources of payment for the 2007A Certificates and the District are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definition of certain capitalized terms used herein may be found in Appendix B

— “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” 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 a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the 2007A Certificates to provide certain financial information and operating data relating to the District by not later than each April 1, commencing April 1, 2007, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix E — “FORM OF CONTINUING DISCLOSURE AGREEMENT” hereto. 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. The District has not defaulted on any continuing disclosure undertaking in the previous five years.

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 “FLOOD PROTECTION AND STREAM STEWARDSHIP,” “SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS” and “PROJECTED OPERATING RESULTS” herein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE 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.

Changes Since the Date of the Preliminary Official Statement. The Official Statement includes certain changes since the date of the Preliminary Official Statement. These changes are included under the caption “APPENDIX A—AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS OF THE DISTRICT” to include the District’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2006, under the captions “THE DISTRICT—Defined Benefit Pension Plans,” “—Other Post-Employment Benefits,” “—Insurance,” and “HISTORICAL OPERATING RESULTS” to reflect the financial statements of the District for Fiscal Year ended June 30, 2006, and under the caption “SECURITY AND SOURCES OF PAYMENT—Subordinate Obligations” to correct the test set forth for issuing Subordinate Obligations.

PLAN OF FINANCE

General. The District will apply a portion of the proceeds of the 2007A Certificates, together with certain other funds, to refund the \$73,050,000 aggregate principal amount of 2000 Certificates remaining outstanding as of the date of execution and delivery of the 2007A Certificates.

To effect the refunding of the 2000 Certificates, proceeds of the 2007A Certificates will be set aside in an escrow account (the “2007 Escrow Fund”) held and maintained by U.S. Bank National Association, as

escrow agent for the 2000 Certificates (the "2007 Escrow Agent") under an Escrow Agreement, dated as of November 1, 2005, by and between the 2007 Escrow Agent and the District (the "2007 Escrow Agreement"). Such proceeds will be held as cash or invested in certain direct United States governmental obligations or obligations the payment of principal of and interest on which is guaranteed by the United States government (the "Government Obligations"). The principal and interest with respect to the 2000 Certificates due on and prior to February 1, 2009 will be paid from the 2007 Escrow Fund as such amounts become due and the 2000 Certificates maturing on and after February 1, 2010 will be prepaid on February 1, 2009 at a prepayment price equal to 102% of the principal with respect to such 2000 Certificates.

The cash and Government Obligations deposited in the 2007 Escrow Fund, will be irrevocably pledged under the 2007 Escrow Agreement, to the payment of the principal and interest with respect to the 2000 Certificates and the prepayment price of the 2000 Certificates and will not be pledged or available to pay principal of and interest with respect to the 2007A Certificates. The Government Obligations, together with any earnings thereon, shall be sufficient to provide for the payment of principal and interest with respect to, and any redemption premium on the 2000 Certificates when due.

Verification Report. Upon delivery of the 2007A Certificates, Grant Thornton LLP, independent certified public accountants, will deliver a report on the mathematical accuracy of certain computations based upon certain information provided to such firm by the underwriters listed on the cover of this Official Statement (the "Underwriters") relating to the adequacy of the amounts deposited in the 2007 Escrow Fund to pay the scheduled payments of interest with respect to the 2000 Certificates prior to their respective payment dates and to pay the respective prepayment prices on February 1, 2009 and the computation of yield of the 2007A Certificates as well as the Governmental Obligations which support Special Counsel's opinion that interest with respect to the 2007A Certificates received by the Owners is excluded from gross income for federal income tax purposes.

Flood Control Improvements

A portion of the proceeds of the 2007A Certificates will be used to finance and reimburse a portion of the costs previously incurred and to pay additional costs to be incurred by the District with respect to the Flood Control System. Such costs will include the following:

North Central Zone Projects. The District will pay costs to be incurred by the District with respect thereto in the North Central Zone including: the Calabazas and Maintenance Mitigation projects.

Central Zone Projects. The District will pay costs to be incurred by the District with respect thereto in the Central Zone including: the Guadalupe River, Los Gatos Creek Erosion Repair, and Maintenance Mitigation projects.

East Zone Projects. The District will pay costs to be incurred by the District with respect thereto in the East Zone including: The Lower Silver Creek, Coyote Creek, Upper Penitencia Creek, Calera Creek, Berryessa Creek, Thompson Creek Fish Ladder, and Maintenance Mitigation projects.

Northwest Zone Projects. The District will pay costs to be incurred by the District with respect thereto in the Northwest Zone including: Adobe Creek, Permanente Creek, Matadero Creek, San Francisquito Creek, Stevens Creek Fish Ladder Modification, and Maintenance Mitigation projects.

The District currently has approximately \$4,147,000 of proceeds of 2000 Certificates, \$5,455,325 of proceeds of 2003 Certificates and \$5,459,021 of proceeds of 2004 Certificates unspent. The District expects such unspent proceeds to be spent no later than February 28, 2008.

THE 2007A CERTIFICATES

General

The 2007A Certificates will be executed and delivered in the aggregate principal amount of \$78,780,000. One fully registered 2007A Certificate for each maturity in the name of CEDE & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), as registered owner of all 2007A Certificates will be delivered to DTC on the Delivery Date. The principal and interest with respect to the 2007A 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 2007A Certificates. For information relating to DTC and the DTC book-entry system as it relates to the 2007A Certificates, see Appendix C — “BOOK-ENTRY SYSTEM.”

The 2007A Certificates will be dated the date of delivery. Interest with respect to the 2007A Certificates will be payable at the rates set forth on the cover page of this Official Statement on August 1, 2007 and each February 1 and August 1 thereafter. Principal with respect to the 2007A Certificates will be payable on February 1 in each of the years, and in the amounts, set forth on the cover page of this Official Statement unless paid through mandatory sinking fund payments as hereinafter described or upon prior prepayment. Interest with respect to the 2007A Certificates will be calculated on the basis of a 360 day year consisting of 12 thirty day months.

Optional Prepayment

The 2007A Certificates with Certificate Payment Dates on or after February 1, 2018 are subject to optional prepayment, representing prepaid 1995 Installment Payments, by the District on any date on or after February 1, 2017, prior to their respective Certificate Payment Dates, 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 the principal amount or such part thereof evidenced and represented by the 2007A Certificates to be prepaid without premium.

Mandatory Sinking Fund Payment

The 2007A Certificates with Certificate Payment Dates of February 1, 2022 are subject to mandatory prepayment prior to such Certificate Payment Dates, 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 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 (February 1)</i>	<i>Principal Amount</i>
2021	\$3,540,000
2022 ¹	3,715,000

¹ Final maturity.

The 2007A Certificates with Certificate Payment Dates of February 1, 2024 are subject to mandatory prepayment prior to such Certificate Payment Dates, 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 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 (February 1)</i>	<i>Principal Amount</i>
2023	\$3,895,000
2024 ¹	4,095,000

¹ Final maturity.

The 2007A Certificates with Certificate Payment Dates of February 1, 2026 are subject to mandatory prepayment prior to such Certificate Payment Dates, 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 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 (February 1)</i>	<i>Principal Amount</i>
2025	\$4,295,000
2026 ¹	4,515,000

¹ Final maturity.

The 2007A Certificates with Certificate Payment Dates of February 1, 2030 are subject to mandatory prepayment prior to such Certificate Payment Dates, 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 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 (February 1)</i>	<i>Principal Amount</i>
2027	\$3,540,000
2028	4,975,000
2029	5,225,000
2030 ¹	5,485,000

¹ Final maturity.

Optional Prepayment From Insurance or Condemnation Proceeds

The 2007A Certificates are subject to optional 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 Flood Control System under the circumstances and upon the conditions and terms prescribed in the 2007 Trust Agreement and in the 1995 Installment Purchase Agreement, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the 2007A 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 1994 Installment Payments or 1995 Installment Payments from insurance or condemnation proceeds on a pro rata or other basis.

Other Prepayment Provisions

Notice of Prepayment. Notice of prepayment shall be mailed first-class mail by the 2007 Trustee, not less than thirty (30) nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the 2007A Certificates designated for prepayment at their addresses appearing on the registration books of the 2007 Trustee, (ii) the Securities Depositories, and (iii) the Information Services. Notice of prepayment to the Securities Depositories and the Information Services shall be given by certified or registered mail, overnight delivery or confirmed facsimile transmission. Each notice of prepayment shall state the 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 2007A Certificates of such maturity to be prepaid and, in the case of 2007A 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 2007A 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 2007A Certificates shall cease to accrue, and shall require that such 2007A Certificates be then surrendered at the address of the 2007 Trustee specified in the prepayment notice. Failure by the 2007 Trustee to give notice pursuant to the 2007 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 2007 Trustee to mail notice of prepayment pursuant to this section to any one or more of the respective Owners of any 2007A 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 2007A Certificates (other than sinking fund prepayments), the 2007 Trustee shall mail a notice of optional prepayment, other than any notice that refers to 2007A Certificates that are to be prepaid from proceeds of a refunding bond issue, only if sufficient funds have been deposited with the 2007 Trustee to pay the applicable prepayment price of the 2007A Certificates to be prepaid. The District shall give the 2007 Trustee written notice of its intention to optionally prepay 2007A 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 2007 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 2007A Certificates called for prepayment is held by the 2007 Trustee in the Series 2007A Payment Fund, then on the prepayment date designated in such notice, 2007A Certificates shall become due and payable, and from and after the date so designated interest evidenced and represented by the 2007A Certificates so called for prepayment shall cease to accrue, and the Owners of such 2007A Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof. Any prepayment of 2007A Certificates pursuant to the 2007 Trust Agreement shall cause the schedule of 1995 Installment Payments set forth in the 1995 Installment Purchase Agreement to be recalculated by the District in accordance with the 1995 Installment Purchase Agreement. Such schedule shall be furnished by the District to the 2007 Trustee. All 2007A Certificates prepaid, pursuant to the provisions of the 2007 Trust Agreement

shall be cancelled by the 2007 Trustee and shall be delivered to, or upon the order of, the District and shall not be redelivered.

SECURITY AND SOURCES OF PAYMENT

Flood Control System Revenues

General. The Master Resolution provides for the allocation of Flood Control System Revenues (as defined below). Such provisions apply to the 1994 Installment Purchase Agreement, and the 1995 Installment Purchase Agreement as well as to such other debts and obligations payable from Flood Control System Revenues as the District may issue or incur in the future, including without limitation revenue bonds, installment sale agreements, leases and contracts of indebtedness.

Under the Master Resolution, "Flood Control System Revenues" is defined to mean: (a) all gross income and revenue received or receivable by the District from its ownership or operation of the Flood Control System (described under the caption "FLOOD PROTECTION AND STREAM STEWARDSHIP") including, Flood Control Benefit Assessments, all Fees (as defined below) imposed in lieu of Flood Control Benefit Assessments, and all proceeds of taxes and certain investment earnings except (i) property taxes levied for the payment of debt service on its general obligation bonds, (ii) any future property taxes which pursuant to statute are to be applied to a specified purpose other than such future property taxes to be used for payment of debt service on Parity Obligations; and (iii) property taxes levied for payments on the District's contract to purchase water from the State Water Project (the "State Water Project Contract"). "Flood Control Benefit Assessments" is defined to mean the benefit assessments of the District established pursuant to Resolution No. 86-54 relating to the Northwest Flood Control Zone, Resolution No. 86-55 relating to the Central Flood Control Zone, Resolution No. 86-56 relating to the East Flood Control Zone, and Resolution No. 86-57 relating to the South Flood Control Zone, all as adopted on July 29, 1986 and as approved by the voters of the respective flood control zones on November 4, 1986, and Resolution No. 90-8 adopted on February 20, 1990, relating to the North Central Flood Control Zone, as approved by the voters of the North Central Flood Control Zone on June 5, 1990, and any other benefit assessment of the District established under the Benefit Assessment Act of 1982, as amended, or any similar law. "Fees" is defined in the Master Resolution to mean fees and charges imposed under the Revenue Bond Act of 1941, as amended, or any similar law which imposes a lien on property.

Benefit Assessments. Pursuant to the Benefit Assessment Act of 1982, as amended, being California Government Code Sections 54703, et seq. (the "Benefit Assessment Act"), the District was authorized to impose a benefit assessment on any parcel of property within the District to finance the costs of providing flood control services and facilities. The amount of the assessment imposed on any parcel of property is related to the benefit to the parcel which is derived from the provision of the service or facility and, in the case of a benefit assessment for flood control services, the benefit may be determined on the basis of the proportionate storm water runoff from each parcel. In addition, the annual aggregate amount of the assessment does not exceed the estimated annual cost of providing the service or facility; the revenue derived from the assessment is not to be used to pay the cost of any service or facility other than the service for which the assessment is levied; and the District may establish zones or areas of benefit and may restrict the imposition of the assessment to areas lying within such zones or areas of benefit. Prior to the first year of imposing the assessment, such imposition was approved by the eligible voters within the affected zone or area of benefit, and thereafter the collection of such assessment is collected on behalf of the District by the County on each parcel of property in the same manner, and subject to the same penalties and priority of lien on such property as other charges and real property taxes fixed and collected by the County. See "FLOOD PROTECTION AND STREAM STEWARDSHIP" and "SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS — Primary Sources Of Flood Control System Revenues" herein.

The District received requisite voter approval in its five flood control zones which encompass most but not all of Santa Clara County (the "County"). Each zone has a separate flood control program and is a

separate fiscal entity with its own revenues and expenditures; however, all benefit assessments collected from all such zones are included in the definition of Flood Control System Revenues and, pursuant to the Master Resolution, the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement, are pledged to the payment of the District's obligations under the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement without distinction as to the zone or zones of collection and without distinction as to the zone or zones directly benefited by installation and improvement of the capital facilities financed from the proceeds of the 2007A Certificates.

In accordance with the Benefit Assessment Act, but subject to the voter-approved restrictions described below, the District currently levies a benefit assessment on each parcel of property in each of its five flood control zones based on (a) the District's costs of providing flood protection services and facilities in such zone, and (b) the proportionate amount of storm water runoff from such parcel of property. The amount of runoff from each parcel relates directly to its size and use, with larger sizes generating greater runoff, as does higher development with more impervious surfaces. In addition, the District's costs of providing flood protection services in a zone include the District's operating and maintenance expenses for facilities which benefit such zone, a proportionate share of the District's general administrative expenses and the costs of installation and improvement of capital facilities which benefit such zone, including the District's obligations incurred for such capital improvements.

In 1986, in order to accelerate the implementation of flood control projects, the eligible voters of each of the zones, except the North Central Zone, approved a benefit assessment program for each zone subject to the following restrictions: (a) the maximum annual percentage increase in the assessment rate could not exceed the annual increase in the Bay Area Consumer Price Index except for a period of up to two years following a declaration of a flood disaster by the President of the United States or the Governor of California; (b) benefit assessments could not be levied beyond June 30, 2000 unless a debt or other obligation was duly authorized and incurred and which depended on benefit assessments for service, and in that event, assessments could be levied for but not beyond the period for which such debt or other obligation is outstanding; (c) no such debt or obligation could be incurred after June 30, 1995 and; (d) that after June 30, 2000 such benefit assessments could not be levied in amounts in excess of the sums necessary to meet the annual requirements of such debt or other obligation.

In 1990, in order to accelerate the implementation of flood control projects in the North Central Flood Control Zone, the eligible voters of that zone approved a benefit assessment program subject to the following restrictions: (a) the maximum annual percentage increase in the assessment rate for this zone could not exceed the annual increase in the Bay Area Consumer Price Index or 2 percent, whichever was greater, except that such limit may be exceeded for a period of up to two years following a declaration of a flood disaster by the President of the United States or the Governor of California; (b) benefit assessments shall not be levied beyond June 30, 2000 unless a debt or other obligation was duly authorized and incurred and which depends on benefit assessments for service and in that event assessments could be levied for but not beyond the period for which such debt or other obligation is outstanding; and (c) that after June 30, 2000 such benefit assessments could not be levied in amounts in excess of the sums necessary to meet the annual requirements of such debt or other obligation.

Pledge

Pursuant to the 1995 Installment Purchase Agreement, the District has pledged Flood Control System Revenues to secure the payment of the principal and interest components of the 1995 Installment Payments. The pledge of Flood Control System Revenues for the payment of the principal and interest components of the 1995 Installment Payments is on a parity with the pledge of Flood Control System Revenues made pursuant to the 1994 Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT — Flood Control System Revenues" herein.

Allocation of Flood Control System Revenues

Amounts from time to time on deposit in the Flood Control System Revenue Fund are to be allocated and applied by the District to the following purposes, at the following times and in the following order of priority:

(a) to the payment of all Parity Obligation Payments as the same become due and payable;

(b) to the replenishment of reserve funds securing Parity Obligations at the times and in the amounts required under the terms of instruments securing such Parity Obligations;

(c) to the payment of all Subordinate Obligation Payments as the same become due and payable;

(d) to the replenishment of reserve funds securing obligations of the District authorized and expected by the District under applicable law, the payments under and pursuant to which are payable from Flood Control System Revenues, subject and subordinate to Parity Obligation Payments and are payable from any fund established pursuant to a trust agreement (the "Subordinate Obligations") at the times and in the amounts required under the terms of instruments securing such Subordinate Obligations;

(e) to the payment of Maintenance and Operation Costs as the same become due and payable;

(f) Prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money in the Flood Control System Revenue Fund may be used for all lawful purpose of the Flood Control System (defined herein); and

(g) On the last Business Day of any Fiscal Year, to any lawful purpose of the District.

Rate Covenant

The District has covenanted to at all times fix, prescribe and collect or cause to be collected Flood Control Benefit Assessments in an amount equal to 125 percent of the Maximum Annual Debt Service on the then outstanding Parity Obligations during each Fiscal Year. In the event that the District shall take such actions to impose Fees in lieu of Flood Control Benefit Assessments, the amount of such Fees, together with other available Flood Control System Revenues, imposed in each Fiscal Year shall also be in an amount equal to 125 percent of the Maximum Annual Debt Service on the then outstanding Parity Obligations during each Fiscal Year, provided, however, prior to imposing such Fees in lieu of Flood Control Benefit Assessments, the District shall receive (i) an Opinion of Counsel as to the validity of such Fees to be imposed in an amount limited to the cost of providing Flood Control Service, and (ii) a certificate of an Independent Consultant as to the economic feasibility of imposing such Fees.

Additional Parity Obligations

The District may at any time incur or issue Parity Obligations (that is, Obligations the payments of which are payable from the Flood Control System Revenues on a parity with all other Parity Obligations, including without limitation the 1995 Installment Payments), provided:

(a) The District shall certify that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

(b) Such Bond or Contract or Other Parity Obligation shall not allow the declaration of payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the District to execute Reimbursement Agreements.

(c) Long-Term Parity Obligations may be incurred provided that the Debt Service Coverage Ratio, as evidenced by a certificate of the District (together with supporting calculations in the Master Resolution for the most recent period of 12 full consecutive calendar months for which the financial statements of the District have been reported upon) by an independent certified public accountant, taking into account (i) all Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred and (iii) (A) the Flood Control Benefit Assessments then being collected as of such date of calculation, so long as the District has fixed, prescribed and caused to be collected such Flood Control Benefit Assessments, or (B) the Fees in lieu of Flood Control Benefit Assessments then being imposed, so long as the District has taken such actions to impose such Fees in lieu of Flood Control Benefit Assessments is not less than 125 percent of the Maximum Annual Debt Service, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with each Trustee along with the financial statements and report of accountants thereon if they are not already on file with such Trustee.

Certain other conditions and tests must be satisfied with respect to Parity Obligations that are not Long-Term Parity Obligations. See Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE MASTER RESOLUTION.”

Subordinate Obligations

The District may incur Subordinate Obligations without meeting the tests set forth for Parity Obligations.

Debt Service Reserve Fund

The Series 2007A Reserve Fund is established under the 2007 Trust Agreement and is required to be funded in an amount equal to \$5,764,000 (the “Series 2007A Reserve Fund Requirement”). The District has received from the Surety Bond Provider a commitment to issue the Surety Bond which Surety Bond will be deposited in the Series 2007A Reserve Fund in satisfaction of the Series 2007A Reserve Fund Requirement.

The Surety Bond is to be used and withdrawn solely for the purpose of paying the principal and interest with respect to the 2007A Certificates in the event that money in the Series 2007A Payment Fund is insufficient to make payments required under the 2007 Trust Agreement. If prior to the Interest Payment Date the money in the Series 2007A Payment Fund is insufficient to make payments required under the 2007 Trust Agreement on such Interest Payment Date, the Trustee will provide notice to the Surety Bond Provider under the terms of the Surety Bond at least five business days prior to such Interest Payment Date. The Surety Bond Provider will make payment under the Surety Bond to the Trustee on the Interest Payment Date or the business day on which the Surety Bond Provider received notice.

The District may substitute any other policy of insurance, letter of credit or surety bond for the Surety Bond in order to meet the Series 2007A Reserve Requirement provided that certain requirements in the 2007 Trust Agreement are met. See Appendix B hereto entitled “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” The District is not required to replace the Surety Bond with cash or another investment in the event that the Surety Bond’s or Surety Bond Provider’s rating falls below one of the two highest rating categories of Moody’s Investors Service, Inc. or Standard & Poor’s Ratings Services.

ESTIMATED SOURCES AND USES OF FUNDS⁽¹⁾

The following is an estimate of the sources and uses of funds with respect to the refunding of the 2000 Certificates.

Sources:

Principal Amount of 2007A Certificates	\$78,780,000
Original Issue Premium	4,205,749
Transferred Moneys ⁽²⁾	<u>5,884,321</u>
Total Sources	\$88,870,071

Uses:

Deposit to Escrow Fund	\$76,477,894
Deposit to Acquisition and Construction Fund	11,679,350
Costs of Issuance ⁽³⁾	392,050
Underwriters' Discount	<u>320,777</u>
Total Uses	<u>\$88,870,071</u>

⁽¹⁾ All amounts rounded to the nearest dollar; amounts may not independently add.

⁽²⁾ From the funds and accounts created with respect to the 2000 Trust Agreement.

⁽³⁾ Includes the premium for the Surety Bond as well as certain legal, financing and printing costs.

INSTALLMENT PAYMENT SCHEDULE

The 1995 Installment Payments with respect to the 2007A Certificates are required to be made by the District under the 1995 Installment Purchase Agreement from Flood Control System Revenues on a parity with the 1994 Installment Payments allocable to the 2003A Certificates and the 2004A Certificates as set forth below:

Installment Payment Schedules

<i>Year Ending February 1</i>	<i>1995 Installment Payments⁽¹⁾</i>			<i>1994 Installment Payments⁽²⁾</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Total</i>	<i>Total</i>
2008	\$2,240,000.00	\$3,519,501.81	\$5,759,501.81	\$10,780,425.00	\$16,539,926.81
2009	2,055,000.00	3,703,875.00	5,758,875.00	10,801,925.00	16,560,800.00
2010	2,135,000.00	3,621,675.00	5,756,675.00	10,785,525.00	16,542,200.00
2011	2,235,000.00	3,525,600.00	5,760,600.00	10,655,650.00	16,416,250.00
2012	2,345,000.00	3,413,850.00	5,758,850.00	10,703,850.00	16,462,700.00
2013	2,460,000.00	3,296,600.00	5,756,600.00	10,737,350.00	16,493,950.00
2014	2,575,000.00	3,185,900.00	5,760,900.00	8,139,587.50	13,900,487.50
2015	2,705,000.00	3,057,150.00	5,762,150.00	8,075,937.50	13,838,087.50
2016	2,835,000.00	2,921,900.00	5,756,900.00	6,940,087.50	12,696,987.50
2017	2,980,000.00	2,780,150.00	5,760,150.00	6,942,387.50	12,702,537.50
2018	3,095,000.00	2,660,950.00	5,755,950.00	6,940,918.76	12,696,868.76
2019	3,250,000.00	2,506,200.00	5,756,200.00	6,939,806.26	12,696,006.26
2020	3,390,000.00	2,368,075.00	5,758,075.00	5,863,593.76	11,621,668.76
2021	3,540,000.00	2,224,000.00	5,764,000.00	5,865,293.76	11,629,293.76
2022	3,715,000.00	2,047,000.00	5,762,000.00	5,862,575.00	11,624,575.00
2023	3,895,000.00	1,861,250.00	5,756,250.00	5,864,525.00	11,620,775.00
2024	4,095,000.00	1,666,500.00	5,761,500.00	5,855,775.00	11,617,275.00
2025	4,295,000.00	1,461,750.00	5,756,750.00	--	5,756,750.00
2026	4,515,000.00	1,247,000.00	5,762,000.00	--	5,762,000.00
2027	4,740,000.00	1,021,250.00	5,761,250.00	--	5,761,250.00
2028	4,975,000.00	784,250.00	5,759,250.00	--	5,759,250.00
2029	5,225,000.00	535,500.00	5,760,500.00	--	5,760,500.00
2030	5,485,000.00	274,250.00	5,759,250.00	--	5,759,250.00
Total	\$78,780,000.00	\$53,684,176.81	\$132,464,176.81	\$137,755,212.54	\$270,219,389.35

⁽¹⁾ Corresponds to the 2007A Certificates.

⁽²⁾ Corresponds to the 2003A Certificates and 2004A Certificates.

THE DISTRICT

Organization, Purpose and Powers

Santa Clara Valley Water District is a multi-purpose special district authorized to supply water and provide flood protection services in Santa Clara County, California (the "County"). The District encompasses all of the County which is one of the nine counties that make up the San Francisco Bay Area.

The District has broad powers relating to all aspects of the control of flood and storm waters within the District. It is also authorized to import, store, treat and distribute water within its jurisdictional boundaries and is empowered to provide water in sufficient quantity and quality for present and future beneficial use by the lands and population within the District. Revenues realized from the District's water utility activities are

not included in the definition of Flood Control System Revenues and, therefore, are not pledged to the payment of the District's obligations under the Installment Purchase Agreements.

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 nine cities, two investor-owned companies, one private company, and several mutual water companies. 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 smaller amounts of revenue from the sale of non-potable surface water and reclaimed water.

The Flood Control System is defined in the Master Resolution as all property rights, contractual rights and facilities of the District relating to the flood and storm water control service now existing or hereafter established. In general, the Flood Control System includes those structures and improvements described in the section entitled "FLOOD PROTECTION AND STREAM STEWARDSHIP."

For flood control administrative purposes, the District is divided into five zones which conform to the major watersheds in the valley. Each zone has a separate flood control program and is a separate fiscal entity with its own revenues and expenditures; however, all revenues of all such zones are included, without distinction, in the definition of Flood Control System Revenues. The northeastern portion of the County is not included in a flood control zone because streams in this area do not flow into the Santa Clara Valley.

The Law authorizes the District to exercise the power of eminent domain; to levy and collect taxes; to levy a groundwater charge for the production of water from groundwater supplies benefited by District recharge activities; to contract for the fixing, revision and collection of rates or other charges under contract for 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 County law to effectuate its purposes. On September 14, 2006, the Governor of California approved Assembly Bill 2435 ("AB 2435"). AB 2435, which was co-sponsored by the County of Santa Clara and the District, removing the County's responsibility for approving the District's budget.

As provided under California law, the District receives taxes above its share of the limit set forth in Article XIII A of the California Constitution for repayment of general obligation bond indebtedness and presently receives such taxes for repayment of its obligation under its contract for water from the State Water Project. Such taxes are pledged to the payment of such general obligation bond indebtedness and such obligation under the State Water Project Contract, respectively, and are not included in the definition of Flood Control System Revenues. As provided under California law, the District also receives its share of the County-wide one percent tax levied. The portion of such proceeds allocable to the Flood Control System are included in the definition of Flood Control System Revenues and, therefore, are pledged to the payment of the District's obligations under the 1995 Installment Purchase Agreement. In 2004 changes in California law resulted in a significant reduction in the amount of such County-wide one percent tax levy received by the District and allocable to the Flood Control System for Fiscal Years 2004-05 and 2005-06. See the caption "THE DISTRICT – 1% Property Tax Moneys."

Board of Directors, Management and Employee Relations

Board of Directors. The District is governed by a seven-member Board of Directors (the "Board"). Five directors are elected from each of the five County Supervisorial Districts and the remaining two are appointed from two regions of the County by the County Board of Supervisors to represent the County at

large. The directors serve overlapping four-year terms. Pursuant to AB 2435, the two at large directors' terms will expire in 2010 and the at large directors will not be replaced by the County. The current Directors are:

Rosemary Kamei (District 1): Ms. Kamei became a member of the Board in 1993. She was General Manager of a Morgan Hill nursery and a member of the California Association of Nurserymen and the California Farm Bureau. She was appointed to serve on the Bay-Delta Advisory Council, a joint Federal and State advisory group relating to the Bay-Delta Estuary. A former member of the Morgan Hill Planning Commission, Ms. Kamei also served on the Santa Clara County Grand Jury. She holds a Bachelor of Arts degree in Political Science from the University of Wisconsin. District 1 includes the southern portion of the County—with more than half of the county's land area—and includes the cities of Morgan Hill, Gilroy, the southern areas of San Jose and the town of Los Gatos.

Joe Judge (District 2): Mr. Judge became a member of the Board in 1986. Mr. Judge is a general contractor in the County. He is a director of the Santa Clara County Building Authority, the Santa Clara County Public Facilities Corporation and Community Housing Developers, Incorporated. District 2 includes much of San Jose.

Richard P. Santos (District 3): Mr. Santos became a member of the Board in 2000. The Alviso native resident retired as a Fire Captain from the San Jose Fire Department with 33 years of service. Mr. Santos currently represents the District Board on the following committees: Association of California Water Agencies WaterReuse, Coyote Flood Zone and Watershed Advisory, Landscape Advisory, South Bay Recycling and the Santa Clara Valley Water Commission. While at the San Jose Fire Department, Director Santos was elected as vice chair 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 as chair, spearheaded several civic activity fundraiser projects. Mr. Santos received a BS degree in public administration from Farelston and Nova Colleges and received an AA degree in political science and an AS degree in fire science. He also has a lifetime teaching credential from the California Community College system, where he taught fire science at Mission College. District 3 is in the northeastern portion of the county and includes the City of Milpitas, portions of San Jose (Berryessa area, the Alum Rock area north of McKee Road and the Alviso area) and a portion of Sunnyvale.

Larry Wilson (District 4): Mr. Wilson became a member of the Board in 1995. He is a retired Groundwater Monitoring Superintendent of the Santa Clara Valley Water District serving the community for over 33 years. Previous positions at the District included Watermaster, Hydrographer, and Water Operations Supervisor. Mr. Wilson currently represents the District Board on the Groundwater Resources Association, Los Gatos Creek Streamside Park Committee, Santa Clara County Parks and Recreation Department, Special Districts Association, and the San Luis Delta Mendota Water Authority. He is an active member of Kiwanis International (Cambrian Park). District 4 is in the north central part of the County and includes west San Jose and the cities of Campbell, Santa Clara and Saratoga.

Gregory A. Zlotnick (District 5): Mr. Zlotnick joined the Board in 1997. He is an attorney. His government experience includes being an appointee of Governor Pete Wilson as Public Affairs Officer to the CALFED Bay-Delta Program; Assistant to the Director of Department of Fish and Game handling Water Resources; and, Program Manager/Public Outreach for the Bay Delta Oversight Council. Mr. Zlotnick received his law degree from Hastings College of the Law, San Francisco. He is an active member of the State Bar of California. District 5 is in the northwest part of the County and includes the cities of Palo Alto, Mountain View, Los Altos, Los Altos Hills, Saratoga, Cupertino and parts of Sunnyvale and San Jose as well as Stanford University.

Sig Sanchez (Director at large, South County): Mr. Sanchez began his tenure on the District Board in 1980. He is a businessman/farmer and has spent more than 40 years in public service as a councilman and mayor of the City of Gilroy, as a Santa Clara County supervisor and as a member of the Board. Mr. Sanchez lives in Gilroy and farms in Los Banos.

Tony Estremera (Director at large, North County): 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 appointive 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.

Management. The District is headed by a Chief Executive Officer, District Counsel, Chief Administrative Officer, Chief Financial Officer, Chief Operating Officer - Water Utility, Chief Operating Officer - Watersheds, Chief Operating Officer - Capital and Clerk of the Board

Stanley M. Williams, Chief Executive Officer. Mr. Williams was appointed CEO by the Board Directors in November 1994. Mr. Williams has been with the District since 1990. He previously was Assistant General Manager, as well as serving as acting Flood Control Manager, acting Maintenance Manager and acting Chief Financial Officer of the District. He has a law degree from the Columbus School of Law. He also holds a masters degree in Regional and City Planning and a bachelor's degree from the University of Oklahoma. Prior to District service he was the Director of the City of Tulsa Department of Stormwater Management. He is on the Board of the California Urban Water Agencies, the Silicon Valley Pollution Prevention Center, the San Jose Conservation Corps and the United Way Silicon Valley.

Debra L. Cauble, District Counsel. Debra L. Cauble joined the District as District Counsel in August 2004. She is a graduate of Stanford Law School and has been a member of the California bar since 1978. Her legal experience includes in-house work for other public agencies (the cities of Palo Alto and San Jose, and the County of Santa Clara) and private practice representing businesses, landowners, developers, and public entities.

Peter Ng, Chief Financial Officer. Mr. Ng is currently the Chief Financial Officer for the District overseeing the Office of Strategic Management and Budget. His responsibilities include managing the District-wide strategic planning and initiative process, the annual budget development, debt financing program, and the long-range financial forecasting function. He has been with the District for 3 1/2 years, and has previously been responsible for the treasury/investment function and the accounting unit as well. Mr. Ng has over 23 years of experience of accounting and financial management experience, including over 18 years with the County of Santa Clara. He is also a board member of the Santa Clara County Federal Credit Union, currently serving as the Secretary. He has been a member of the Board since 2001 and has previously served two terms as Chair. Mr. Ng has a Bachelors Degree in Business Administration from San Jose State University.

Olga Martin-Steele, Chief Administrative Officer. Ms. Martin-Steele joined the District in April of 1999 as the Deputy for Business Resources and in July of 2004 was promoted to Chief Administrative Officer. In this capacity, Ms. Martin-Steele manages several Divisions and Offices including the Financial Services, Information Management, Human Resources, Administrative Services, and General Services Divisions and the Offices of Risk Management and Clerk of the Board. Prior to joining the District, Ms. Martin-Steele worked for the State of California for 30 years in various capacities and Departments. With management experience spanning 15 years, Ms. Martin-Steele served as Chief Deputy Director for the California Conservation Corps with responsibilities for managing all day to day operations including headquarters and offices located throughout the State. She also served as Human Resources Officer for the California Conservation Corps prior to her Chief Deputy appointment. Prior to the California Conservation Corps, Ms. Martin-Steele served as: Deputy Director of Regulatory, Support and Outreach Programs for the Office of Environmental Health Hazard Assessment; Assistant Division Chief of the Wildlife Management Division for the Department of Fish and Game; and Chief of the License and Revenue Branch, also for the Department of Fish and Game. Ms.

Martin-Steele is on the Board of Directors for the San Jose Conservation Corps, the Mexican Heritage Plaza Corporation Board, and the California Conservation Corps Institute and Museum Board.

Walter L. Wadlow, Chief Operating Officer - Water Utility. Mr. Wadlow, Chief Operating Officer for Water Utility for the District, is responsible for the District's Water Utility, Flood Protection and Stream Stewardship operations for the 1.6 million residents of the County. He has 20 years of experience dealing with water resource issues for the District. His experience with the District includes water utility rate setting, water utility operations, water quality, flood control planning and active participation in Sacramento and Washington, D.C. on California water policy issues. He previously served as past president of the State Water Contractors and was a member of the CALFED Delta Drinking Water Council. He is a registered civil engineer in California and received his Bachelors Degree in Civil Engineering and his Masters Degree in Water Resources Engineering from Stanford University.

James M. Fiedler, Chief Operating Officer - Watersheds. Mr. Fiedler is the Chief Operating Officer responsible for management of the District's Watersheds. Responsibilities include providing flood protection and stream stewardship. Mr. Fiedler has 22 years of engineering and management experience in the area of water supply and flood control, primarily with the District, which serves the Silicon Valley. His technical experience includes regional water resources and flood management planning as well as design and construction of water and flood protection facilities. Mr. Fiedler led the District's Clean Safe Creeks and Natural Flood Protection Program development that culminated in successful voter support in the November 2000 election. He is a registered engineer in California and received his Bachelors Degree in civil engineering from Loyola Marymount University, Los Angeles, California and his Masters Degree in civil engineering from Stanford University.

Nai Hsueh, Chief Operating Officer, Capital Program Services. Ms. Hsueh has more than 25 years of experience working on various aspects of water resources issues. During her tenure at the District, she first progressed through the engineering career path from Assistant Engineer to Senior Engineer, then successfully transitioned to a management career, and is currently one of the District's Chief Operating Officers 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 Bachelors Degree in Agricultural Engineering from National Taiwan University and her Masters Degree in Hydraulic Engineering from University of Iowa.

Lauren L. Keller, Clerk of the Board. Ms. Keller began service with the District in 1990. Prior to her appointment as Clerk of the Board, she held the position of Deputy Clerk of the Board. She also serves as Corporate Secretary for the Public Facilities Financing Corporation, a nonprofit public benefit corporation that assists the District in financing the acquisition, construction and improvement to public buildings, works and equipment. Ms. Keller has served in both the public and private sector. She is an active member of the International Institute of Municipal Clerks ("IIMC") and is currently working on requirements for certification from the IIMC.

In addition to its staff and Board, the District has a total of nine citizen advisory committees: one for each flood control zone, as well as the Santa Clara Valley Water Commission, the Agricultural Water Advisory Committee, the Environmental Advisory Committee and the Landscape Advisory Committee. The District Board also appointed an independent oversight committee to monitor the District's progress in meeting the outcomes promised in the Clean Safe Creeks and Natural Flood Protection Programs.

Employee Relations. The District has 813 funded positions assigned to one of four functional Groups as follows; Executive Management – 32, Mid Management Association – 60, Engineers Society – 179, and Employee Association – 542. The District has three formally recognized bargaining units, the Employees Association, the Engineers Society, and the Mid Management Association. 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 current agreements include a 3.9% cost of living salary adjustment in Fiscal Year 2006-07. The Board recently approved a new multi-year agreement between the District and the bargaining units. The agreement is a five year agreement which became effective January 1, 2007. The agreement includes salary increases based on a formula which includes a consumer price index adjustment which the District estimates will result in increases averaging 3% to 4% per year, depending on the consumer price index and other factors.

Defined Benefit Pension Plan

The District is a member of the California Public Employees' Retirement System ("PERS"), an agent multiple-employer pension system, which provides a contributory defined benefit plan for all permanent employees of the District. These benefit provisions and all other requirements are established by California law. The District's PERS contract requires an eight percent contribution of an employee's base salary. The District, as employer, is required to contribute the amounts necessary to fund PERS, using the actuarial basis specified by California law. The total pension expense of the District for the year ended June 30, 2006 was \$11,293,022. As of June 30, 2005, the District had approximately \$48,803,227 in unfunded actuarial accrued pension liability. The District projects increased contributions in future years according to PERS contribution requirements.

Other Post-Employment Benefits

The District provides other post-employment benefits, including health care, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board for retired employees and/or their surviving spouses who meet the eligibility requirements and elect the option.

The Governmental Accounting Standards Board Statement No. 45 requires governmental agencies that fund other post-employment benefits on a pay-as-you-go basis, such as the District (beginning for the District with the fiscal year ending June 30, 2008), 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 engaged Mercer Human Resource Consulting in 2005 to calculate the District's other post-employment benefits funding status. Pursuant to the Draft Report, the District's unfunded actuarial accrued liability for other post-employment benefits as of June 30, 2005 was approximately \$256,000,000 and the District's annual required contribution (based on amortization of the unfunded actuarial accrued liability over 30 years) would be approximately \$27,000,000. For the year ended June 30, 2006, the District recognized expenditures of \$2,631,000 for post employment benefits. The District has not made a determination on how to fund such unfunded actuarial accrued liability, the District does not expect that any increased funding of other post-employment benefits will have a material adverse effect on the District's obligations with respect to the 1995 Installment Purchase Agreement.

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 insurance.

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 Fiscal Year ended June 30, 2006 the District contributed \$454,182 to the deferred compensation plan.

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 establishes 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 \$500,000,000, far in excess of total insurable values. 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 \$1,000,000 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.

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 District traditionally develops a two-year spending document for all funds every two years. The appropriations are made for two individual years. The cycle encompasses the guidance of several documents and processes that include: long-range planning documents; the long range Capital Improvement Plan; the Priority Setting Matrix; and resource allocations. After adoption by the District's Board of Directors in the first year, the District has authority to expend the appropriations for the first year of the biennial budget only, with the second year serving as an unadopted spending projection. At the end of the first year, a mid-cycle review is required. During the review period, budget amendments and adjustments will be made to reflect changes in financial conditions, programs and/or authorizing laws that affect ongoing expenditures. Following

these changes, the second year appropriations are approved. The budget cycle is completed with the review and revision of the long-range planning processes and documents.

The current budget for Fiscal Year 2006-07 was approved on June 6, 2006.

Debt Structure of the District

The District's long-term debt outstanding as of December 31, 2006 consisted of the following.

Schedule Of Long-Term Indebtedness (Dollars in Thousands)

<i>Type of Indebtedness</i>	<i>Authorized and Issued</i>	<i>Maturity</i>	<i>Balance Outstanding December 31, 2006⁽¹⁾</i>
Flood Control Installment Purchase Agreements			
1994 Installment Purchase Agreement ⁽¹⁾	\$ 144,620	2024	\$ 106,100
1995 Installment Purchase Agreement ⁽¹⁾	83,110	2030	74,660
1963 Water Utility Bonds – General Obligation ⁽²⁾			
Series C	\$ 3,500	2008	\$ 530
Series D	8,850	2012	2,675
2006 Water Utility System Refunding Revenue Bonds			
Series A and Taxable Series B ⁽²⁾	\$ 99,835	2035	\$ 99,835
DWR Loan ⁽²⁾	\$ 5,576 ⁽³⁾	2027	\$ 5,576
Total:	\$ 345,491		\$ 289,376

⁽¹⁾ See "SECURITY AND SOURCES OF PAYMENT Pledge" for a discussion of the priority of the pledge of Flood Control System Revenues with respect to the 1994 Installment Purchase Agreement and 1995 Installment Purchase Agreement.

⁽²⁾ Debt not secured from Flood Control System Revenues.

⁽³⁾ District is authorized to borrow up to \$6,350,000.

Source: Santa Clara Valley Water District.

Over the next five years, the District does not expect to enter into additional debt for flood protection projects.

Ad Valorem Taxes

The District currently levies *ad valorem* taxes on real property the proceeds of which are restricted to repayment of the following bonded indebtedness related to the water utility system:

Water Utility System — Zone W-1 Bonds. In 1963, the voters approved the issuance of an aggregate principal amount of \$42,050,000 general obligation bonds to construct a water distribution system in the County. The District issued such bonds during the period January 1964 to March 1968. A tax is levied each year for the principal and interest payments due each year on such bonds. For Fiscal Year ended June 30, 2006 the District received \$1,688,006 for the payment of the principal and interest on these general obligation bonds.

Water Utility System — State Water Project. Since 1961, the District has contracted with the California Department of Water Resources to buy water from the State Water Project. A property tax is levied

each year to pay the State the District's contract obligation. For the Fiscal Year ended June 30, 2006 the District received tax revenues of \$15,951,102 to pay the District's contract obligation.

**General Obligation Tax Rates
(% of Assessed Value)**

	<i>Fiscal Year Ending June 30, 2005 Tax Rates</i>	<i>Fiscal Year Ending June 30, 2006 Tax Rates⁽¹⁾</i>	<i>Net Changes</i>
<u>District</u>			
Z W-1 Bond	.00060% ⁽²⁾	.00090% ⁽²⁾	.00030
State Water Project	.00860	.00690	(.00170)

⁽¹⁾ Based on actual unaudited financial statements for Fiscal Year 2006.

⁽²⁾ Total value less all exemptions.

Source: Santa Clara Valley Water District.

The following table represents a five-year history of assessed valuation in the District:

**SANTA CLARA VALLEY WATER DISTRICT
Assessed Valuations
Fiscal Years Ending June 30**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdy. Increment</u>
2003	\$186,583,264,282	\$100,806,555	\$23,903,538,877	\$210,587,609,714
2004	195,157,199,203	465,989,201	22,076,990,702	217,700,179,106
2005	203,903,928,949	549,863,728	17,712,735,414	222,166,528,091
2006	220,867,595,071	713,130,032	18,802,937,600	240,383,662,703
2007	243,326,089,125	587,685,240	17,998,933,441	261,912,707,806

Source: California Municipal Statistics, Inc.

1% Property Tax Moneys

Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter approved indebtedness). A one percent property tax is automatically levied by each California county and distributed according to a formula among taxing agencies. The District has used proceeds from the one percent tax levy to provide flood protection, stream stewardship, water quality and water supply, and administration plus debt service for the District as a whole. The following table shows the allocation of property taxes for their distribution over the past five years.

**Allocation Of The District Share Of County 1% Property Tax
Fiscal Years Ending June 30
(Dollars in Thousands)**

<i>Distribution</i>	<i>2002⁽¹⁾</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
General Fund	\$ 3,260	\$ 3,490	\$ 3,511	\$ 1,695	\$ 2,024
Flood Control Zones	23,845	25,201	25,328	12,036	14,416
Water Utility Fund	2,925	3,049	3,071	1,400	1,699
Stream Stewardship	<u>9,730</u>	<u>10,268</u>	<u>10,292</u>	<u>4,912</u>	<u>5,865</u>
Total:	\$39,760	\$42,008	\$42,202	\$20,043	\$24,004

⁽¹⁾ Fiscal year 2002 has been restated to reflect transfer of watershed and stream stewardship functions from general fund to flood control fund.

Source: Santa Clara Valley Water District.

Moneys received by the District as the District's share of the County one percent tax levy are allocated by Board action each year among various District activities. Upon allocation of one percent tax moneys by the Board to the Flood Control System such moneys are Flood Control System Revenues and are pledged to the payment of principal and interest with respect to the Installment Payments and are available, but are not required to be used, to pay Maintenance and Operation costs of the District's facilities.

The Fiscal Year 2004-05 and 2005-06 State Budgets shifted a portion of the share of the one percent property tax collected by counties from special districts to school districts or other governmental entities to the Educational Revenue Augmentation Fund ("ERAF"). As a result, in Fiscal Year 2004-05 \$25,500,000 in District property tax revenues was transferred to ERAF. For Fiscal Year 2005-06, \$25,500,000 in District property tax revenues was transferred to ERAF. For Fiscal Year 2005-06, the allocation received by the District of the 1% property tax after the ERAF transfer was approximately \$24,000,000, compared to approximately \$20,000,000 million in Fiscal Year 2004-05. The ERAF shift expired in Fiscal Year 2006-07 and the District expects to receive a total of approximately \$49,700,000 in property tax revenues in Fiscal Year 2006-07. There can be no assurance that the share of the 1% property tax the District receives will not be reduced pursuant to State legislation enacted in the future to address future budget deficits.

Clean Safe Creeks and Natural Flood Protection Initiative

On November 7, 2000, the voters of the County, by not less than two-thirds of those voting, approved a special parcel tax as authorized in California and pursuant to Resolution 2000-44 of the District Board. The tax is levied for a period of fifteen years at fixed and uniform rates per area and according to the county-designated land use of each parcel subject to the tax, including a minimum rate for single family residential parcels under one-quarter of an acre in size. Government-owned property is exempt from the tax, and the state legislature has authorized low-income senior citizens who own and occupy property to apply for an exemption. In 2006, approximately 3,000 parcels have received exemptions under this provision. Revenue from the tax is used to accomplish and fund a number of outcomes and activities of the District described in the program plan. Some of the funds are spent on pay-as-you go flood protection measures and stream maintenance as well as stream stewardship and recreational opportunities. Revenue from the tax are not Flood Control System Revenues and are not available for securing debt obligations of the District.

FLOOD PROTECTION AND STREAM STEWARDSHIP

General

The District is responsible for overseeing the flood protection and stream stewardship needs of the County. The State legislature added stream stewardship as an objective in an amendment to the District Act in 2002. The Law provides for, among other things, the control of flood and storm waters of the District and the

flood waters of streams that have their sources outside the District, but which streams and flood waters flow into the District. To address these matters on a watershed drainage basis, the District is divided into five flood control zones. The five zones are the Northwest, North Central, Central, East and South. These zones approximately conform with the major watersheds affecting the valley floor of the District. The watersheds of the four northern zones drain storm waters from the foothills across the valley floor and into the San Francisco Bay. The South Zone drains into Monterey Bay through the Pajaro River. Each zone has separate programs to provide flood protection and stream stewardship and each operates as a separate fiscal entity with its own revenues and expenditures. The area of the District that is not included in one of these zones is the northeast section of the County. That area is part of a watershed where the streams flow north, out of the District, before flowing across the valley floor. Each of the zones has a committee that is advisory to the Board of Directors with regard to flood protection and stream stewardship policy, activities and budget review. The advisory committee for each zone is composed of a representative appointed by each city that is in the zone and the County and by at large members appointed by the Board.

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 control methods only as a last alternative. The level of protection that the District provides 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 current damage that would result from a countywide one percent flood is greater than \$2 billion. More than 65,000 homes, 5,000 businesses and 20,000 acres of agricultural land are subject to flooding.

Northwest Zone includes the cities of Palo Alto, Los Altos, Los Altos Hills, and Mountain View and portions of Cupertino and Sunnyvale. It covers the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek that are also referred to as the Lower Peninsula Watersheds.

North Central Zone includes the City of Saratoga and portions of the cities of Sunnyvale, Santa Clara, Campbell, Cupertino, Monte Sereno, San Jose, and Los Gatos. This zone includes the watersheds that flow into Guadalupe Slough, which include Sunnyvale East and West Outfalls, Calabazas Creek, and San Tomas Aquino Creek. They are referred to as the West Valley Watersheds.

Central Zone includes portions of the communities of Santa Clara, San Jose, Campbell, Monte Sereno, and Los Gatos. It includes the tributaries of the Guadalupe River Watershed.

East Zone includes the City of Milpitas and portions of the cities of San Jose and Morgan Hill. It includes the tributaries of the Coyote Creek Watershed.

South Zone includes the southernmost portions of the County, the City of Gilroy, portions of the Cities of San Jose and Morgan Hill and the Community of San Martin. It includes the Llagas and Uvas Creek watersheds which are tributaries to the Pajaro River.

Flood Control Facilities

The District has jurisdiction over 115 major creeks and tributaries each with drainage areas larger than 320 acres. It manages over 700 miles of levees, channels, floodwalls, pipelines and natural waterways. It provides maintenance for over 6,000 acres of flood protection right of way that it has in either fee title or easement.

Future Capital Project Funding

During the current and next four fiscal years, the District expects to spend approximately \$13,761,000 to complete watershed capital projects. Such projects include the Adobe Creek project; the Matadero and Barron Creek remediation project; the Guadalupe Creek restoration project; and the Calabazas levee raising project.

The District is also undertaking additional watershed capital projects to be completed beyond the next five years to be funded from sources of funding other than proceeds of additional debt. The District expects to finance these other watershed capital projects from four primary sources of funding: (i) pay-as-you go funding from current income, accumulations of prior year income, special parcel tax proceeds (see the caption "THE DISTRICT — Clean Safe Creeks and Natural Flood Protection Initiative") and certain other District moneys, (ii) proceeds of the 2007A Certificates, (iii) cost sharing through federal sponsorship and (iv) subventions from the State of California Department of Water Resources. Over the next five years, the District does not expect to enter into additional debt for flood protection projects. See the caption "PLAN OF FINANCE – Flood Control Improvements" herein. While the District does not expect to receive any federal monies for its watershed capital projects over the next five years, the District does expect to receive State monies for its watershed capital projects over the next five years although exact amounts cannot be determined at this time.

Primary Sources of Flood Control System Revenues

Flood Control Benefit Assessments.

Prior to 1978, flood control services in the District were primarily funded by *ad valorem* property taxes. The passage of Proposition 13 in 1978 greatly reduced *ad valorem* tax revenues for flood control. The State legislature passed a benefit assessment act, which is now entitled The Benefit Assessment Act of 1982, to provide a source of funds to pay the costs of certain services, including flood control, by authorizing local agencies to levy assessments based on the benefit of services provided rather than on property value for flood control, the basis of benefit is proportionate to storm water runoff of each parcel. The Board first adopted benefit assessments in the District's flood control zones in 1981, in accordance with the law in effect at that time. The levy of flood control benefit assessments was subsequently endorsed by District voters who periodically renewed the District's authority to levy said benefit assessments that included a sunset provision and long term debt repayment provisions. The Benefit Assessment Act is more fully described herein under "SECURITY AND SOURCES OF PAYMENT — Flood Control System Revenues - Benefit Assessments."

The District's initial goals for the benefit assessment revenues were improved maintenance, increased flood control construction, and continued land use management. Beginning July 1, 2000 when the sunset provision went into effect, benefit assessments were limited to an amount which would be sufficient to pay long term debt obligations in effect at that time until their repayment. The current debt obligation is to meet a maximum of 1.25 times the debt service for outstanding Parity Obligations.

Under the adopted benefit assessment system, the Board established six rate categories of land use for properties within the five flood control zones as follows:

Group A: Commercial and industrial.

Group B: Apartments and other high-density residential uses, schools, churches.

Group C: Single-family residential, small multiples (two to four units), condominiums and townhouses.

Group D: Residential land in excess of ¼ acre, land used for farming, vineyards, irrigated crops, parks, etc.

Group E: (1) Urban: Vacant land—undisturbed, not tilled or planted or irrigated; benefited grazing land; salt ponds—areas close to urban service areas. (2) Rural: Vacant land—undisturbed, not tilled or planted or irrigated; benefited grazing land—remote areas not close to urban services.

District flood control benefit assessments are set annually by the Board. The rate ceilings are limited to the long-term debt service plus coverage requirements in effect for the Fiscal Year ending June 30, 2006, and are shown in the following table.

**Flood Control Benefit Assessment Rates &
Minimum Flood Control Benefit Assessments⁽¹⁾
Applicable To Defined Land Use Categories
Fiscal Year Ending June 30, 2006**

<i>Land Use Category</i>	<i>Northwest</i>	<i>North Central</i>	<i>Central</i>	<i>East</i>	<i>South</i>
A - Commercial, Industrial					
Assessment rate per acre	\$389.85	\$141.39	\$238.45	\$207.16	\$129.46
Minimum assessment per parcel	\$97.46	\$35.36	\$59.62	\$51.80	\$32.36
B - Apartments, Schools, Churches					
Assessment rate per acre	\$292.39	\$106.04	\$178.84	\$155.37	\$97.09
Minimum assessment per parcel	\$73.10	\$26.52	\$44.72	\$38.84	\$24.28
C - Residential					
Assessment rate per acre ⁽²⁾	(2)	(2)	(2)	(2)	(2)
Minimum assessment per parcel	\$48.74	\$17.68	\$29.80	\$25.90	\$16.18
D - Utilized Agricultural					
Assessment rate per acre	\$2.436	\$0.883	\$1.490	\$1.294	\$0.809
Minimum assessment per parcel	\$24.36	\$8.84	\$14.90	\$12.94	\$8.10
E - Nonutilized Agricultural, Grazing Land, Well Sites					
Assessment rate per acre:					
Urban	\$0.731	\$0.265	\$0.447	\$0.388	\$0.242
Rural	\$0.091	\$0.033	\$0.055	\$0.048	\$0.030
Minimum assessment per parcel	\$7.30	\$2.66	\$4.48	\$3.88	\$2.42

⁽¹⁾ Minimum assessments in Groups A, B and C apply to parcels ¼ acre or less in size. Category C parcels larger than ¼ acre pay the minimum assessments for the first ¼ acre and the remaining acreage is assessed at the Category D rate. For Category D, the minimum assessment applies to parcels less than ten acres. The minimum assessment for Group E parcels is the amount charged for 10 acres of urban undeveloped land; the minimum assessment is the same for both the Urban Category and Rural Category parcels and applies to parcels less than ten acres in the Urban Category and to parcels less than 80 acres in the Rural Category.

⁽²⁾ Residential land in excess of ¼ acre is assessed at the Category D rate.

Source: Santa Clara Valley Water District

The size of each parcel and its land use is available from the County Assessor's records. Using this information and based on the runoff relationship for the County land use categories, the District developed assessment rates and minimum rates for each flood control zone.

The District has an arrangement with the County whereby the County Tax Collector is responsible for collecting benefit assessments along with other items on the annual property tax bills. The flood control benefit assessments are a lien on secured parcels in the same manner as *ad valorem* property taxes. The District is on the Teeter Plan and receives the full amount of the benefit assessments, less a maximum of 1% retained by the County as a collection fee. See "SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS — Teeter Plan" herein.

The following tables show the Benefit Assessment Billings and Collections for the last five Fiscal Years ending June 30, 2006, the Flood Control Benefit Assessment Revenue By Flood Control Zone for the last five Fiscal Years ending June 30, 2006, and the Top Ten Santa Clara County Landowners With Largest Benefit Assessments.

**Benefit Assessment Billings And Collections
Fiscal Years Ending June 30
(Dollars in Thousands)**

<i>Fiscal Year</i>	<i>Billings</i>	<i>Ratio of Collections To Billings⁽¹⁾</i>
2002	\$19,399	98.7%
2003	19,374	98.9
2004	19,430	99.0
2005	19,381	99.0
2006	19,406	99.0

⁽¹⁾ The District is covered by the Teeter Plan and receives its full assessments less the collection fee that is kept by the County Tax Collector prior to disbursement of assessments to District. See "SUMMARY OF MAJOR WATERSHED CAPITAL PROJECTS — Primary Sources of Flood Control Systems Revenues" and "— Teeter Plan."

Source: Santa Clara Valley Water District

**Flood Control Benefit Assessment Revenue By Flood Control Zone⁽¹⁾
Fiscal Years Ending June 30
(Dollars in Thousands)**

<i>Flood Control Zone</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
	Actual	Actual	Actual	Actual	Actual
Northwest	\$ 4,585	\$ 4,603	\$ 4,684	\$ 4,642	\$ 4,672
North Central	2,868	2,882	2,958	2,950	2,941
Central	6,206	6,171	6,215	6,211	6,210
East	4,751	4,787	4,652	4,626	4,649
South	<u>732</u>	<u>718</u>	<u>760</u>	<u>757</u>	<u>740</u>
Total	\$19,141	\$ 19,161	\$ 19,233	\$ 19,187	\$ 19,212

⁽¹⁾ The amount shown is net of the collection fee charged by the County Director of Finance.

Source: Santa Clara Valley Water District.

**Top Ten Santa Clara County
Landowners With Largest Benefit Assessments**

<i>Landowner⁽¹⁾</i>	<i>Zone</i>	<i>Benefit Assessments Billed in Fiscal Year Ending June 30, 2006</i>	<i>Percentage of Total Assessments Billed</i>
Leland Stanford Jr. University	Northwest	\$460,951	2.39%
Kaiser Hospitals and Cement Corp.	Central, North Central and Northwest	94,265	0.49
Sobrato Interests	East, Central, North Central and Northwest	94,166	0.49
Perry, Richard T. Trustee et al.	East, Central, North Central and Northwest	84,900	0.44
Spieker Properties	East, Central, North Central and Northwest	77,901	0.40
Hitachi Global Storage Techs	Central	77,050	0.40
Berg & Berg	East, Central, North Central and Northwest	73,566	0.38
Lockheed Missiles and Space Co. Inc.	North Central	65,085	0.34
Mission West Shoreline LLC	East, Central, North Central and Northwest	63,080	0.33
Hewlett Packard	Northwest and North Central	55,625	0.29

⁽¹⁾ The information regarding property ownership is based on the District's review of Santa Clara County Assessor's Office records. Owner names and spelling may not be consistent in such records and, therefore, the information shown above may be incomplete. Source: Santa Clara Valley Water District.

Teeter Plan

In 1993, the District adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") as provided for in Section 4701 et seq. of the Revenue and Taxation Code of the State. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a tax redemption distribution system for all taxing agencies is avoided. Pursuant to the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources account and each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its tax fund in the same manner as if the amount credited had been collected.

The County is responsible for determining the amount of the tax levy on each parcel which is entered onto the secured property tax roll. Upon completion of the secured property tax roll, the County's Auditor-Controller determines the total amount of taxes and assessments actually extended on the roll for each tax fund for which a tax levy has been included, and apportions 100 percent of the tax and assessment levies to that tax fund's credit. Such moneys may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected. The County determines which moneys in the County treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent to the amount of uncollected taxes credited each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources accounts.

Direct and Overlapping Debt

Direct and overlapping debt with respect to the District's service area as of December 1, 2006, is shown in the following table prepared by California Municipal Statistics, Inc. The Debt Report has been derived from data assembled and reported to the District by California Municipal Statistics, Inc. None of the

District, the Underwriters nor Public Resources Advisory Group, the financial advisor to the District, have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

SANTA CLARA VALLEY WATER DISTRICT
Statement of Direct and Overlapping Debt

2006-07 Assessed Valuation:	\$261,912,707,806
Redevelopment Incremental Valuation:	<u>26,421,683,038</u>
Adjusted Assessed Valuation:	\$235,491,024,768

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable⁽¹⁾</u>	<u>Debt 12/1/06</u>
Community College Districts	75.232-100. %	\$507,565,226
Gilroy Unified School District	100.	65,440,000
Milpitas Unified School District	100.	55,090,000
Morgan Hill Unified School District	100.	76,954,040
Palo Alto Unified School District	100.	105,380,000
Patterson Joint Unified School District	0.836	168,747
San Jose Unified School District	100.	457,427,986
Santa Clara Unified School District	100.	183,855,000
Campbell Union High School District	100.	90,790,000
East Side Union High School District	100.	415,599,477
Fremont Union High School District	100.	135,495,000
Other High School Districts	93.713-100.	106,682,574
Campbell School District	100.	89,877,674
Cupertino Union School District	100.	121,617,087
Evergreen School District and Community Facilities District No. 92-1	100.	82,384,701
Los Altos School District	100.	99,819,000
Los Gatos Union School District	100.	74,550,000
Moreland School District	100.	103,473,266
Oak Grove School District	100.	69,247,559
Union School District	100.	81,743,243
Other School Districts	20.709-100.	383,804,517
City of San Jose	100.	420,710,000
City of Saratoga	100.	13,890,000
Saratoga Fire Protection District	10.	5,563,737
North County Library District Special Tax Obligations	100.	1,455,000
Parking Districts	100.	115,000
City Community Facilities Districts	100.	88,390,000
City of San Jose Special Assessment Bonds	100.	71,875,245
Other City 1915 Act Bonds (Estimated)	100.	103,635,563
Santa Clara Valley Water District Benefit Assessment District	100.	<u>180,760,000</u>⁽²⁾
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$4,193,359,642</u>

⁽¹⁾ Based on 2005-06 ratios.

⁽²⁾ Excludes issue to be sold.

(continued)

<u>OVERLAPPING GENERAL FUND DEBT:</u>	<u>% Applicable ⁽¹⁾</u>	<u>Debt 12/1/06</u>
Santa Clara County General Fund Obligations	100. %	\$837,470,000
Santa Clara County Office of Education Certificates of Participation	100.	17,170,000
Foothill-DeAnza Community College District Certificates of Participation	100.	31,000,000
Other Community College District General Fund Obligations	0.031-98.588	35,056,409
Gilroy Unified School District General Fund Obligations	100.	34,185,000
San Jose Unified School District School General Fund Obligations	100.	114,724,371
Santa Clara Unified School District Certificates of Participation	100.	12,980,000
Saratoga School District Certificates of Participation	100.	7,130,000
Other High School and School District General Fund Obligations	93.713-100.	24,072,832
City of Campbell Certificates of Participation	100.	22,460,843
City of Cupertino Certificates of Participation	100.	51,035,000
City of Gilroy Certificates of Participation	100.	44,875,000
City of Mountain View General Fund Obligations	100.	22,190,000
City of San Jose General Fund Obligations	100.	806,978,286
City of Santa Clara General Fund Obligations	100.	62,835,000
City of Sunnyvale General Fund Obligations	100.	31,680,000
Other City General Fund Obligations	100.	39,630,000
Midpeninsula Regional Park District General Fund Obligations	68.801	74,625,137
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$2,270,097,878
Less: Cities of San Jose and Mountain View Certificates of Participation (100% self-supporting from tax increment revenues)		<u>180,885,000</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$2,089,212,878
 GROSS COMBINED TOTAL DEBT		\$6,463,457,520⁽²⁾
NET COMBINED TOTAL DEBT		\$6,282,572,520

⁽¹⁾ Based on 2005-06 ratios.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2006-07 Assessed Valuation:

Direct Debt (\$180,760,000)	0.07%
Total Overlapping Tax and Assessment Debt.....	1.60%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	2.74%
Net Combined Total Debt.....	2.67%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$3,183,018

HISTORICAL OPERATING RESULTS

The following table summarizes the District's combined revenues and debt service coverage for flood control funds for the five Fiscal Years ended June 30, 2006. These results have been derived from the District's financial statements but exclude certain non-cash items and include certain other adjustments. The revenues for the Fiscal Years ended June 30, 2002 through 2006 shown are derived from the General Purpose Financial Statements of the District. The General Purpose Financial Statements of the District for the year ended June 30, 2006, included in Appendix A to this Official Statement have been audited by Maze and Associates, independent auditors, as stated in their report upon such General Purpose Financial Statements. The following table should be read in conjunction with such General Purpose Financial Statements, including the notes contained therein. The following table has not been audited by the District's independent auditor.

Flood Control System Historical Operating Results Combined Statement Of Revenues And Debt Service Coverage For Fiscal Years Ending June 30 (Dollars in Thousands)

	2002	2003	2004	2005	2006
Flood Control System Revenues:					
Benefit Assessment ⁽¹⁾	\$ 19,335	\$ 19,358	\$ 19,428	\$ 19,381	\$ 19,406
1% property tax allocated to Flood Control Zones	23,845	25,201	25,328	12,036	14,416
Investment income ⁽²⁾	15,517	8,320	1,906	3,902	2,291
Rental income	1,008	1,045	1,359	1,338	1,395
Other	<u>62</u>	<u>146</u>	<u>1,781</u>	<u>550</u>	<u>1,676</u>
Total Flood Control System Revenues	\$ 59,767	\$ 54,070	\$ 49,802	\$ 37,207	\$ 39,184
Debt Service:					
1994 Installment Payments ⁽³⁾	\$ 10,045	\$ 10,049	\$ 8,814	\$ 9,934	\$ 9,974
1995 Installment Payments ⁽⁴⁾	<u>5,547</u>	<u>5,546</u>	<u>5,542</u>	<u>5,766</u>	<u>5,765</u>
Total Debt Service	\$ 15,592	\$ 15,595	\$ 14,356	\$ 15,700	\$ 15,739
Coverage:					
Total Flood Control System Revenues over Total Debt Service	3.83x	3.47x	3.47x	2.37x	2.49x

⁽¹⁾ In accordance with voter authorizations, Benefit Assessments set at 125% of gross debt service allocable to flood control projects starting in Fiscal Year 2001. Benefit Assessment includes total Benefit Assessments collected before deduction of County collection fee.

⁽²⁾ Investment income has decreased for Fiscal Years 2002 through 2006 as a result of expenditure of reserves on capital projects and a decrease in interest rates received by the District on investments.

⁽³⁾ Corresponds to the 1994A Certificates, 2003A Certificates and 2004A Certificates. Excludes portion of 1994 Installment Payments allocable to the District General Fund which is not payable from Benefit Assessments.

⁽⁴⁾ Corresponds to the 2000 Certificates.

Source: Santa Clara Valley Water District.

PROJECTED OPERATING RESULTS

Projected Operating Results

The table of projected District revenues for the current and next four fiscal years presented below has been prepared by the District and reflects certain significant assumptions concerning future events and circumstances. The financial forecast represents the District's estimate of projected financial results for the period based upon its judgment as of the date of this Official Statement, the time of this forecast, of the most probable occurrence of certain important future events and upon certain information provided to it. The assumptions for operating revenue and debt service are material in the development of the District's financial projections, 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.

Flood Control System Projected Operating Results Combined Statement Of Revenues And Debt Service Coverage For Fiscal Year Ending June 30 (Dollars in Thousands)

	2007	2008	2009	2010	2011
Flood Control System Revenues:					
Benefit Assessment ⁽¹⁾	\$ 19,416	\$ 19,431	\$ 19,450	\$ 19,451	\$ 19,356
District's share of County 1% property tax ⁽²⁾	29,910	31,031	32,195	33,404	34,660
Investment income ⁽³⁾	2,169	1,488	739	421	1,087
Rental income ⁽⁴⁾	<u>1,640</u>	<u>1,689</u>	<u>1,740</u>	<u>1,792</u>	<u>1,846</u>
Total Flood Control System Revenues	\$ 53,135	\$ 53,639	\$ 54,124	\$ 55,068	\$ 56,949
Debt Service:					
1994 Installment Payments ⁽⁵⁾	\$ 9,993	\$ 10,006	\$ 10,026	\$ 10,011	\$ 9,890
1995 Installment Payments ⁽⁶⁾	<u>5,765</u>	<u>5,760</u>	<u>5,759</u>	<u>5,757</u>	<u>5,761</u>
Total Debt Service	\$ 15,758	\$ 15,766	\$ 15,785	\$ 15,768	\$ 15,651
Coverage:					
Total Flood Control System Revenues over Total Debt Service	3.37x	3.40x	3.43x	3.49x	3.64x

⁽¹⁾ Equal to 125% of Maximum Annual Debt Service. Benefit Assessment includes County collection fee.

⁽²⁾ Projected increase between the Fiscal Year 2006 and Fiscal Year 2007 amounts reflects anticipated receipt of higher 1% property tax revenues under current law. See the caption "THE DISTRICT - 1% Property Tax Moneys." Projected to increase 3.6% each fiscal year following Fiscal Year 2007.

⁽³⁾ Projected at an interest rate of 3% per annum and reflects drawdown of District reserves to fund flood control capital projects.

⁽⁴⁾ Rental income projected to increase at approximately 3% per annum, except for Llagas and Uvas Creek which is projected to increase 6% following Fiscal Year 2007.

⁽⁵⁾ Corresponds to the 2003A Certificates and the 2004A Certificates. Excludes portion of 1994 Installment Payments allocable to the District General Fund which is not payable from Benefit Assessments.

⁽⁶⁾ Corresponds to the 2000 Certificates in Fiscal Year 2007 and the 2007A Certificates thereafter.

Source: Santa Clara Valley Water District.

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 three positions who are approved by the Board. The offices of president, vice president, and chief financial officer are members of the Corporation board and are selected 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 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 Vincent Garrod, David Vanni and David R. Johnson. The Corporation Board has appointed the Clerk of the Board of Directors of the District to serve as the Secretary of the Corporation.

CERTAIN LIMITATIONS ON TAXES

Article XIII A of the California Constitution

The taxing powers of California public agencies are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum ad valorem tax on real property to one percent of "full cash value" which is defined as "the County Assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year or reduction in the consumer price index, or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county within the State is required to levy the ad valorem tax permitted by Article XIII A and to distribute the proceeds to local agencies, including special districts such as the District. Allocation of property tax revenue to the District is governed by state law.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership end two percent annual value growth) is allocated on the basis of situs among the jurisdictions that serve the tax rate areas within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenues from tax areas to such entities may be affected by the establishment of redevelopment area by redevelopment agencies which, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

In recent years the allocation of Proposition 13 property taxes to local agencies has been revised such that a portion of property tax revenue has been diverted away from special districts, such as the District, to

school districts. It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of 1 percent Santa Clara County property tax levy paid to the District. In the opinion of District management, any such legislation would not have an adverse effect on its ability to make the 1994 Installment Payments and the 1995 Installment Payments under the 1994 Installment Purchase Agreement and the 1995 Installment Purchase Agreement, respectively.

Article XIII B of the California Constitution

Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes of State and local governmental entities to the amount of appropriations of the entity for the prior Fiscal Year, as adjusted for changes in the cost of living, changes in population, and changes in services rendered by the entity.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the District's Flood Control Benefit Assessment user rates or fees were determined by a court to exceed the reasonable cost of providing service, the District would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing flood control services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees will not be special taxes if they approximate the reasonable cost of providing flood control services, including the cost constructing the capital improvements contemplated by the local agency imposing the fee.

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 and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water 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.

In addition, Article XIII D includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to

the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” The California Court of Appeal for the Fourth Appellate District in the case of *Bighorn-Desert View Water Agency v. Beringson*, 1114 Cal. App.4th 1213 (2004), held that the initiative power described in Article XIII C applies only to the local taxes, assessments, fees and charges governed by Article XIII D. In an opinion rendered in April 2004, the California Supreme Court in *Bighorn-Desert View Water Agency v. Beringson* granted review and transferred the matter to the California Court of Appeal for the Fourth Appellate District with directions to vacate its decision and to reconsider the cause in light of the decision in *Richmond et al. v. Shasta Community Services District*. On reconsideration of the matter, the California Court of Appeal for the Fourth Appellate District reaffirmed its prior holding. On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIII C included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the District does not believe that Article XIII C grants to the voters within the District the power to repeal or reduce the Benefit Assessment in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2007A Certificates. Remedies available to beneficial owners of the 2007A 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.

Other Initiative Measures

Article XIII A was adopted pursuant to California’s constitutional initiative process. From time to time, other initiative measures could be adopted by California voters, placing additional limitations on the ability of the District 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 2007A 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 opinion of Special Counsel (the form of which is attached as Appendix D), will be similarly qualified.

CONTINUING DISCLOSURE

In the Continuing Disclosure Agreement, the District covenants for itself for the benefit of holders and beneficial owners of the 2007A Certificates to provide certain financial information and operating data relating to the District by not later than April 1 in each year commencing April 1, 2007 (the “Annual Report”) and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed with each Nationally Recognized Municipal Securities Information Repository and with any then existing State Repository (collectively, the “Repositories”). Currently, there is no State Repository. The notices of material events will be filed with the Repositories. The specific nature of the information to be contained in the Annual Report and the notices of material events is described in Appendix E — “FORM OF CONTINUING DISCLOSURE AGREEMENT” attached hereto. These covenants will be made in order to

assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities and Exchange Act of 1934, as amended. The District has not defaulted on any continuing disclosure undertaking in the previous five years.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of the 1995 Installment Payment 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 the 1995 Installment Payment constituting interest is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, the portion of the 1995 Installment Payment 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 the 1995 Installment Payment 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 complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the 2007A Certificates to assure that the portion of the 1995 Installment Payment 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 the 1995 Installment Payment constituting interest to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2007A Certificates. The District has covenanted to comply with all such requirements.

The amount by which a 2007A Certificate Owner's original basis for determining loss on sale or exchange in the applicable 2007A Certificate (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 2007A Certificate Owner's basis in the applicable 2007A 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 bond premium may result in a 2007A Certificate Owner realizing a taxable gain when a 2007A Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2007A Certificate to the Owner. Purchasers of the 2007A Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2007A Certificates will be selected for audit by the IRS. It is also possible that the market value of the 2007A Certificates might be affected as a result of such an audit of the 2007A Certificates (or by an audit of similar bonds).

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The 2007 Trust Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the exclusion from gross income of interest for federal income tax purposes with respect to any 2007A Certificate if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Special Counsel has rendered an opinion that the portion of the 1995 Installment Payment constituting interest is 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 2007A Certificates and the accrual or receipt of the portion of the 1995 Installment Payment constituting interest may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2007A Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the 2007A Certificates.

RATINGS

The District has received from Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings, Inc. ("Fitch") ratings on the 2007A Certificates of "Aa2," "AA+" and "AA+," respectively.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004 and Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004, respectively. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2007A Certificates.

UNDERWRITING

The Certificates will be purchased by Morgan Stanley & Co. Incorporated, acting on behalf of itself, Lehman Brothers, De La Rosa & Co., Inc. and Backstrom McCarley Berry & Co., LLC (the "Underwriters"), under a Purchase Contract, dated February 6, 2007 (the "Purchase Contract"), pursuant to which the Underwriters agree to purchase all of the Certificates for an aggregate purchase price of \$82,664,972.02 (which represents the par amount of the Certificates less Underwriters' discount of \$320,777.13 plus \$4,205,749.15 of original issue premium).

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 Certificates to certain dealers (including dealers depositing 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 execution and delivery of the 2007A 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 is contingent upon the execution and delivery of the 2007A Certificates.

NO LITIGATION

No litigation is pending or, to the knowledge of the District, threatened, in any way questioning or affecting the validity or enforceability of the 2007A Certificates, the 1995 Installment Purchase Agreement or

the 2007 Escrow 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 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 Flood Control System.

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

CERTAIN LEGAL MATTERS

Special Counsel will render an opinion substantially in the form set forth in Appendix D hereto. Copies of such opinions will be furnished to the Underwriters at the time of delivery of the 2007A Certificates. Certain legal matters will be passed upon for the District and the Corporation by District Counsel to the District, Debra L. Cauble, Esq. for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, and for the Surety Bond Provider by its counsel and for the Trustee by its counsel. The payment of the fees of Special Counsel is contingent upon the execution and delivery of the 2007A Certificates.

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 Financing Officer of the District at the address indicated on the inside cover page of this Official Statement.

Financial Statements of the District, a summary of the principal legal documents to be adopted or executed in connection with the offering of the 2007A Certificates, information relating to the Book-Entry Only System relating to the 2007A Certificates, the Form of Opinion of Special Counsel and certain selected financial information relating to the District 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.

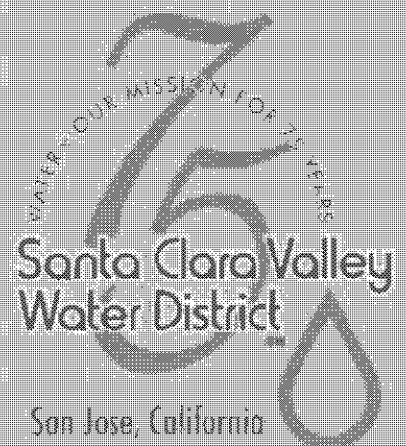
APPENDIX A

**AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2006



Santa Clara Valley Water District
San Jose, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006

Prepared by the General Accounting Services Unit
Peter Ng, Chief Financial Officer
Najon Chu, Financial Services Unit Manager

**SANTA CLARA VALLEY WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2006**

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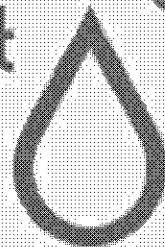
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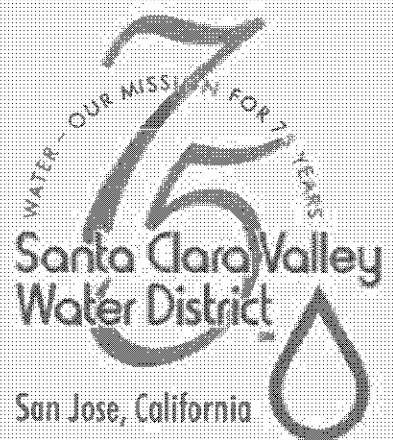
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Santa Clara Valley
Water District



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Introductory Section



November 3, 2006

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

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Santa Clara Valley Water District (District) for the fiscal year ended June 30, 2006. The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

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

The District's financial statements have been audited by Maze & Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2006, are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the District is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on the District's internal controls and compliance over the administration of federal awards. The single audit review is typically completed after the audit of the financial statements and will be issued separately for the Board's acceptance.

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

District Profile

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

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

The Santa Clara Valley Water District (District) operates as a State of California special district under the authority of the District Act (Stats. 1951, c.1405, p.3336, urgency, eff. July 10, 1951, as amended Stats. 1963, c.1941, p.3993, 1). The District is the primary water resources agency for Santa Clara County, California. It acts not only as the county's water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers and district-built reservoirs. It is governed by a seven-member Board of Directors. Five members are elected from geographical areas which coincide with the county supervisorial districts, and two at-large members are appointed by the county Board of Supervisors. The mission of the District is a healthy, safe and enhanced quality of living in Santa Clara County through watershed stewardship and comprehensive management of water resources in a practical, cost-effective and environmentally sensitive manner.

Each year, the county residents and businesses use about 400,000 acre-feet of water, both treated water and groundwater. Approximately 80 percent of the water is delivered by 13 water retail agencies that service communities within the County via their own distribution systems. This demand requires the District to operate and maintain a complex delivery and treatment system that includes 3 drinking water plants, 10 reservoirs, a state-of-the-art water quality laboratory, 18 groundwater recharge facilities, 3 pump stations and more than 165 miles of canals, tunnels, and pipelines. As the primary wholesale water supplier in Santa Clara County, the District is dedicated to assuring a reliable supply of healthy, clean drinking water. The District provides stream stewardship that encompasses managing flood and storm waters within the County and protecting watersheds and riparian corridors, thereby providing for public safety, and the protection of property and the natural environment along creeks and rivers, and at the edge of the San Francisco Bay. The District makes every effort to provide clean safe water in our creeks and bays; to provide, enhance, and restore creek and bay ecosystems, and to promote additional open space, trails and parks along creeks and in the watersheds.

The District maintains budgetary controls, the objectives of which are to ensure the compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories, the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures). Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented on page 76-81 as part of required supplementary information. For proprietary funds, this comparison is presented on page 85 and 90-91 as part of the combining and individual fund statements and schedules.

On February 23, 1999, the District Board of Directors (Board) approved the development of a variation of biennial budgets, called a Rolling Biennial Budget, with the first year serving as the adopted budget and the second year in place as a spending plan. At the end of the first year, a mid-cycle review of the second-year spending plan is required before adoption. The District's biennial budget serves as the foundation for financial planning and control. The objectives of a Rolling Biennial Budget are to stabilize operating expenditures from year to year, to ensure the operating expenditures are within generally agreed-upon levels, and to align operating and capital expenditures with fairly stable and predictable revenue sources. 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 the development of organizational goals, and the establishment of policies and plans to achieve these goals.

The District moved to a two-year budget to demonstrate to the community a commitment to financial responsibility and long-term planning. The initial development of the rolling biennial budget relied upon guidance from several long-range planning documents and processes including the original five-year Capital Improvement Plan, the Water Utility Business Plan, the Flood Protection Business Plan, and the Priority Setting Matrix.

For fiscal year 2005/06 a single-year format was used and is a departure from the District's customary rolling biennial budget. The District changed the format to accommodate a request by the County of Santa Clara for earlier review.

The guidelines used by the District in developing this formal budget process are those recommended by the National Advisory Council on State and Local Budgeting, and the Government Finance Officers Association (GFOA). The Board adopted the fiscal year 2005/06 budget.

Factors Affecting Financial Condition

Local economy. Santa Clara County has one of the most diverse populations in California. Many of its 1.7 million residents moved here from other states or countries for employment in Silicon Valley, famed for both its technological successes and dot-com bust. Of Silicon Valley residents, 38 percent are foreign-born. Eighty-two percent have finished high school, with 41 percent holding bachelors degrees. Average pay and per capita income increased in 2005, with average per capita income at \$56,633 – 1.55 times greater than the national level. However, median household income has remained flat for the past decade. Immigration to the area has increased and emigration decreased, with the overall population growing by 1 percent in 2005, the largest increase since the 2000 dot-com collapse. (Source: Silicon Valley 2006 Index, Joint Venture/Silicon Valley Network)

Last year, the area had its first increase in jobs in four years, following a turbulent period that saw the loss of more than 200,000 jobs, particularly in the technology sector. Silicon Valley continues to have a higher concentration of core design, engineering, scientific and business management skills than other regions, with 14 percent of total regional employment in these areas. The number of patents per capita has continued to rise, with 47 percent of all California patents granted to Silicon Valley in 2004. Value added per employee rose at a rate of 4.4 percent from 2004 to 2005, compared with the nation rate of 2 percent. (Source: Silicon Valley 2006 Index, Joint Venture/Silicon Valley Network)

The long-term trend for Santa Clara County's economy is expected to become more stable, with slow job growth recovery from 2005 through 2015. Highest job growth is forecast for health, education, and recreational job sectors. A significant imbalance between jobs and housing is expected to keep housing cost among the highest in the nation, with a median home price in spring 2005 of \$705,000. The total assessed value, net of homeowner exemption value, of Santa Clara County in FY 2004/05 increased 8 percent to \$240.1 billion. (Source: Silicon Valley 2006 Index, Joint Venture/Silicon Valley Network)

Long-term planning. During FY 99/00 the Board implemented a new form of board governance centering upon their role as policy makers establishing desired outcomes in key areas of responsibility. The Board focused its attention on policy setting in the areas of providing a reliable supply of healthy and clean drinking water; adequate water supply; groundwater basin protection; recycling; flood protection; enhanced quality of life; watersheds and stream natural resource protection; and open space. Among those policies are provisions that define the Board's expectations and results (Ends Policies) for the above areas that emphasize public health and safety, water supply, protection from flooding, and quality of life in Santa Clara County.

Aligning resources and staff to carry out the Board Ends policies during a time of financial constraint requires vision and commitment. As an internal response to economic challenges, and to maintain excellent service with fewer resources, the CEO launched a new vision in the fall of 2004: "Getting Cleaner, Greener and Leaner". Designed to lead toward greater efficiency,

Aligning resources and staff to carry out the Board Ends policies during a time of financial constraint requires vision and commitment. As an internal response to economic challenges, and to maintain excellent service with fewer resources, the CEO launched a new vision in the fall of 2004: "Getting Cleaner, Greener and Leaner". Designed to lead toward greater efficiency, accountability and environmental responsibility in all District activities, the vision is crucial in light of business costs, local economic pressures and impacts from the state budget deficit.

The District's largest revenue source is the sale of water, acting as a wholesaler for numerous water supply companies in Santa Clara County. Water sales for FY 2005/06 were \$108 million. Water revenue budgeted for FY 2006/07 are based on the water rates for the North County and South County zones of benefit as recommended to the District's Board of Directors. An approximate increase of 3.6% in water rates in the North County and 7% increase in the South County have been estimated. Revenue projections assume a water demand volume of 299,000 acre-feet.

The Five-Year Capital Improvement Plan (CIP) includes a total of 91 capital projects with an estimated cost of over \$1.7 billion. These include projects that began implementation prior to the 5-year period of the new CIP. Of the total estimated cost, \$396 million is expected to be funded from various partners and the \$1.3 billion balance from the District's various revenue sources. This year's CIP process identified new funding requests of \$54 million.

The District's Flood Protection and Stream Stewardship Program take a watershed-based approach to nature resources management. Its cornerstone, the 15-year Clean, Safe, Creeks and Natural Flood Protection Plan, was developed through a dynamic, interactive, community based process and was approved by county voters in November 2000, along with a special tax to help fund the plan's projects. The 15-year pay-as-you-go plan is a major component of the District's overall flood protection and stream stewardship plan. For FY 2006/07, the proposed budget includes \$19.0 million for this capital program.

Relevant Financial Policies

End of Year Balances

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

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

Cash Management

The District's adopted investment policy adheres to the provisions of the California Government Code and, in accordance with the code, is reviewed and revised as appropriate. Among the primary objectives stated in the policy are the maintenance of safety, liquidity, and yield (in that specific order).

Debt Management

The District has restricted long-term borrowing to the funding of capital improvement projects and equipment. The term of the debt does not exceed the expected useful life of the assets. The District also maintains a commercial paper program for funding the Water Utility capital projects. Commercial paper will be used during the early phases of construction; long-term debt, matching the useful life of the asset, will then be issued once the project is complete.

Reserve Requirements

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

Awards and Acknowledgements

The Governmental Finance Officers Association of the United States and Canada (GFOA) awarded a CAFR for Excellence in Financial Reporting to Santa Clara Valley Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This is the eighth consecutive year that the District has received this prestigious award. In order to be awarded a CAFR Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

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

The preparation of this CAFR represents the culmination of months of concerted team effort by diverse District staff, including team members from General Accounting, Financial Services, Public Information, Risk Management, Information Systems Services, Information Technology, Business Support Services, and District Counsel. Many team members demonstrated a high degree of personal dedication and determination in producing this exemplary document.

In addition, special thanks to District staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Maze & Associates is also acknowledged for the significant technical contribution and unlimited patience.

Special thanks goes to Najon Chu, Financial Services Unit Manager; the following Accounting staff: Robert Edris, Guy Canha, Fanny Chan, Trisha Cheung, Christine Hernandez, Leticia Rocha, and Nancy Tien; with the assistance of the Budget Unit staff: Ron Mayorga and Chenlei Yao for their talent and dedication in preparing this financial report.

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



Peter Ng,
Chief Financial Officer

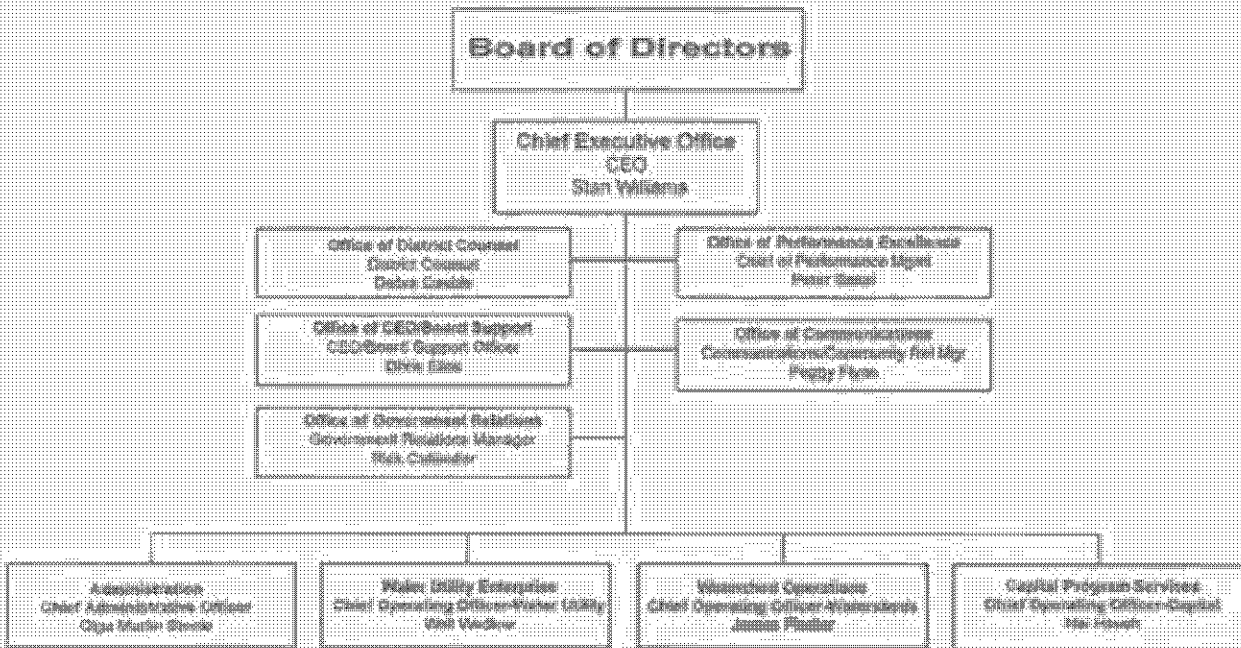


Olga Martin Steele,
Chief Administrative Officer



Stanley M. Williams,
Chief Executive Officer

Santa Clara Valley Water District Board of Directors & Executive Management



**SANTA CLARA VALLEY WATER DISTRICT
DIRECTORY OF OFFICIALS
2005 – 2006**

BOARD OF DIRECTORS

Larry Wilson, Chair	District 4
Tony Estremera, Vice Chair	At Large
Rosemary C. Kamei	District 1
Joe Judge	District 2
Richard P. Santos	District 3
Gregory A. Zlotnick	District 5
Sig Sanchez	At Large

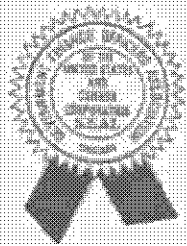
Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley
Water District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Thomas J. Blum".

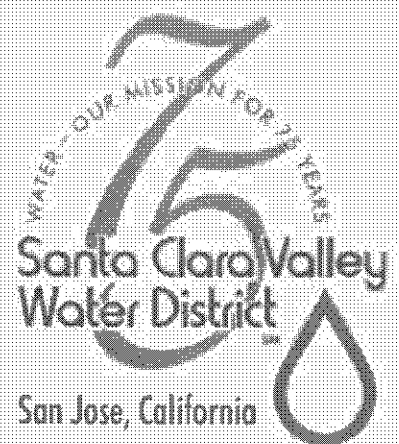
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emery".

Executive Director

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

Financial Section



MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

ACCOUNTANCY CORPORATION

3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

To the Honorable Members of the Board of Directors of the
Santa Clara Valley Water District
San Jose, California

We have audited the basic financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Santa Clara Valley Water District, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Water District, California as of June 30, 2006 and the respective changes in the financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated November 3, 2006 on our consideration of the District's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual on Budgetary Basis are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

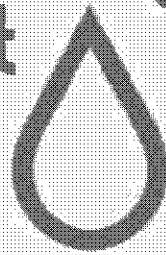
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Combining and Individual Fund Statements and Schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Statistical and Introductory Sections were not audited by us and we express no opinion on them.

Maze & Associates

November 3, 2006

**Santa Clara Valley
Water District**



Management's Discussion and Analysis

Our discussion and analysis of the Santa Clara Valley Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The total net assets of the District exceeded its liabilities by \$1,504.7 million. Of this amount, \$352.6 million (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's net assets increased by \$17.8 million during the current fiscal year. The net assets of our governmental activities increased by \$19.9 million and net assets of our business-type activity decreased by \$2.0 million.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$218.0 million, a decrease of \$27.0 million in comparison with the prior year fund balances of \$245.0 million.
- At the end of the current fiscal year, fund balance for the general fund was \$35.9 million, a decrease of \$0.9 million from the prior fiscal year. Unreserved, designated fund balance was \$32.1 million (89.6 percent) of the total fund balance and increased by \$1.0 million during the fiscal year.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by GASB Statement No. 34.

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

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

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

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

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

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

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

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

Proprietary funds. The District maintains two-different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activity in the government-wide financial statements but provide more detail and additional information. The District uses an enterprise fund to

account for its water utility operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its fleet of vehicles and computer equipment, and for its risk management activities. The internal service funds have been included within governmental activities in the government-wide financial statements.

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

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 41-74 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,504.7 million at the end of the current fiscal year.

Santa Clara Valley Water District's Net Assets

(Dollars in Thousands)

	Governmental Activities		Business-type Activity		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 290,249	\$ 316,530	\$ 131,146	\$ 157,532	\$ 421,395	\$ 474,062
Capital assets	870,010	831,775	564,819	552,284	1,434,829	1,384,059
Total assets	1,160,259	1,148,305	695,965	709,816	1,856,224	1,858,121
Current liabilities	23,791	24,939	71,681	62,289	95,472	87,228
Long-term liabilities outstanding	189,976	196,750	66,030	87,272	256,006	284,022
Total liabilities	213,767	221,689	137,711	149,561	351,478	371,250
Net assets:						
Investment in capital assets, net of related debt	706,201	664,735	412,458	397,271	1,118,659	1,062,006
Restricted	12,217	10,661	21,256	22,939	33,473	33,600
Unrestricted	228,074	251,220	124,540	140,045	352,614	391,265
Total net assets	\$ 946,492	\$ 926,616	\$ 558,254	\$ 560,255	\$ 1,504,746	\$ 1,486,871

By far the largest portion of the District's net assets (74.3 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets, net of related debt increased by \$41.5 million in the governmental activities. Major capital projects attributing to the increase include the

Guadalupe River reaches of \$8.0 million, \$11.6 million on the Lower Silver Creek, and \$8.8 million from the Clean, Safe Creeks and Natural Flood Protection Program that was approved with passage of Measure B in November 2000. The increase of \$15.2 million in the business-type activity was primarily due to ongoing major water treatment plant improvements.

The balance of unrestricted net assets may be used to meet the District's ongoing obligations to citizens, customers, and creditors. The District's unrestricted net assets decreased by 9.9 percent, or \$38.7 million, during the current year. The decrease came primarily from the expenditures on capital projects.

Santa Clara Valley Water District's Changes in Net Assets

(Dollars in Thousands)

	Governmental Activities		Business-type Activity		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 108,009	\$ 104,831	\$ 108,009	\$ 104,831
Operating grants and contributions			1,269	2,039	1,269	2,039
Capital grants and contributions	24,613	19,135	1,407	313	26,020	19,448
General revenues:						
Property taxes	50,923	46,396	19,338	20,085	70,261	66,481
Investment earnings	6,615	9,188	3,086	3,614	9,701	12,802
Miscellaneous	2,137	2,408	3,223	2,756	5,360	5,164
Total revenues	<u>84,288</u>	<u>77,127</u>	<u>136,332</u>	<u>133,638</u>	<u>220,620</u>	<u>210,765</u>
Expenses:						
General government	7,149	4,846	-	-	7,149	4,846
Watersheds	48,406	46,188	-	-	48,406	46,188
Interest on long-term debt	9,344	11,735	-	-	9,344	11,735
Water enterprise			137,846	115,340	137,846	115,340
Total expenses	<u>64,899</u>	<u>62,769</u>	<u>137,846</u>	<u>115,340</u>	<u>202,745</u>	<u>178,109</u>
Increase in net assets before transfers	<u>19,389</u>	<u>14,358</u>	<u>(1,514)</u>	<u>18,298</u>	<u>17,875</u>	<u>32,656</u>
Transfers	487	(387)	(487)	387	-	-
Increase in net assets	<u>19,876</u>	<u>13,971</u>	<u>(2,001)</u>	<u>18,685</u>	<u>17,875</u>	<u>32,656</u>
Net assets, beginning	<u>926,616</u>	<u>912,645</u>	<u>560,255</u>	<u>541,570</u>	<u>1,486,871</u>	<u>1,454,215</u>
Net assets, ending	<u>\$ 946,492</u>	<u>\$ 926,616</u>	<u>\$ 558,254</u>	<u>\$ 560,255</u>	<u>\$ 1,504,746</u>	<u>\$ 1,486,871</u>

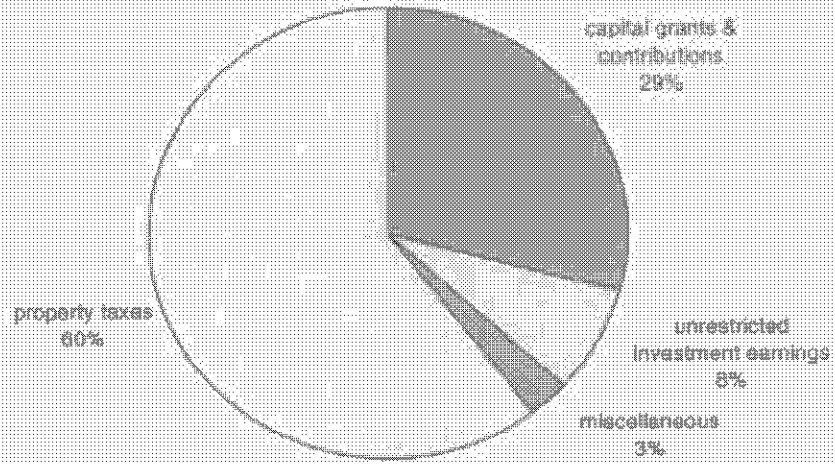
Governmental activities. Governmental activities increased the District's net assets by \$19.9 million, an increase of 2.1 percent over fiscal year 2005. Key elements of this increase are as follows:

- Capital grants and contributions increased by \$5.5 million or 28.6 percent. The increase represents additional reimbursements from the State of California Department of Water Resources during the fiscal year.
- Property taxes increased by \$4.5 million or 9.8 percent. Increased property tax collections is due to an improving economy in Santa Clara County and increased housing activity.
- Investment income decreased by \$2.6 million or 28.0 percent. The District received slightly increased investment income from its portfolio but had a negative impact from the GASB 31 fair market value adjustment because of increasing interest rates during the year.
- Net general government expenses increased by \$2.3 million or 47.5 percent. The increase is due to increased depreciation cost, an increased share of the internal service cost, and a lower overhead reimbursement from operations.
- Interest on long-term debt decreased by \$2.4 million or 20.4 percent. In addition to a reducing outstanding debt service amount, the decrease represents the effect of the recent refunding and retirement of outstanding debt from prior fiscal years.

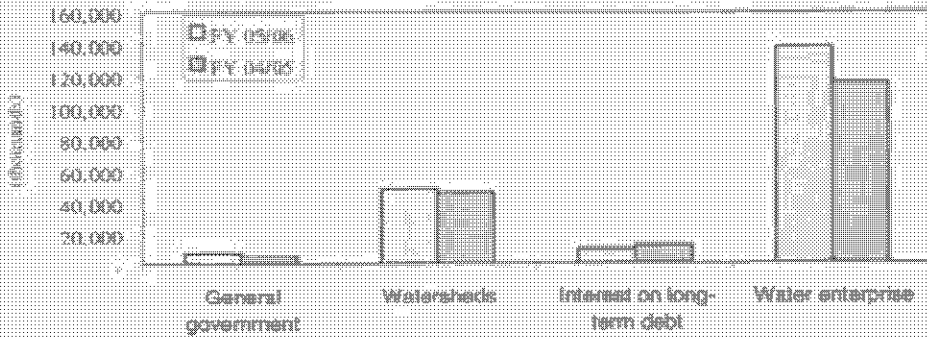
Revenues by Sources - Governmental Activities
(FY 05/06 & FY 04/05)



**Revenues by Sources – Governmental Activities
(FY 05/06)**



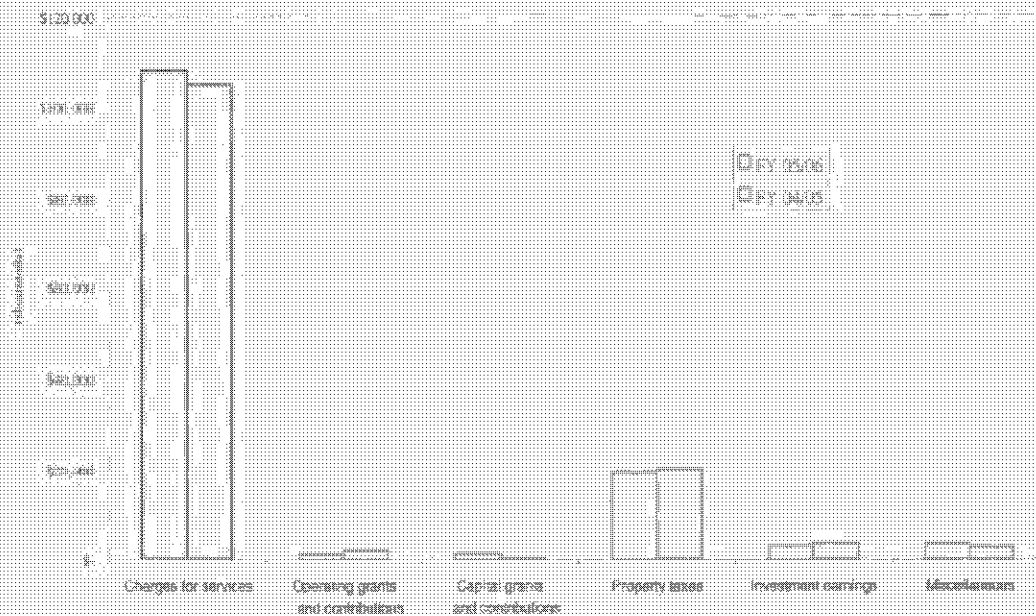
**Expenses by Programs
(FY 05/06 & FY 04/05)**



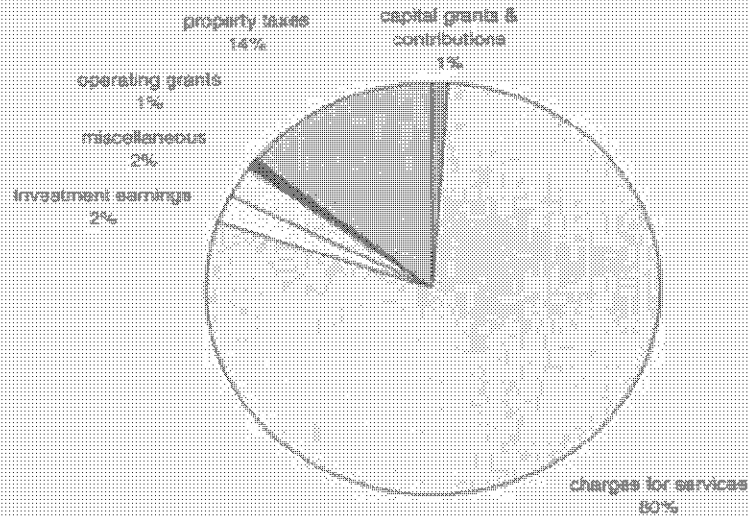
Business-type activity. Business-type activity decreased the District's net assets by \$2.0 million, a decrease of 0.4 percent compared to the previous fiscal year. Key elements are as follows.

- Charges for services increased by \$3.2 million or 3.0 percent. The increase represents a rise in water rates while water volume demand has remained constant.
- Capital grants and contributions increased by \$1.1 million or 349.5 percent. The increase represents additional funding from the State of California Department of Water Resources.
- Water enterprise expenses increased by \$22.5 million or 19.5%. The increase is due to increase cost of source of water supply and depreciation expense.

**Revenues by Sources - Business Activity
(FY 05/06 & FY 04/05)**



**Revenues by Source – Business Activity
(FY 05/06)**



Financial Analysis of the District's Funds

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

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of the fiscal year 2005/06, the District's governmental funds reported combined ending fund balances of \$218.0 million, a decrease of \$27.0 million in comparison with the prior year. Approximately 74.0 percent of the total amount (\$161.4 million) constitutes unreserved fund balance but have been designated for specific purposes. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed; 1) to pay debt service (\$15.0 million); 2) restricted to use for specified capital projects (\$14.6 million); 3) reserved for encumbrances (\$26.2 million); or 4) other restricted purposed (\$0.8 million).

The General Fund is the chief operating fund of the District supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the reserved and unreserved fund balance of the General Fund was \$35.9 million.

Property taxes increased by \$0.3 million or 19.4%. In FY 2004/05, a one-time grant was received by the District which did not occur in FY 2005/06, so reimbursement of capital cost decreased by \$0.9 million during the current fiscal year. Net operating expenditures were lower during the current fiscal year but the intra-district overhead reimbursement charge was reduced by \$5.6 million resulting in a net increase in reported operating expenditures of \$1.4 million.

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of the District. The available fund balances decreased during the current fiscal year by \$22.9 million or 13.0 percent. The main decreases in fund balances occurred in the Guadalupe and Coyote watershed while the Clean, Safe Creeks, and Natural Flood Protection Program increased.

During the current year, property tax receipts increased by \$4.2 million or 9.2 percent. Investment income decreased by \$1.3 million or 24.4 percent, mainly due to the GASB 31 fair market value adjustment which requires that the District records any differences between the fair market value and book value of the investment portfolio, as of June 30, 2006, as an adjustment to interest income. Because the District holds its investments to maturity, the District never realizes any gains or losses from these adjustments. This annual adjustment is based upon the individual fund's cash balance, the Lower Peninsula Watershed (\$200,000) and Coyote Watersheds (\$209,000), and the Clean, Safe Creek, and Natural Flood Protection Program (\$797,000) incurred the major portion of the adjustment.

Operating and operations project cost remained stable during the fiscal year, dropping \$2.7 million or 6.6 percent. Capital improvement project costs decreased by \$30.3 million or 38.0 percent. Major decreases in capital improvement spending occurred in the Lower Peninsula Water (\$6.5 million), Guadalupe Watershed (\$16.6 million) and the Coyote Watershed (\$5.4 million).

At the end of the current fiscal year, reserved and unreserved fund balance of the special revenue funds was \$152.5 million.

The debt service fund has a total fund balance of \$15.0 million, all of which is reserved for the payment of debt service. The net fund balance increased in the debt service fund by \$0.7 million due to increased amounts required in the District reserve and rebate accounts.

The capital projects fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. It has total fund balance of \$14.0 million all of which is reserved for the payment of capital related expenditures. The net fund balance decreased in the capital projects fund by \$4.0 million primarily due to the transfers out to the special revenue funds.

Proprietary funds. The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

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

Net assets of the Water Enterprise fund at the end of the fiscal year was \$561.0 million, a decrease of \$0.4 million from fiscal year 2004/05. Investment in capital assets, net of related debt increased by \$15.2 million, restricted net assets decreased by \$1.7 million, unrestricted net assets decreased by \$13.9 million. Charges for services increased by 3.2 million or 3.0 percent. Operating expenses increased by \$20.0 million or 18.0 percent and non-operating expenses increased by \$1.3 million or 35.0 percent. The Water Enterprise fund's portion of the internal service funds consolidation is \$1.2 million. Factors concerning the finances of the fund have already been addressed in the discussion of the District's business-type activity.

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

The Equipment Fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment or hourly usage of equipment on projects. Operating revenues in the Equipment Fund for the fiscal year ended June 30, 2006 decreased by \$1.9 million or 31.9 percent. The amount required to fund the replacement and maintenance cost of the Equipment Fund is determined during the budget process and varies yearly depending upon need. Equipment maintenance costs and depreciation expenses decreased by \$0.7 million or 10.4 percent during the year. The reduction in operating expense reflects a decreased replacement of equipment. Non-operating revenues decreased by \$45 thousand due to decreased investment income.

The Risk Management Fund charges premiums based on exposure levels by project for liability, property, worker's compensation and self-insurance costs. Revenues required to properly fund the Risk Management Fund are determined during the budget process and a reduction in self-insurance service charges of \$1.9 millions was decided upon as the proper funding level. Operating expense decreased by \$423 thousand and is a combination of lower administrative and general cost but increased insurance cost due to an actuarial increase in insurance claims payable.

General Fund Budgetary Highlights

Comparing the FY 2005/06 original budget (or adopted) General Fund amount of \$47.2 million to the final budget amount of \$65.3 million shows a net increase of \$18.1 million. Included with the original budget is \$13.5 million of prior FY 2004/05 capital projects approved to carry forward into FY 2005/06 and \$4.0 million in committed purchase orders from the prior June 30 balance, also carried forward. Thereby, bringing the beginning budget balance equal to \$65.3 million.

Adopted Budget	+ Capital Projects Carryforward	+ Prior Year Encumbrances	= Beginning Balance	+ Supplemental Changes	= Final Budget
\$47,171,000	13,500,000	4,000,000	64,671,000	659,000	\$65,330,000

Comparing the beginning budget of \$64.7 million to the final budget of \$65.3 million shows the General Fund supplementary budgetary appropriations totaling \$659,000, or 1.0 percent for the fiscal year.

The following are the components of the supplemental appropriations:

- \$100,000 for the FY 2005/06 collective bargaining process;
- \$93,000 for repair and upgrade of the Board Room audio/visual system;
- \$401,000 for the purchase of the county-wide photography and contour elevation data;
- \$65,000 for the comprehensive performance audit.

The District had 57 unfilled positions (district-wide) in FY 2005/06 which resulted in a \$1.8 million salary savings to the general fund. The District became a member of the Power and Water Resources and Pooling Authority for the purchase of electrical power. It resulted in a cost savings to the District of over \$600,000 and will be an on-going savings into FY 2006/07. A savings of \$300,000 occurred because a Watershed Stewardship Grant Program was not administered during the fiscal year.

Capital improvement projects are budgeted at their full project costs and are not expected to be spent in a single year, therefore an analysis of variances would not be practical.

Prior year operating and operations projects encumbrances are not included in the Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual on a Budgetary Basis which begins on page 76. The total general fund budget of \$65.3 million has been reduced by \$4.0 million equaling \$61.3 million for the prior year operating and operations projects encumbrances for the budgetary schedules.

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$1,435 million (net of accumulated depreciation). The investment in capital assets includes land, buildings, structures and improvements (which includes the flood control improvement), machinery and equipment. During FY 2005/06 the total increase in the District's investment in capital assets for the current year was 3.7 percent (a 4.6 percent increase for governmental activities and a 2.3 percent increase for business-type activity).

Major capital projects in progress during the current fiscal year include the following:

• Pond A4 Tidal Wetland Site	\$2,100,000
• Coyote 10A Wetland Conversion	1,100,000
• Guadalupe river UPRR to I880	8,000,000
• Lower Silver Creek Reach 3	7,000,000
• Lower Silver Creek (LERRDS)	4,400,000
• Calabazas Creek Miller to Wardell	1,100,000
• Guadalupe River Reach 6	2,000,000
• Coyote Creek Montague/Hwy 280	1,900,000
• PWTP Treated Water Improvements	6,300,000
• STWTP Treated Water Improvements	4,200,000
• PWTP Treated Water Improvements	2,700,000

Santa Clara Valley Water District's Capital Assets
(net of depreciation)
(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2006	2005	2006	2005	2006	2005
Land	\$106,165	\$105,786	\$17,059	\$17,059	\$123,224	\$122,845
Contract water and storage rights	-	-	55,186	56,205	55,186	56,205
Buildings	32,585	33,038	23	23	32,608	33,061
Structures and improvements	370,348	352,428	277,093	260,916	647,441	613,344
Equipment	14,949	11,899	12,288	7,494	27,237	19,393
Construction in progress	345,963	328,624	203,170	210,587	549,133	539,211
Total	\$870,010	\$831,775	\$564,819	\$552,284	\$1,434,829	\$1,384,059

Additional information on the District's capital assets can be found in note 7 which begins on page 57 of this report.

Debt Administration

At the end of the current fiscal year, the District had total debt outstanding of \$256 million. This District's long-term obligations outstanding as of June 30, 2006 consisted of the following:

Santa Clara Valley Water District's Outstanding Obligations

(Dollars in Thousands)

	Governmental activities		Business-type activity		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ -	\$ -	\$ 3,205	\$ 4,565	\$ 3,205	\$ 4,565
Certificates of participation	180,760	188,140	-	-	180,760	188,140
Revenue bonds	-	-	54,313	55,379	54,313	55,379
Compensated absences	11,558	11,083	-	-	11,558	11,083
Semitropic water banking	-	-	8,512	27,328	8,512	27,328
Deferred amount on refunding	(5,867)	(6,199)	-	-	(5,867)	(6,199)
Premium on refunded debt	3,525	3,726	-	-	3,525	3,726
Total	\$ 189,376	\$ 196,750	\$ 66,030	\$ 87,272	\$ 256,006	\$ 284,022

The District's total obligations decreased by \$28.0 million during the fiscal year. In FY 2006 \$18.8 million was paid against the Semitropic Water Banking debt in order to guarantee our rights to the storage facility through the year 2035. All other decreases in obligations was from the normal repayment of principal on existing outstanding debt.

The rating of the District's certificates of participation series from Moody's ranges from Aaa to Aa2 and from Standard & Poor's from AAA to AA-. The revenue bonds of the Water Enterprise Fund have a bond rating from Moody's ranging from Aa to Aa3 and from Standard & Poor's from AA to AA-.

Additional information on the District's long-term debt can be found in note 8 on pages 59-63 of this report.

Economic Factors and Next Year's Budgets and Rates

The Annual Budget outlines the staff's plan to carry out the District's mission, "...a healthy, safe and enhanced quality of living in Santa Clara County through watershed stewardship and comprehensive management of water resources in a practical, cost-effective and environmentally sensitive matter."

Guiding management and staff in carrying out the Board Ends policies is the District's vision, *Getting Cleaner, Greener, and Leaner*.

- **Cleaner:** meeting increasing stringent regulatory requirements for drinking water quality and environmental protection.
- **Greener:** producing a net positive impact on the environment.
- **Leander:** improving processes to do more with less, focus on collaboration and process improvements.

In considering the District's budget for fiscal year 2006/07 the Board of Directors and management used the following estimates:

- As more flood protection projects are completed and transitioned into operations, environmental monitoring cost will increase proportionally. Expected cost will increase by \$2.4 million over FY 2005/06.
- Interest-based bargaining is a new process being used at the District to negotiate the labor agreements between management and employees bargaining units. It is an open information-sharing process which allows parties to negotiate together at a global table and supports the District's emphasis on collaboration.
- The District is adopting "low case" rates in FY 2006/07, representing the low end of the range for possible rate increases. Under this scenario, rates will increase between approximately 52 and 86 cents per month per household.
- Even though real estate costs are some of the highest in Santa Clara County, the District must acquire land for required mitigation on of construction impacts from its flood protection and water supply projects. For FY 2006/07, \$12.4 million is budgeted for land acquisition while \$25.3 million is budgeted for construction.
- While there has been recent discussion in the state legislature for new flood subventions and related funding for critical flood control projects, no amounts have been budgeted, given the uncertainty for passage.
- Over the past two years, ad valorem property taxes were impacted by a state property tax shift that reallocated \$51.0 million from the District to school districts. It is expected that \$25.5 million will be restored in FY 2006/07, in addition to the normal net increase expected from annual assessment valuation growth.
- Interest earnings are projected to increase by 7.4 percent.

Requests for information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors, with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the General Accounting Unit at 5750 Almaden Expressway, San Jose, CA 95123, or phone (408) 265-2600.

BASIC FINANCIAL STATEMENTS

SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Assets

June 30, 2006

(Dollars in Thousands)

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and investments (Note 3)	\$ 207,939	\$ 108,150	\$ 316,089
Restricted cash and investments (Note 3)	29,650	5,152	34,802
Receivables (net):			
Accounts	552	15,012	15,564
Interest	3,074	21	3,095
Taxes	330	132	462
Due from other governments (Note 4)	42,343	-	42,343
Deposits and other assets	2,375	5,495	7,870
Internal balances	2,816	(2,816)	-
Deferred charges	1,170	-	1,170
Capital assets (Note 7):			
Contract water and storage rights, net	-	55,186	55,186
Nondepreciable	452,128	220,229	672,357
Depreciable, net	417,882	289,404	707,286
Total assets	<u>1,160,259</u>	<u>695,965</u>	<u>1,856,224</u>
LIABILITIES			
Accounts payable	5,266	15,089	20,355
Accrued liabilities	2,309	11,162	13,471
Commercial paper, net of discount (Note 8a)	-	39,657	39,657
Deposits payable	2,978	5,288	8,266
Accrued interest payable	3,684	485	4,169
Claims payable (Note 13)	9,554	-	9,554
Noncurrent liabilities (Note 8):			
Due within one year	10,075	1,692	11,767
Due in more than one year	179,901	64,338	244,239
Total liabilities	<u>213,767</u>	<u>137,711</u>	<u>351,478</u>
NET ASSETS (Note 10)			
Investment in capital assets, net of related debt	706,201	412,458	1,118,659
Restricted for:			
Debt service	11,447	4,647	16,094
Restricted asset	-	5	5
Restricted purposes	770	-	770
Working capital	-	10,265	10,265
San Felipe operations	-	3,339	3,339
Rate stabilization	-	3,000	3,000
Unrestricted	228,074	124,540	352,614
Total net assets	<u>\$ 946,492</u>	<u>\$ 558,254</u>	<u>\$ 1,504,746</u>

See accompanying notes to basic financial statements

SANTA CLARA VALLEY WATER DISTRICT

Statement of Activities
For the Year Ended June 30, 2006
(Dollars in Thousands)

Function	Governmental Activities				Business-Type Activity	
	General Government	Watersheds	Interest on Long-term Debt	Total	Water	Total
					Enterprise	
Expenses:						
Operations and operating projects	\$ 7,149	\$ 48,406	\$ 9,344	\$ 64,899	\$ 137,846	\$ 202,745
Program revenues:						
Charges for services	-	-	-	-	108,009	108,009
Operating grants and contributions	-	-	-	-	1,269	1,269
Capital grants and contributions	-	24,613	-	24,613	1,407	26,020
Net program revenue (expense)	\$ (7,149)	\$ (23,793)	\$ (9,344)	(40,286)	(27,161)	(67,447)
General revenues:						
Property taxes (Note 9)				50,923	19,338	70,261
Unrestricted investment earnings				6,616	3,086	9,702
Miscellaneous				2,136	3,223	5,359
Transfers				487	(487)	-
Total general revenues and transfers				60,162	25,160	85,322
Change in net assets				19,876	(2,001)	17,875
Net assets, beginning of year				926,616	560,255	1,486,871
Net assets, end of year				\$ 946,492	\$ 558,254	\$1,504,746

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Balance Sheet
Governmental Funds
June 30, 2006
(Dollars in Thousands)

	General	Watershed & Stream Steward	Lower Peninsula Watershed	West Valley Watershed
ASSETS				
Cash and investments (Note 3)	\$ 35,035	\$ 17,449	\$ 15,495	\$ 6,612
Restricted cash and investments (Note 3)	-	-	-	-
Receivables:				
Accounts	276	-	-	-
Interest	2,907	-	-	-
Taxes	29	86	36	41
Due from other governments (Note 4)	14	-	-	-
Due from other funds (Note 14)	-	-	-	-
Deposits and other assets	12	500	40	7
Total assets	\$ 38,273	\$ 18,035	\$ 15,571	\$ 6,660
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,349	\$ 187	\$ 85	\$ 60
Accrued liabilities	1,028	3	5	6
Deposits payable	9	500	39	67
Due to other funds (Note 14)	-	667	-	-
Deferred revenue	14	-	-	-
Total liabilities	2,400	1,357	129	133
Fund balances (Note 10):				
Reserved for:				
Encumbrances	3,742	990	3,379	909
Restricted purposes	-	-	-	-
Debt service	-	-	-	-
Debt proceeds	-	-	-	-
Unreserved, designated for:				
Specific purpose	3	-	-	-
Operating contingencies	211	104	110	98
Compensated absences	11,578	-	-	-
Newly Improved Creek Maintenance	-	-	-	-
Other CSC Operations Activities	-	-	-	-
Environmental enhancement program	-	-	-	-
Open space & trails program	-	-	-	-
Capital projects:				
Capital assets	1,659	-	-	-
Current authorized projects	9,471	12,813	8,548	2,833
Future capital projects	9,209	2,771	3,405	2,687
Total fund balances	35,873	16,678	15,442	6,527
Total liabilities and fund balance	\$ 38,273	\$ 18,035	\$ 15,571	\$ 6,660

Guadalupe Watershed	Coyote Watershed	Uvas/Llagas Watershed	Clean, Safe Creek & Natural Flood		COP Debt Service	COP Construction Fund	Total
			Protection Program				
\$ 9,779	\$ 35,228	\$ 2,904	\$ 69,468		\$ -	\$ -	\$ 191,970
77	-	-	-		14,964	14,609	29,650
-	231	11	34		-	-	552
-	-	-	-		-	-	2,907
63	62	13	-		-	-	330
18,861	20,656	661	2,151		-	-	42,343
-	-	667	-		-	-	667
1,171	161	-	-		-	-	1,891
<u>\$ 29,951</u>	<u>\$ 56,338</u>	<u>\$ 4,256</u>	<u>\$ 71,653</u>		<u>\$ 14,964</u>	<u>\$ 14,609</u>	<u>\$ 270,310</u>
\$ 409	\$ 1,780	\$ 16	\$ 1,088		\$ -	\$ -	\$ 4,974
-	1	-	323		-	-	1,366
2,202	161	-	-		-	-	2,978
-	-	-	-		-	-	667
18,861	20,656	661	2,151		-	-	42,343
<u>21,472</u>	<u>22,598</u>	<u>677</u>	<u>3,562</u>				<u>52,328</u>
5,375	3,868	57	7,912		-	-	26,232
276	494	-	-		-	-	770
-	-	-	-		14,964	-	14,964
-	-	-	-		-	14,609	14,609
-	-	667	-		-	-	670
142	125	40	92		-	-	922
-	-	-	-		-	-	11,578
-	-	-	2,017		-	-	2,017
-	-	-	2,509		-	-	2,509
-	-	-	5,182		-	-	5,182
-	-	-	4,058		-	-	4,058
-	-	-	-		-	-	1,659
2,686	16,235	-	24,392		-	-	76,978
-	13,018	2,815	21,929		-	-	55,834
8,479	33,740	3,579	68,091		14,964	14,609	217,982
<u>\$ 29,951</u>	<u>\$ 56,338</u>	<u>\$ 4,256</u>	<u>\$ 71,653</u>		<u>\$ 14,964</u>	<u>\$ 14,609</u>	<u>\$ 270,310</u>

See accompanying notes to basic financial statements

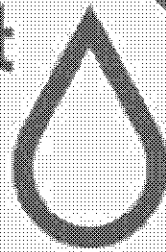
SANTA CLARA VALLEY WATER DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2006 (Dollars in Thousands)

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

Fund balances of governmental funds (page 31)	\$ 217,982
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.	864,586
Long-term receivables, included in due from other governments, are not available to pay for current period expenditures and therefore, are deferred on the modified accrual basis in the balance sheet of governmental funds.	42,343
Accrued expenses for the estimated arbitrage liability owed to the Internal Revenue Service does not represent an obligation that is expected to be liquidated with the expendable available financial resources and, accordingly, is not reported as a fund liability of the balance sheet of governmental funds.	(793)
Internal service funds are used by management to charge the costs of equipment and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	14,697
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.	(3,684)
Accrued interest income for monies held in the restricted bond trust accounts are not available to pay for current period debt payments, and therefore, are not included in the balance sheet of governmental funds.	167
Underwriter's discount and costs of issuance are capitalized on the government-wide statement of net assets, whereas, they are reported as expenditures in the governmental funds.	1,170
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:	
Certificates of participation	(180,760)
Deferred amount on refunding	5,867
Net original issue premium	(3,525)
Compensated absences	(11,558)
Net assets of governmental activities (page 28)	<u>\$ 946,492</u>

Santa Clara Valley
Water District



SANTA CLARA VALLEY WATER DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2006 (Dollars in Thousands)

	General	Watershed & Stream Stewardship	Lower Peninsula Watershed	West Valley Watershed
Revenues:				
Property taxes (Note 9)	\$ 2,024	\$ 5,865	\$ 2,976	\$ 3,296
Benefit assessments (Note 9)	-	-	4,672	2,941
Use of money and property:				
Investment income (Note 6)	969	441	446	224
Rental	37	19	586	66
Reimbursement of capital costs (Note 5)	-	-	-	-
Other	333	20	1	3
Total revenues	3,363	6,345	8,681	6,530
Expenditures:				
Current:				
Operations and operating projects	3,537	7,619	4,252	5,410
Capital improvement projects	256	4,343	4,070	2,650
Debt service:				
Principal repayment	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	3,793	11,962	8,322	8,060
Excess (deficiency) of revenues over (under) expenditures	(430)	(5,617)	359	(1,530)
Other financing sources (uses):				
Transfers in (Note 15)	336	5,433	4,491	713
Transfers out (Note 15)	(772)	(96)	(8,947)	(2,746)
Total other financing sources (uses)	(436)	5,337	(4,456)	(2,033)
Net change in fund balances	(866)	(280)	(4,097)	(3,563)
Fund balances, beginning of year	36,739	16,958	19,539	10,090
Fund balances, end of year	\$ 35,873	\$ 16,678	\$ 15,442	\$ 6,527

Guadalupe Watershed	Coyote Watershed	Uvas/Llagas Watershed	Clean, Safe Creek & Natural Flood Protection Program	COP Debt Service	COP Construction Fund	Total
\$ 3,192	\$ 4,090	\$ 862	\$ 28,618	\$ -	\$ -	\$ 50,923
6,210	4,649	740	-	-	-	19,212
435	1,106	81	1,287	916	455	6,360
684	58	1	82	-	-	1,533
276	1,106	11	372	-	-	1,765
89	66	-	72	-	-	584
<u>10,886</u>	<u>11,075</u>	<u>1,695</u>	<u>30,431</u>	<u>916</u>	<u>455</u>	<u>80,377</u>
5,690	5,375	2,399	7,425	-	-	41,707
11,862	14,698	216	11,590	-	-	49,685
-	-	-	-	7,380	-	7,380
-	-	-	-	9,133	-	9,133
<u>17,552</u>	<u>20,073</u>	<u>2,615</u>	<u>19,015</u>	<u>16,513</u>	<u>-</u>	<u>107,905</u>
(6,666)	(8,998)	(920)	11,416	(15,597)	455	(27,528)
5,615	1,345	83	300	16,291	-	34,607
(9,028)	(4,459)	(842)	(2,718)	-	(4,497)	(34,105)
(3,413)	(3,114)	(759)	(2,418)	16,291	(4,497)	502
(10,079)	(12,112)	(1,679)	8,998	694	(4,042)	(27,026)
18,558	45,852	5,258	59,093	14,270	18,651	245,008
<u>\$ 8,479</u>	<u>\$ 33,740</u>	<u>\$ 3,579</u>	<u>\$ 68,091</u>	<u>\$ 14,964</u>	<u>\$ 14,609</u>	<u>\$ 217,982</u>

See accompanying notes to basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2006 (Dollars in Thousands)

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

Net change in fund balances - total governmental funds (page 35)	\$ (27,026)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$44,808) exceed depreciation (\$5,944) in the current period.	38,864
Revenues recognized in the governmental funds that were earned and recognized in previous years and are reported as beginning net assets in the statement of activities.	3,636
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds while it does not have any effect on net assets.	
Certificates of participation	7,380
Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but they do not require the use of current financial resources. This amount represents the net accrued interest expense not reported in governmental funds.	121
Deferred charges resulting from the refunding of outstanding certificates of participation are not available to pay for current-period expenditures and therefore, are expensed in the funds.	
Deferred amount on refunding	(332)
Underwriter's discount and cost of issuance	(66)
Net original issue premium	201
Internal service funds are used by management to charge the costs of equipment and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities.	(2,003)
Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:	
Compensated absences	(475)
Interest from monies held in restricted bank accounts	(5)
Interest from arbitrage rebate account	(419)
Change in net assets of governmental activities (page 29)	\$ 19,876

SANTA CLARA VALLEY WATER DISTRICT

Statement of Net Assets

Proprietary Funds

June 30, 2006

(Dollars in Thousands)

	Business-type Activity	Governmental Activities
	Water	Internal
	Enterprise Fund	Service Funds
ASSETS		
Current assets:		
Cash and investments (Note 3)	\$ 108,150	\$ 15,969
Restricted cash and investments (Note 3)	5,152	-
Receivables:		
Accounts	15,012	-
Interest	21	-
Taxes	132	-
Deposits and other assets	5,495	484
Total current assets	<u>133,962</u>	<u>16,453</u>
Non current assets:		
Capital assets: (Note 7)		
Contract water rights, net	55,186	-
Nondepreciable	17,059	-
Depreciable, net	492,574	5,424
Total non current assets	<u>564,819</u>	<u>5,424</u>
Total assets	<u>698,781</u>	<u>21,877</u>
LIABILITIES		
Current liabilities:		
Accounts payable	15,089	292
Accrued liabilities	11,162	150
Commercial paper, net of discount (Note 8a)	39,657	-
Deposits payable	5,288	-
Accrued interest payable	485	-
Claims payable	-	9,554
General obligation bonds - current (Note 8)	575	-
Revenue bonds - current (Note 8)	1,117	-
Total current liabilities	<u>73,373</u>	<u>9,996</u>
Non current liabilities:		
Long-term debt: (Note 8)		
General obligation bonds - non current	2,630	-
Revenue bonds (net of unamortized discount and deferred amount on refunding)	53,196	-
Other debt	8,512	-
Total non current liabilities	<u>64,338</u>	<u>-</u>
Total liabilities	<u>137,711</u>	<u>9,996</u>
NET ASSETS (Note 10)		
Investment in capital assets, net of related debt	412,458	5,424
Restricted for:		
Debt service	4,647	-
Restricted asset	5	-
Working capital	10,265	-
San Felipe operations	3,339	-
Rate stabilization	3,000	-
Unrestricted:	127,356	6,457
Total net assets	<u>561,070</u>	<u>\$ 11,881</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund	(2,816)	
Net assets of business-type activities	<u>\$ 558,254</u>	

SANTA CLARA VALLEY WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds For the Year Ended June 30, 2006 (Dollars in Thousands)

	Business-type Activity Water Enterprise Fund	Governmental Activities Internal Service Funds
Operating revenues:		
Ground water charges	\$ 40,675	\$ -
Treated water charges	66,614	-
Surface and recycled water charges	720	-
Operating grants	1,269	-
Charges for services	-	7,175
Total operating revenues	109,278	7,175
Operating expenses:		
Sources of supply	71,234	-
Water treatment	22,860	-
Transmission and distribution:		
Raw water	7,308	-
Treated water	1,128	-
Administration and general	17,796	2,091
Equipment maintenance	-	4,846
Insurance	-	2,984
Depreciation and amortization	11,096	1,297
Total operating expenses	131,422	11,218
Operating income (loss)	(22,144)	(4,043)
Nonoperating revenues (expenses):		
Property taxes	19,338	-
Investment income	3,086	479
Rental income	50	-
Other	3,173	19
Interest and fiscal agent fees	(4,867)	-
Net nonoperating revenues	20,780	498
Income before capital contributions and transfers	(1,364)	(3,545)
Capital contributions (Note 6)	1,407	-
Transfers out (Note 15)	(487)	(15)
Change in net assets	(444)	(3,560)
Net assets, beginning of year	561,514	15,441
Net assets, end of year	561,070	\$ 11,881
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.	(2,816)	
Net assets of business-type activities	\$ 558,254	

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

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

Net change in net assets - business-type activities	\$ (444)
Activity of internal service fund due from business-type activities	1,557
Change in net assets of business-type activities (page 29)	\$ (2,001)

SANTA CLARA VALLEY WATER DISTRICT

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2006 (Dollars in Thousands)

	Business-type Activity	Governmental Activities
	Water Enterprise Fund	Internal Service Funds
Cash flows from operating activities:		
Receipts from customers and users	\$ 109,174	\$ 6,762
Payments to suppliers	(66,127)	(5,105)
Payments to employees	(40,370)	(2,766)
Payments for internal services used	(2,677)	-
Net cash provided by operating activities	<u> </u>	<u>(1,109)</u>
Cash flows from noncapital financing activities:		
Property taxes received	19,330	-
Other receipts	3,173	19
Transfers out to other funds	(487)	(15)
Net cash provided by noncapital financing activities	<u>22,016</u>	<u>4</u>
Cash flows from capital and related financing activities:		
Principal payments on general obligation bonds	(1,360)	-
Principal payments on revenue bonds	(1,105)	-
Capital contribution received	1,407	-
Issuance of commercial paper	209	-
Interest and fiscal agent fees paid	(4,204)	-
Acquisition of contract water rights	(20,088)	-
Acquisition and construction of capital assets	(22,228)	(668)
Net cash used in capital and related financing activities	<u>(47,369)</u>	<u>(668)</u>
Cash flows from investing activities:		
Purchase of restricted investments	1,643	-
Rental income received	50	-
Interest received on cash and investments	3,092	479
Net cash provided by investing activities	<u>4,785</u>	<u>479</u>
Net decrease in cash and cash equivalents	<u>(20,568)</u>	<u>(1,294)</u>
Cash and cash equivalents, beginning of year	129,217	17,263
Cash and cash equivalents, end of year	<u>\$ 108,649</u>	<u>\$ 15,969</u>
Reconciliation to the combined balance sheet:		
Cash and investments	\$ 108,150	\$ 15,969
Restricted cash and investments	5,152	-
Less cash and investments not meeting the definition of cash equivalents	(4,653)	-
	<u>\$ 108,649</u>	<u>\$ 15,969</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (22,144)	\$ (4,043)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,096	1,297
Change in operating assets and liabilities:		
(Increase) in deposits and other assets	2,725	-
(Increase) in accounts receivable	(104)	-
(Increase) in prepaid asset	-	(413)
(Increase) in inventory	-	(35)
(Decrease) increase in accounts payable	8,538	205
(Decrease) increase in accrued liabilities	285	143
Increase in deposits payable	(396)	-
Increase in claims payable	-	1,737
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ (1,109)</u>

SANTA CLARA VALLEY WATER DISTRICT

Statement of Fiduciary Net Assets

Agency Funds

June 30, 2006

(Dollars in Thousands)

ASSETS

Cash and investments (Note 3)	\$	227
Due from other governments	\$	11
Total assets	\$	<u>238</u>

LIABILITIES

Accounts payable	\$	47
Deposits payable		191
Total liabilities	\$	<u>238</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements
For the Year Ended June 30, 2006

(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

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

The District is governed by a seven member Board of Directors. Five of the members are elected from the area of each of the five District supervisorial districts and two members are appointed from specific geographic areas by the Board of Supervisors to represent the District at large. The term of office for the directors is four years.

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

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

(b) Blended Component Unit

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

Component unit financial information can be obtained from the General Accounting Unit of the District at 5750 Almaden Expressway, San Jose, CA 95123.

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

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

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the government activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between the governmental and business-type activities have not been eliminated.

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

When both restricted and unrestricted net assets are available, restricted resources are used for qualified expenditures for capital improvement projects before any unrestricted resources are spent.

Fund Financial Statements

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

The District reports the following governmental funds:

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

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

- The *Watershed and Stream Stewardship Fund* is funded by the District's 1 percent property tax allocation and used to protect, restore, or enhance the watersheds, streams and natural resources therein.

The District's watershed funds are created according to geographic watersheds and their tributaries for the management of natural resources in a manner that fosters ecosystem health, improved water quality, flood protection, and compatible recreational opportunities.

- The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Los Altos Hills, Mountain View, and portions of Cupertino.
- The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.
- The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.
- The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.
- The *Uvas/Llagas Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Pajaro River in Santa Clara County. The major tributaries are Little Llagas Creek, Llagas Creek, the west branch of Llagas Creek, Uvas-Carnadero Creek, Pescadero Creek, and Pacheco Creek. The Uvas/Llagas Watershed Fund is comprised of mostly unincorporated area and includes the City of Gilroy and portions of the Cities of San Jose and Morgan Hill.
- The *Clean, Safe Creeks and Natural Flood Protection Program* is used to manage specific revenues and expenditures approved with the passage of Measure B in November 2000.
- The *COP Debt Service Fund* is used to account for monies being held for reserve requirements and arbitrage rebate for the District's debt payments.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

- The *COP Construction Fund* is used to account for COP proceeds used for the construction of major capital projects with their respective watersheds.

The District reports the following proprietary funds:

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

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

- The *Deposit Fund* is used to account for the collection and payment of expenditures for funds held in trust for specific restricted purposes.
- The *Santa Clara Valley Urban Runoff Prevention Program* is to account for monies held jointly with 13 other cities within the county to form the Santa Clara Valley Nonpoint Source Pollution Control (NPS) Program. The responsibility for managing the program was transferred to the City of Sunnyvale at June 30, 2005.

(b) Basis of Accounting

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes, benefit assessments, interest, grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences are recorded when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its business-type activities and enterprise fund, the District has elected, under Governmental Accounting Standard's Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The District has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

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

Proprietary fund *operating* revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Agency funds are used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Funds held in the Deposit Fund and in the Santa Clara Valley Urban Runoff Prevention Program Fund use the accrual method of accounting.

(c) Noncurrent Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide statement of net assets.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(d) Cash and Investments

While maintaining safety and liquidity, the District maximizes its investment return by pooling its available cash for investment purposes. Interest earnings are apportioned among funds based upon the average monthly cash balance of each fund and are allocated to each fund on a monthly basis.

The District reported investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, investments that mature beyond one year from the date of acquisition at fair value, and investments that mature within one year or less from the date of acquisition at amortized cost. The fair value of investments is based on current market prices.

For purposes of the Statement of Cash Flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased (including restricted investments), and their equity in the cash and investment pool to be cash equivalents.

(e) Inventory

Proprietary fund inventory consists of materials and supplies held for consumption. The cost of all inventory acquired is recorded as an expense at the time of purchase. At the end of the accounting period, the inventory values of materials and supplies on hand are determined using a current cost method which approximates market value. For financial statement purposes inventories are presented under deposits and other assets.

(f) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets of governmental activities include pipelines, channel linings, floodwalls, levees, bridge flood proofing, box culverts and revegetation. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Water treatment facilities	50 Years
Buildings, structures, and trailers	25 - 50 Years
Flood control projects	30 - 100 Years
Dams, structures, and improvements	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

(g) Amortization of Contract Water Rights

The District has contracted with the State for water deliveries from the State Water Project through calendar year 2035. A portion of the payments under this contract represent reimbursement of capital costs for transportation facilities (the capital cost component). The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

(h) Amortization of Water Banking Rights

The District has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides the District a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Water Enterprise Fund has capitalized the cost of the program and amortizes its cost over the 40 year entitlement period using the straight-line method.

(i) Receivables

Receivables include amounts due from water utility customers as well as amounts due for property taxes and interest on investments. All receivables are shown net of an allowance for doubtful accounts of \$6,000.

(j) Due from Other Governments

Amounts due from other governments represent amounts due from various government agencies for reimbursement of the District's expenditures/expenses in association with construction projects.

(k) Accrued Vacation and Sick Leave Pay

It is the policy of the District to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net assets.

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon termination, the eligible employees will be paid a portion of unused sick leave at the employee's base pay rate at the time of termination. The rate of unused sick leave varies with the length of service and the bargaining unit of the employee.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(l) Bond Premiums, Discounts and Issuance Costs

Water Enterprise bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Issuance costs are reported as deferred charges.

On the statement of net assets and the statement of activities the 2003A COP and 2004 COP premiums, as well as issuance costs, are deferred and amortized over the life of the certificates. COP payable are reported net of the applicable bond premium. Issuance costs are reported as deferred charges.

(m) Encumbrances

The District employs encumbrance accounting as a significant aspect of budgetary control. Under encumbrance accounting, purchase orders, contracts and other commitments for expenditure of funds are recorded as reservations of fund balance since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

(n) Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) CASH AND INVESTMENTS

Total District cash and investments at June 30, 2006 are as follows (in thousands):

Statement of Net Assets:	
Cash and investments	\$ 316,089
Restricted cash and investments	34,802
Statement of Fiduciary Net Assets:	
Cash and investments	227
	<u>\$ 351,118</u>

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

Investments

At June 30, 2006, cash and investments consist of the following (in thousands):

U.S. Treasury Obligations	\$ 18,638
U.S. Government Agencies	300,955
Medium Term notes	10,047
Local Agency Investment Fund	130
Guaranteed Investment Contracts	9,374
Santa Clara County Investment Pool	478
Mutual Funds	15,255
Money Market Funds	91
Certificates of Deposit	300
Total Investments	355,268
Carrying amount of cash (overdraft)	(4,150)
Total cash and investments	\$ 351,118

As of June 30, 2006, the District's investment in the State investment pool (LAIF) is \$130,000. The total amount invested by all public agencies in LAIF at that date is \$63.3 billion. Of that amount, 97.43 percent is invested in non-derivative financial products and 2.57 percent in asset-backed securities and structured notes. At June 30, 2006 these investments matured in an average of 152 days. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in LAIF.

As of June 30, 2006, the District's investment in the Santa Clara County Investment Pool (Pool) is \$478,000 which is restricted for interest and redemption of the 1973 general obligation bonds and the 1963 water utility bonds. The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool. Participants' equity in the Pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. The value of the District shares in the Pool, is determined on an amortized cost basis, which is different than the fair value of the District's position in the Pool. The District's investment in the Pool is stated at fair value, available upon demand and considered a cash equivalent.

Authorized Investments by the District

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District. The following also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This does not address the District's investments of debt proceeds held by fiscal agents that are governed by

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the Entity's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Government Agency Issues (A)	5 years	N/A	None	None
Bankers Acceptances	180 days	AA3	40%	12%
Commercial Paper	90 days	AA3	15%	12%
Negotiable Certificates of Deposit	1 year	AA3	30%	12%
Nonnegotiable Time Certificates of Deposit	1 year	N/A	5%	\$100,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA3	None	None
Medium Term Notes	3 years	AA3	15%	12%
Taxable Municipal Obligations	5 years	Aaa	None	12%
California Local Agency Investment Fund (B)	N/A	N/A	(B)	None
Mutual Funds	N/A	Aaa	10%	None
Money Market Account with Union Bank	N/A	N/A	None	12%

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America, the Tennessee Valley Authority and the Student Loan Marketing Association.

(B) LAIF will accept no more than \$40 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of the District's revenue bond resolutions and Installment Purchase Agreement for the 2000A & 2000B Certificates of Participation, 2000A & 2000B Water Utility Revenue Bonds, 2003A Certificates of Participation, and 2004A Certificates of Participation, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee. As of June 30, 2006, the amount invested in assets held by fiscal agent amounted to \$14.9 million for certificates of participation and \$4.7 million for revenue bonds and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

The District has construction and acquisition funds from the 2000A Certificates of Participation (COP) which is used to pay for the capital projects authorized by the COP. At June 30, 2006, the balance of this fund is \$4,005,000.

The District also has construction and acquisition funds from 2003A & 2004A Certificates of Participation. These funds are used to pay for the capital projects on flood control improvements authorized by the COP indenture. At June 30, 2006 the balance in these funds was \$10,604,000.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

Additionally, the District has issued the commercial paper to provide for the acquisition and construction of improvements to the District's Water Utility System. At June 30, 2006 the balance in the Commercial Paper Program was \$21,000.

Restricted Cash and Investments for Watershed Management Projects

The District has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements the District is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2006 the District's restricted deposits held in escrow for construction of the Guadalupe Watershed management projects amounted to \$77,000.

Authorized Investments by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District ordinances, bond indentures or State statutes. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
U.S. Treasury Obligations (A)	N/A	N/A
U.S. Agency Securities (B)	N/A	N/A
State Obligations (C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, bankers acceptances	365 days	A-1
FDIC Insured Deposit (D)	N/A	N/A
Money Market Funds	N/A	AAAm
Collateralized Repurchase Agreements (E)	N/A	A-1
Investment Agreements (F)	N/A	AAA
Investment Approved in Writing by the by the Certificate Insurer (G)	N/A	N/A

(A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMA's"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA's"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P.

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMC's with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(F) Investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P.

(G) Any investment approved in writing by the Certificate Insurer.

Interest Rate Risk

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the District's investments by maturity or earliest call date (in thousands):

	Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. Treasury Obligations	\$ 18,838	\$ 10,909	\$ 4,855	\$ 2,874	\$ -
U.S. Government Agencies	219,103	113,607	59,145	46,351	-
U.S. Government Agencies - Callable	81,852	16,695	37,750	27,407	-
Medium Term notes	10,047	4,971	5,076	-	-
Local Agency Investment Fund	130	130	-	-	-
Guaranteed Investment Contracts	9,374	-	-	-	9,374
SC County Investment Pool	478	478	-	-	-
Mutual Funds	15,255	15,255	-	-	-
Money Market Funds	91	91	-	-	-
Certificates of Deposit	300	300	-	-	-
Total Investments	\$ 355,268	\$ 162,436	\$ 106,826	\$ 76,632	\$ 9,374

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements and the actual rating as of June 30, 2006 for each investment type as provided by Standard and Poor's (in thousands):

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end		
				AAA	Aa2	Not Rated
U.S. Treasury Obligations	\$ 18,638	N/A	\$ 18,638	\$ -	\$ -	\$ -
U.S. Government Agencies	300,955	N/A	-	300,955	-	-
Medium Term notes	10,047	A	-	4,971	5,076	-
Local Agency Investment Fund	130	N/A	-	-	-	130
Guaranteed Investment Contracts	9,374	N/A	-	-	-	9,374
SC County Investment Pool	478	N/A	-	-	-	478
Mutual Funds	15,255	AAA	-	15,255	-	-
Money Market Funds	91	N/A	-	-	-	91
Certificates of Deposit	300	N/A	-	-	-	300
Total Investments	\$ 355,268		\$ 18,638	\$ 321,181	\$ 5,076	\$ 10,373

Concentration of Credit Risk

The District's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code. However, the District is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual District Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2006, those investments consisted of (in thousands):

Issuer	Investment Type	Reported Amount
District-Wide		
Federal Farm Credit Bank	U.S. Government Agency	\$22,418
Federal Home Loan Mortgage Corp.	U.S. Government Agency	53,819
Federal National Mortgage Association	U.S. Government Agency	72,847
Federal Home Loan Bank	U.S. Government Agency	130,267
Fund Level		
COP Debt Service Fund		
Westdeutsche Landesbank Girozentrale	Guaranteed Investment Contract	5,768
Federal National Mortgage Association	U.S. Government Agency	7,717
COP Construction Fund		
Federal National Mortgage Association	U.S. Government Agency	4,004
Federal Home Loan Bank	U.S. Government Agency	4,941
Water Enterprise Fund		
Sarco Coll Investments	Guaranteed Investment Contract	3,606

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the District's cash on deposit. All of the District's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the District's name.

(4) DUE FROM OTHER GOVERNMENTS

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. The following is a summary of amounts due from other governments for the fiscal year ended June 30, 2006 (in thousands):

State of California, Department of Water Resources	\$31,421
Natural Resources Conservation Service	10,907
State of California, Mandated Cost	<u>15</u>
Total	<u>\$42,343</u>

(5) REIMBURSEMENT OF CAPITAL COSTS

The District derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following is a summary of such reimbursements in 2005/06 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activity</u>
Local Agencies:		
City of San Jose	\$ 613	
City of Morgan Hill	211	
State Agencies:		
State of California	893	
State Water Resources Control Board	48	
Department of Water Resources		\$1,366
Federal Agencies:		
U. S. Department of Agriculture: Bureau of Reclamation		41
	<u> </u>	<u> </u>
Total	<u>\$1,765</u>	<u>\$1,407</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(6) INVESTMENT INCOME

The District earns income from the investment of cash not required for current expenditures. Beginning after June 15, 1997 the Governmental Accounting Standard Board issued GASB pronouncement number 31 to establish accounting and financial reporting standards for all investments. One provision of this standard was to report investments at fair value in the balance sheets. Because of this requirement, investment income must be adjusted upwards or downwards to reflect the fair value change from one fiscal year to the next fiscal year. In making the adjustment, the investment income earned directly by the investments is modified.

The following represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted investment income at June 30, 2006 (in thousands):

Fund:	Interest as Reported	FY 2006 GASB 31 Fair Value Adjustment	Interest Earned Before Adjustment
General	\$ 969	\$ (357)	\$ 1,326
Watershed & Stream Steward	441	(59)	500
Lower Peninsula Watershed	446	(200)	646
West Valley Watershed	224	(34)	258
Guadalupe Watershed	435	34	401
Coyote Watershed	1,106	(209)	1,315
Uvas/Liagas Watershed	80	(25)	105
Clean, Safe, Creek	1,287	(797)	2,084
COP Debt Service	916	-	916
COP Construction	455	-	455
Water Enterprise	3,086	(1,210)	4,296
Equipment	126	11	115
Risk Insurance	353	(127)	480
Total Interest	\$ 9,924	\$ (2,973)	\$ 12,897

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(7) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows (in thousands):

	Balance July 1, 2005	Additions	Deletions	Transfers / Reclassified	Balance June 30, 2006
Governmental Activities					
Nondepreciable capital assets:					
Land	\$105,786	\$ 299	\$ -	\$ 80	\$ 106,165
Construction in progress	328,624	45,045	(765)	(26,941)	345,963
Total nondepreciable capital assets	<u>434,410</u>	<u>45,344</u>	<u>(765)</u>	<u>(26,861)</u>	<u>452,128</u>
Depreciable capital assets:					
Buildings	37,180	-	-	293	37,473
Structures and improvements	387,719	-	-	21,930	409,649
Equipment:					
Governmental funds	10,603	229	-	4,538	15,470
Internal service funds	14,143	750	(246)	-	14,647
Total depreciable capital assets	<u>449,645</u>	<u>979</u>	<u>(246)</u>	<u>26,861</u>	<u>477,239</u>
Less accumulated depreciation					
Buildings	(4,142)	(746)	-	-	(4,888)
Structures and improvements	(35,291)	(4,010)	-	-	(39,301)
Equipment:					
Governmental funds	(4,757)	(1,188)	-	-	(5,945)
Internal service funds	(8,090)	(1,297)	164	-	(9,223)
Total accumulated depreciation	<u>(52,280)</u>	<u>(7,241)</u>	<u>164</u>	<u>-</u>	<u>(59,357)</u>
Net depreciable capital assets	<u>397,365</u>	<u>(6,262)</u>	<u>(82)</u>	<u>26,861</u>	<u>417,882</u>
Total capital assets, net	<u>\$831,775</u>	<u>\$ 39,082</u>	<u>\$ (847)</u>	<u>\$ -</u>	<u>\$ 870,010</u>
Business-type activity					
Nondepreciable capital assets:					
Land	\$ 17,059	\$ -	\$ -	\$ -	\$ 17,059
Construction in progress	210,587	27,526	(6,225)	(28,718)	203,170
Total nondepreciable capital assets	<u>227,646</u>	<u>27,526</u>	<u>(6,225)</u>	<u>(28,718)</u>	<u>220,229</u>
Depreciable capital assets:					
Contract water and storage rights	110,652	1,403	-	-	112,055
Buildings	28	-	-	-	28
Structures and improvements	401,535	-	-	23,655	425,190
Equipment	12,209	930	(6)	5,063	18,196
Total depreciable capital assets	<u>524,424</u>	<u>2,333</u>	<u>(6)</u>	<u>28,718</u>	<u>555,469</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(54,447)	(2,422)	-	-	(56,869)
Buildings	(5)	-	-	-	(5)
Structures and improvements	(140,619)	(7,478)	-	-	(148,097)
Equipment	(4,715)	(1,196)	3	-	(5,908)
Total accumulated depreciation and amortization	<u>(199,786)</u>	<u>(11,096)</u>	<u>3</u>	<u>-</u>	<u>(210,879)</u>
Net depreciable capital assets	<u>324,638</u>	<u>(8,763)</u>	<u>(3)</u>	<u>28,718</u>	<u>344,590</u>
Total capital assets, net	<u>\$552,284</u>	<u>\$ 18,763</u>	<u>\$ (6,228)</u>	<u>\$ -</u>	<u>\$ 564,819</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

During fiscal year 2005/06 new construction in progress expenditures increased by \$45.0 million in the governmental activities. The classification of those expenditures were: \$2.3 million to the general fund, \$34.0 million to the watersheds, and \$8.7 million to the Clean Safe Creek & Natural Flood Protection Fund. Eight-one projects were in progress during the fiscal year with the major project expenditures listed below (in millions):

- Pond A4 Tidal Wetland Site - \$2.1
- Coyote 10A Wetland Conversion - \$1.1
- Guadalupe river UPRR to 1880 - \$8.0
- Lower Silver Creek Reach 3 - \$7.0
- Lower Silver Creek (LERRDS) - \$4.4
- Calabazas Creek Miller to Wardell - \$1.1
- Guadalupe River Reach 6 - \$2.0
- Coyote Creek Montague/Hwy 280 - \$1.9

New construction in progress expense increased in the business-type activities by \$27.5 million. The upgrading of the District's water treatment plants continues to be the largest construction expense, with \$6.3 millions being spent on projects at the Penitencia Water Treatment Plant, \$4.2 million at the Santa Teresa Water Treatment Plant, and \$2.7 million at the Rinconada Water Treatment Plant. Additionally, \$2.5 million was expended on the Lenihan Dam Outlet Modifications.

Depreciation expense was charged to projects of the primary government as follows (in thousands):

General government	\$ 2,088
Watersheds	3,856
Capital assets held by the District's internal service funds are charged to the various functions based on their usage of assets.	<u>1,297</u>
Total depreciation expense – governmental activities	<u>\$ 7,241</u>
Total depreciation and amortization expense – business-type activity	
Water enterprise	<u>\$11,096</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(8) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the District Board of Directors authorized a commercial paper program for financing primarily Water Utility capital expenditures. The commercial paper program allows the District to finance capital expenditures while taking advantage of short term rates. This program will be used in conjunction with issuing long-term liabilities to obtain the least cost financing for the District. The authorized limit for fiscal year 2006 was \$100 million (\$20 million for taxable debt and \$80 million for tax-exempt debt). This limit may change from fiscal year to fiscal year. Lehman Brothers is the approved dealer for the commercial paper program.

The taxable debt portion of the commercial paper program is issued at a discount and the District pays the obligation in full at maturity. At June 30, 2006 taxable commercial paper issued was \$20 million with an interest rate of 5.30 percent, maturing November 2, 2006.

The outstanding non-taxable commercial paper at June 30, 2006 was \$20 million with interest rates of between 3.30 – 3.70 percent with a final maturity date of September 7, 2006.

The District's short-term debt outstanding consisted of the following, as of June 30, 2006 (in millions):

	<u>Authorized</u>	<u>Issued</u>	<u>Available</u>
Commercial Paper Program	\$100	\$40	\$60

SANTA CLARA VALLEY WATER DISTRICT
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2006

(b) Long-term liabilities

The District's long-term liabilities outstanding consisted of the following (in thousands):

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>June 30, 2006</u>	<u>Due Within One Year</u>
General long-term obligations					
Certificates of participation					
2000A Certificates of participation	2030	5 - 5.875%	\$ 80,000	\$ 71,840	\$ 1,550
2000B Certificates of participation	2030	5 - 5.75%	3,110	2,820	60
2003A Certificates of participation	2024	2 - 4.625%	85,715	79,995	4,165
2004A Certificates of participation	2024	2.5 - 5%	32,965	26,105	1,915
Compensated absences				11,558	2,517
Deferred amount on refunding				(5,867)	(332)
Premium on refunded debt				3,525	201
Total general long-term obligations				<u>\$ 189,075</u>	<u>\$ 10,076</u>
Enterprise Fund Debt					
1963 Water utility bonds - general obligation					
Series C	2008	4.6 - 5%	\$ 3,500	\$ 530	\$ 170
Series D	2012	2.25 - 7%	8,850	2,675	405
Total 1963 water utility - G.O.B.			<u>12,350</u>	<u>3,205</u>	<u>575</u>
2000A Water revenue bond	2031	3.9 - 5.125%	55,180	49,522	1,045
2000B Water revenue bond	2031	6.625 - 7.8%	5,175	4,791	72
Semitropic water banking agreement	2035		46,900	8,512	-
Total enterprise fund debt				<u>\$ 66,030</u>	<u>\$ 1,692</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

The following is a summary of changes in long-term liabilities as of June 30, 2006 (in thousands):

	Balance 07/01/2005	Additions	Reductions	Balance 06/30/2006	Due Within One Year
General Long-Term Obligations					
2000A COP	\$ 73,315	\$ -	\$ (1,475)	\$ 71,840	\$ 1,550
2000B COP	2,880	-	(60)	2,820	60
2003A COP	83,985	-	(3,990)	79,995	4,165
2004A COP	27,960	-	(1,855)	26,105	1,915
Compensated absences	11,083	5,777	(5,302)	11,558	2,517
Deferred amount on refunding	(6,199)	-	332	(5,867)	(332)
Premium on refunded debt	3,726	-	(201)	3,525	201
Total general long-term obligations	\$ 196,760	\$ 5,777	\$ (12,551)	\$ 189,976	\$ 10,076
Enterprise Fund Debt					
1963 Water Utility bonds	\$ 4,565	\$ -	\$ (1,360)	\$ 3,205	\$ 575
2000A revenue bonds	51,425	-	(1,035)	50,390	1,080
2000B revenue bonds	4,945	-	(70)	4,875	75
Discount amount on refunding	(991)	-	39	(952)	(38)
Semitropic water storage agreement	27,328	-	(18,816)	8,512	-
Total enterprise debt	\$ 87,272	\$ -	\$ (21,242)	\$ 66,030	\$ 1,692

The aggregate maturities of long-term debt are as follows (in thousands):

Year ending June 30:	Governmental activities		Business-type activity	
	Principal	Interest	Principal	Interest and amortization
2007	\$ 7,690	\$ 8,841	\$ 1,730	\$ 3,009
2008	8,050	8,494	1,810	2,928
2009	8,430	8,132	1,890	2,842
2010	8,770	7,777	1,795	2,834
2011	9,000	7,419	1,875	2,712
2012 - 2016	42,805	36,401	8,400	12,255
2017 - 2021	40,430	22,816	10,295	9,942
2022 - 2026	35,560	10,398	13,340	6,906
2027 - 2031	20,025	3,022	17,335	2,910
Total Requirements	\$ 180,780	\$ 113,300	58,470	\$ 48,398
Add: Semitropic water storage agreement			8,512	
Less unamortized discount and deferred amount on refunding			(952)	
Total principal outstanding at June 30, 2006			\$ 66,030	

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

Governmental Activities

The following provides a brief description of the District's debt for governmental activities outstanding as of June 30, 2006:

2000 Certificates of Participation

In March 2000 the District issued \$80,000,000 in Certificates of Participation, parity obligations Series 2000A (the 2000A Certificates) and \$3,110,000 in Certificates of Participation, subordinate obligations, Series 2000B (the 2000B Certificates) to pay the costs of improvements to the District's flood control systems. The District has pledged its flood control system's revenues to secure the semi-annual installments debt service payments.

2003 Certificates of Participation

In February 2003, the District issued \$85,715,000 of Refunding and Improvement Certificates of Participation. The proceeds of the 2003A Certificates were used to refinance \$76,445,000 of the 1994A Certificates of Participation and new certificates were issued to finance the cost of certain other flood control improvements. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment.

2004 Certificates of Participation

In January 2004, the District issued \$32,965,000 of Refunding and Improvement Certificates of Participation. The proceeds of the 2004A Certificates were used to refinance \$38,915,000 of the remaining 1994A Certificates of Participation and new certificates were issued to finance the cost of certain other flood control improvements. The District purchased a surety bond to fund the Debt Service Reserve Fund. The District has pledged its flood control system's revenue to secure the semi-annual installments of debt service payment.

Business-type Activity

The following provides a brief description of the District's debt for business-type activity outstanding as of June 30, 2006:

1963 Water Bonds

The Water Bonds are general obligations of the District. These bonds were issued pursuant to the provisions of Resolution No. W-1.8, adopted November 12, 1963. Proceeds from these bonds have been used for construction of a comprehensive water treatment and distribution system. Debt service payments are funded through ad valorem taxes on property.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

2000 Water Enterprise Revenue Bonds

In December 2000, the District issued \$55,180,000 in Revenue Bonds Series 2000A (the 2000A Revenue Bonds) and \$5,175,000 in Revenue Bonds Taxable Series 2000B (the 2000B Revenue Bonds) for the acquisition and construction of improvements to the District's Water Utility System. The District has pledged its net water utility system revenues to secure the annual installments debt service payments.

Semitropic Water Storage Agreement

In December 1995, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2006 the District has paid \$38.4 million towards the obligation of this agreement.

Compensated absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized. At the end of the each year all funds reimburse the general fund on a pro-rata basis of salary expense cost for the payment of these payouts.

Compliance with Bond Covenants

Resolutions associated with the District's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. The District believes it is in compliance with all significant covenants, limitations, and restrictions. At June 30, 2006, the contingent arbitrage liability arising from interest earnings is \$793 thousand for governmental activities and \$491 thousand in the Water Enterprise Fund. At June 30, 2006, the legal debt margin for short term notes was \$8 million.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(9) PROPERTY TAXES AND BENEFIT ASSESSMENTS

The District derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of three categories: (1) a 1 percent tax allocation; (2) voter approved levy to service the 1963 Water General Obligation bonds (G.O. bonds); and (3) voter approved levy to repay capital and operating costs related to State Water Projects. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks and Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

Property tax and benefit assessment revenue recorded for the year ended June 30, 2006 follows (in thousands):

	General Fund	Special Revenue Funds	Water Enterprise Fund
Property taxes:			
1% tax allocation	\$ 2,024	\$ 20,281	\$ 1,699
Special parcel tax	-	28,618	-
Voter approved indebtedness:			
State water	-	-	15,951
G.O. bonds	-	-	1,688
Total taxes	<u>2,024</u>	<u>48,899</u>	<u>19,338</u>
Benefit assessments	-	19,212	-
Total property taxes and benefit assessments	<u>\$ 2,024</u>	<u>\$ 68,111</u>	<u>\$ 19,338</u>

The County is responsible for the assessment, collection, and apportionment of property taxes for the District. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). The District is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for as collected and remitted by the District within the governmental fund revenues. The proprietary fund records property taxes as they are levied. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

The District has elected to participate in the "Teeter Plan" offered by the County whereby the District receives 100 percent of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(10) NET ASSETS/FUND BALANCES

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents net assets of the District, not restricted for any project or other purpose.

Reserved fund balance represents that portion which is not appropriable for expenditure or is legally segregated for a specific future use. As of June 30, 2006 the reserved fund balances in the governmental funds is \$56.6 millions. The remaining portion is unreserved.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, require further legal authorization and may not result in expenditures or expenses. The unreserved fund balances as of June 30, 2006 are \$161.4 million in the governmental funds.

Reservations and designations of governmental fund balances are reported in the fund financial statements of the accompanying basic financial statements.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

Restricted and designated proprietary fund net assets as of June 30, 2006 are represented below (in thousands):

	Water Enterprise Fund	Equipment Fund	Risk Management Fund
Restricted Net Assets			
Restricted for Debt Service	4,647	-	-
Restricted for Restricted Asset	5	-	-
Restricted for Working Capital	10,265	-	-
Restricted for San Felipe Operations	3,339	-	-
Restricted for Rate Stabilization	3,000	-	-
Sub-total Restricted Net Assets	21,256	-	-
Designated for Operations & Contingencies			
Designated for Encumbrances	\$ 14,372	\$ 899	\$ 129
Designated for Operating Contingencies	1,232	48	53
Designated for Supplemental Water Supply	589	-	-
Designated for Environmental Water Banking	921	-	-
Sub-total Designated for Operations & Contingencies	17,114	947	182
Designated for Capital Projects			
Designated for Capital Assets	3,418	-	-
Designated for Future Capital Projects	4,428	1,145	-
Sub-total for Designated for Capital Projects	7,846	1,145	-
Designated for Future Contingent Liabilities			
Designated for Central Valley Project	16,065	-	-
Designated for Self Insurance	-	-	4,183
Sub-total for Designated for Future Contingent Liabilities	16,065	-	4,183
Investment in Non-current Assets	498,789	5,412	12
Net Assets	\$ 581,070	\$ 7,504	\$ 4,377

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(11) EMPLOYEES' RETIREMENT PLAN

Plan Description

All permanent employees are eligible to participate in the miscellaneous plan with the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries based on member's years of service, age and final compensation. District employees vest after five years of service and are eligible to receive retirement benefits at age fifty. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District's ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Status and Progress

District employees are required to contribute 8.0 percent of their annual covered salary to CalPERS. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the District for fiscal year 2005/06 was 15.488 percent. In January 2003, the District amended its contract with CalPERS to include the enhanced retirement formula of 2.5% at 55. The District employees share 2.5% of the cost of this amended retirement plan. The contribution requirements of plan members are established by State statute and employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2005/06, the District's annual pension cost of \$11,293,022 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses) and (b) projected annual salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of CalPERS assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. All annual pension costs are paid upon receipt of invoices.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

THREE-YEAR TREND INFORMATION FOR CalPERS (Dollars in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/2004	4,063	100%	0
06/30/2005	9,385	100%	0
06/30/2006	11,293	100%	0

FUNDED STATUS OF PLAN (Dollars in Thousands)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability/ (Excess Assets) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	Unfunded (Overfunded) Actuarial Accrued Liability As a % of Payroll [(a)-(b)]/(c)
06/30/2003	\$243,620	\$215,412	\$28,208	100.0%	\$64,234	43.9%
06/30/2004	275,645	232,922	\$42,723	84.5%	70,007	61.0%
06/30/2005	306,652	257,849	\$48,803	84.1%	73,793	66.1%

(12) POST-EMPLOYMENT BENEFITS

The District provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses who meet the eligibility requirements and elect the option. For employees who retired prior to June 30, 1988 with at least 10 years of service, the District provides reimbursement of medical premiums of \$165 per month payable quarterly. For employees who retired after June 30, 1988, the District pays 100 percent of medical premiums provided the employee has 10 years of service with the District, the employee retires from the District at minimum age 50, and the employee is receiving a monthly allowance from PERS. For employees who retired after June 30, 1990, the District provides additional medical coverage for one dependent provided the employee has 15 years of service with the District and their dependent does not have coverage from a current employer. Benefits are recognized as claims are paid. For the year ended June 30, 2006, expenditures of \$2,631,000 were recognized for post-employment healthcare benefits, with 255 participants currently eligible to receive benefits. The post-employment healthcare benefits are paid by all funds based upon their portion of annual salary expense.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(13) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District reports all of its risk management activities in its Risk Management Internal Service Fund.

The District's deductibles and maximum coverage are as follows (in thousands):

Coverage Descriptions	Deductibles	Commercial Insurance Coverage
General liability	\$2,000	\$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	100	125,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) - Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	500,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2006, the liability for self-insurance claims was \$9,554,000. This liability is the District's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Changes in the reported liability since June 30, 2004 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2004	\$ 3,584	\$ 3,238	\$ 6,822
Current year premiums, incurred claims and changes in estimates	376	1,265	1,641
Net payments	(44)	(602)	(646)
Claims payable at June 30, 2005	<u>3,916</u>	<u>3,901</u>	<u>7,817</u>
Current year premiums, incurred claims and changes in estimates	52	2,569	2,621
Net payments	(128)	(756)	(884)
Claims payable at June 30, 2006	<u>\$ 3,840</u>	<u>\$ 5,714</u>	<u>\$ 9,554</u>

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(14) ADVANCES TO AND FROM OTHER FUNDS

The Uvas/Llagas Watershed advanced \$2.67 million to the Watershed and Stream Stewardship Fund to provide financing for the acquisition of property from the Land Trust for Santa Clara County. The Uvas/Llagas Watershed will receive interest on the outstanding balance of the advance based upon the average investment portfolio of the District. Repayment of the advance will occur based upon an annual payment schedule and will be complete by fiscal year 2006/07.

A summary of current advances to/from other funds, as of June 30, 2006, follows (in thousands):

<u>Advances to other fund</u>	<u>Advances from other fund</u>	<u>Amount</u>	<u>Due within one year</u>
Uvas/Llagas Watershed	Watershed & Stream Stewardship	\$667	\$667

The amounts listed above as due within one year can be found on the governmental fund balance sheet as due to other funds and due from other funds.

(15) TRANSFERS IN AND OUT

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) move debt proceeds held in the construction fund to the funds incurring the construction expense.

In the year ended June 30, 2006, \$16.3 million was transferred from the governmental funds to service debt payments; \$4.5 million was transferred from the COP construction fund to reimburse claims for qualified capital projects; \$13.4 million was transferred to reimburse capital costs; and \$0.4 million was transferred for the other operation matters.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

Interfund transfers for the year ended June 30, 2006, is as follows (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Watershed & Stream Stewardship	\$ 19
	Lower Peninsula Watershed	23
	West Valley Watershed	15
	Guadalupe Watershed	30
	Coyote Watershed	17
	Uvas/Llagas Watershed	6
	Clean Safe Creek & Natural Flood	24
	Water Enterprise	187
	Equipment Internal Service Fund	9
	Risk Management Internal Service Fund	6
	Watershed & Stream Stewardship	Lower Peninsula Watershed
West Valley Watershed		370
Guadalupe Watershed		4,040
Coyote Watershed		676
Uvas/Llagas Watershed		227
Lower Peninsula Watershed	Clean Safe Creek & Natural Flood	311
	COP Construction Fund	4,180
West Valley Watershed	Watershed & Stream Stewardship	17
	Clean Safe Creek & Natural Flood	379
	COP Construction Fund	317
Guadalupe Watershed	West Valley Watershed	5,000
	Clean Safe Creek & Natural Flood	615
Coyote Watershed	West Valley Watershed	7
	Clean Safe Creek & Natural Flood	1,338
Uvas/Llagas Watershed	West Valley Watershed	53
	Clean Safe Creek & Natural Flood	30
Clean Safe Creek & Natural Flood	Water Enterprise	300
COP Debt Service Fund	General Fund	772
	Lower Peninsula Watershed	3,825
	West Valley Watershed	2,361
	Guadalupe Watershed	4,958
	Coyote Watershed	3,766
	Uvas/Llagas Watershed	609
Total interfund transfers		\$ 34,607

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(16) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2006, the proprietary funds had open purchase commitments of approximately \$15.4 million related to new or existing contracts and agreements. Governmental funds had encumbrances of approximately \$26.2 million as reflected in the accompanying basic financial statements. These encumbrances represent commitments for the expenditure of funds and do not represent expenditures or liabilities. Additional commitments of \$10.8 million exist in the proprietary funds and \$4.8 million in the governmental funds which relate to capital projects and are not reflected as current encumbered amounts as they will be covered by the issuance of debt and not by current resources.

(b) State Water Project Water Deliveries

The District has contracted with the State for water deliveries from the State Water Project. Under the terms of the contract, the District secured rights to obtain 6,510,783 acre-feet of water, of which, 3,560,783 acre-feet of water have been allotted through June 30, 2006. The contract requires the District to reimburse the State for capital costs (including interest thereon) and minimum operating, maintenance, power, and replacement costs of the State Water Project transportation and conservation facilities. The State annually reestimates the District's total commitment for reimbursement of such costs.

A summary of the currently estimated remaining commitment to the State through 2035, is as follows (in thousands):

Transportation Charges:

Capital cost component, including principal and interest	\$80,418
Operations and maintenance	246,596
Delta water charges	76,700
Water revenue bond surcharges	32,793
Total State Water Project Commitment	<u>\$436,507</u>

(c) San Felipe Project Water Deliveries

The District has also contracted with the U.S. Department of the Interior for water deliveries from the San Felipe Project. Under the terms of the contract, the District secured rights to a minimum of 4,022,900 acre-feet of water, of which 2,005,402 acre-feet of water have been received through June 30, 2006. The contract requires the District to operate and maintain its share of the facilities. The estimated remaining commitment, for water purchases through 2027 total approximately \$96,351,000 as of June 30, 2006.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

(d) Participation Rights in Storage Facilities

In December 1995, the District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The District's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. The agreement terminates in December 2035.

The District pays the program capital costs when storing and recovering water. As of June 30, 2006 the District has paid \$38,338,000. During the first 10 years the District has a reservation for the full 35 percent allocation; but, by January 1, 2006 if the District's contribution towards the program capital costs do not equal \$46.9 million, the District's permanent storage allocation will be reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District has a storage allocation of 350,000 acre-feet and has been able to store 224,577 acre-feet in the program as of June 30, 2006. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$12,311,000 has been recorded through fiscal year 2006.

(17) CONTINGENCIES

(a) Litigation

The District is a defendant or co-defendant in a number of lawsuits for property damages and/or personal injuries. Although the outcome of the lawsuits is not presently determinable, counsel for the District has indicated that material losses, if any, arising from these lawsuits are adequately provided for under indemnification agreements or insurance coverage and therefore would not have a material effect on the June 30, 2006 basic financial statements.

(b) Grants and Subventions

The District has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

(c) Central Valley Project

On June 7, 1977, the District entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service provides for both agricultural operation and maintenance (O&M) and municipal and industrial (M&I) water deliveries to the District up to a total maximum annual entitlement of 152,500 acre-feet per year. The contract specified initial water rates for O&M and M&I water service and provided for periodic adjustments for the respective water rates in accordance with prevailing CVP water rate policies commencing in the year 1993 for the in-basin M&I rate component; 1996 for the agricultural O&M rate component; 2001 for the full

SANTA CLARA VALLEY WATER DISTRICT

Notes to Basic Financial Statements (Continued)

For the Year Ended June 30, 2006

agricultural water rate, and 2008 for the out-of-basin M&I rate component. The methodology of CVP water rate setting has historically recovered current year operating costs and the applicable construction costs over 50 years.

The District's initial CVP water rates were determined based on a November 1974 CVP water rate policy and estimated construction costs of the San Felipe Division. The actual construction costs of the San Felipe Division were significantly higher than the estimates used in the initial rate calculation, and changes in the Federal Reclamation Law during the 1980's have led to the development of new CVP water rate policies. As a result, the District is facing significant possible future CVP water rate increases because, under the terms of the District's CVP water service contract, the future rate adjustments must conform to prevailing water rate policies at the time of adjustment. Projected water rates include an estimated amount for future CVP water costs in accordance with the new CVP water rate policy.

In past years, to minimize the potential adverse effects of possible future CVP water rate increases, the District collected additional revenue through its water rates. The District has designated the related incremental portion of net assets of the Water Enterprise Fund as a designated for CVP amounting to \$16.1 million at June 30, 2006.

(d) Perchlorate

In 2003, an investigation performed under the direction of state water officials detected a chemical called perchlorate in several water wells in South County. Although the contamination is under the jurisdiction of the Central Coast Regional Water Quality Control Board, the District applied its significant resources to assess the extent of the perchlorate contamination. In addition to offering free well testing within the initial study area, the District's groundwater experts continue to provide technical assistance to the investigation. The responsibility for assessing the problem and cleaning up the contamination resided with the Olin Corporation. The District involvement is supporting local, state, and federal efforts to ensure a safe water supply and groundwater cleanup.

**Required
Supplemental
Information**

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual on a Budgetary Basis
Budgeted Governmental Funds
For the Year Ended June 30, 2006
(Dollars in Thousands)

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Property taxes	\$ 1,742	\$ 1,742	\$ 2,024	\$ 282
Benefit assessments	-	-	-	-
Use of money and property:				
Investment income	952	952	969	(17)
Rental	41	41	37	(4)
Reimbursement of capital costs	-	-	-	-
Other	-	-	333	333
Total revenues	2,735	2,735	3,363	594
Expenditures:				
Operating budget:				
Operations and operating projects	41,443	42,102	38,853	3,249
Debt service:				
Principal repayment	469	469	469	-
Interest and fiscal charges	304	304	305	(1)
Total operating budget	42,216	42,875	39,627	3,248
Capital budget:				
Capital improvement projects	4,955	18,455	3,281	15,174
Total expenditures	47,171	61,330	42,908	18,422
Excess (deficiency) of revenues over (under) expenditures	(44,436)	(58,595)	(39,545)	19,050
Other financing sources (uses):				
Intra-district overhead reimbursement	39,317	39,317	37,834	(1,483)
Repayment from advance to other funds	-	-	-	-
Repayment to advance to other funds	-	-	-	-
COP proceeds	-	2,496	-	(2,496)
Transfers in	555	555	336	(219)
Transfers out	-	-	-	-
Total other financing sources	39,872	42,368	38,170	(4,198)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	\$ (4,564)	\$ (16,227)	(1,375)	\$ 14,852
Fund balances, beginning of year			36,739	
Reconciliation of GAAP and budgetary basis:				
Less principal payment for advance to other funds			-	
Add principal payment for advance from other funds			-	
Less prior year budgetary basis expenditures			(1,857)	
Add current year budgetary basis encumbrances			2,366	
Fund balances, end of year			\$ 35,873	

Watershed & Stream Stewardship				Lower Peninsula Watershed			
Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 4,992	\$ 4,992	\$ 5,865	\$ 873	\$ 2,597	\$ 2,597	\$ 2,976	\$ 379
-	-	-	-	4,689	4,689	4,672	(17)
211	211	441	230	654	654	446	(208)
-	-	19	19	713	713	586	(127)
-	-	20	20	-	-	1	1
5,203	5,203	6,345	1,142	8,653	8,653	8,681	28
7,966	8,001	7,861	140	4,609	4,646	4,245	401
-	-	-	-	1,550	1,550	1,550	-
-	-	-	-	2,294	2,294	2,283	11
7,966	8,001	7,861	140	8,453	8,490	8,078	412
5,976	19,965	4,484	15,481	1,953	16,043	7,356	8,687
13,942	27,966	12,345	15,621	10,406	24,533	15,434	9,099
(8,739)	(22,763)	(6,000)	16,763	(1,753)	(15,880)	(6,753)	9,127
-	-	-	-	-	-	-	-
(720)	(720)	(720)	-	-	-	-	-
-	-	-	-	-	6,359	4,180	(2,179)
10,664	10,058	5,433	(4,625)	1,119	1,432	311	(1,121)
(22)	(22)	(43)	(21)	(5,119)	(5,139)	(5,122)	17
9,922	9,316	4,670	(4,646)	(4,000)	2,652	(631)	(3,283)
\$ 1,183	\$ (13,447)	(1,330)	\$ 12,117	\$ (5,753)	\$ (13,228)	(7,384)	\$ 5,844
		16,958				19,539	
		667				-	
		(205)				(68)	
		588				3,355	
		\$ 16,678				\$ 15,442	

See accompanying notes to required supplementary information.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual on a Budgetary Basis (Continued)
Budgeted Governmental Funds
For the Year Ended June 30, 2006
(Dollars in Thousands)

	West Valley Watershed			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Property taxes	\$ 2,861	\$ 2,861	\$ 3,296	\$ 435
Benefit assessments	2,969	2,969	2,941	(28)
Use of money and property:				
Investment income	290	290	224	(66)
Rental	85	85	66	(19)
Reimbursement of capital costs	-	-	-	-
Other	-	-	3	3
Total revenues	<u>6,205</u>	<u>6,205</u>	<u>6,530</u>	<u>325</u>
Expenditures:				
Operating budget:				
Operations and operating projects	5,148	5,433	5,419	14
Debt service:				
Principal repayment	1,079	1,079	1,079	-
Interest and fiscal charges	1,298	1,298	1,284	14
Total operating budget	<u>7,525</u>	<u>7,810</u>	<u>7,782</u>	<u>28</u>
Capital budget:				
Capital improvement projects	3,019	7,880	3,374	4,506
Total expenditures	<u>10,544</u>	<u>15,690</u>	<u>11,156</u>	<u>4,534</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,339)</u>	<u>(9,485)</u>	<u>(4,626)</u>	<u>4,859</u>
Other financing sources (uses):				
Intra-district overhead reimbursement	-	-	-	-
Repayment from advance to other funds	-	-	-	-
Repayment to advance to other funds	-	-	-	-
COP proceeds	-	5,567	317	(5,250)
Transfers in	1,467	1,847	396	(1,451)
Transfers out	(792)	(707)	(385)	322
Total other financing sources (uses)	<u>675</u>	<u>6,707</u>	<u>328</u>	<u>(6,379)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ (3,664)</u>	<u>\$ (2,778)</u>	<u>(4,298)</u>	<u>\$ (1,520)</u>
Fund balances, beginning of year			10,090	
Reconciliation of GAAP and budgetary basis:				
Less principal payment for advance to other funds			-	
Add principal payment for advance from other funds			-	
Less prior year budgetary basis expenditures			(93)	
Add current year budgetary basis encumbrances			828	
Fund balances, end of year			<u>\$ 6,527</u>	

Guadalupe Watershed				Coyote Watershed			
Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 2,625	\$ 2,625	\$ 3,192	\$ 567	\$ 3,318	\$ 3,318	\$ 4,090	\$ 772
6,285	6,285	6,210	(75)	4,693	4,693	4,649	(44)
912	912	435	(477)	1,532	1,532	1,106	(426)
723	723	684	(39)	31	31	58	27
7,713	-	276	276	-	-	1,106	1,106
-	-	89	89	-	-	66	66
<u>18,258</u>	<u>10,545</u>	<u>10,886</u>	<u>341</u>	<u>9,574</u>	<u>9,574</u>	<u>11,075</u>	<u>1,501</u>
5,919	5,919	5,664	255	5,656	5,691	5,414	277
2,447	2,447	2,447	-	1,466	1,466	1,466	-
2,550	2,550	2,516	34	2,471	2,471	2,304	167
<u>10,916</u>	<u>10,916</u>	<u>10,627</u>	<u>289</u>	<u>9,593</u>	<u>9,628</u>	<u>9,184</u>	<u>414</u>
9,427	19,614	16,943	2,671	709	38,069	18,365	17,704
<u>20,343</u>	<u>30,530</u>	<u>27,570</u>	<u>2,960</u>	<u>10,302</u>	<u>45,697</u>	<u>27,549</u>	<u>18,148</u>
<u>(2,085)</u>	<u>(19,985)</u>	<u>(16,684)</u>	<u>3,301</u>	<u>(728)</u>	<u>(36,123)</u>	<u>(16,474)</u>	<u>19,649</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	966	-	(966)	-	-	-	-
5,417	6,032	5,615	(417)	2,984	3,322	1,345	(1,977)
<u>(3,202)</u>	<u>(2,570)</u>	<u>(4,070)</u>	<u>(1,500)</u>	<u>(757)</u>	<u>(830)</u>	<u>(692)</u>	<u>138</u>
<u>2,215</u>	<u>4,428</u>	<u>1,545</u>	<u>(2,883)</u>	<u>2,227</u>	<u>2,492</u>	<u>653</u>	<u>(1,839)</u>
<u>\$ 130</u>	<u>\$ (15,557)</u>	<u>(15,139)</u>	<u>\$ 418</u>	<u>\$ 1,499</u>	<u>\$ (33,631)</u>	<u>(15,821)</u>	<u>\$ 17,810</u>
		18,558				45,852	
		(130)				(94)	
		5,190				3,803	
		<u>\$ 8,479</u>				<u>\$ 33,740</u>	

See accompanying notes to required supplementary information.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual on a Budgetary Basis (Continued)
Budgeted Governmental Funds
For the Year Ended June 30, 2006
(Dollars in Thousands)

	Llano / Llano Watershed			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Property taxes	\$ 694	\$ 694	\$ 862	\$ 168
Benefit assessments	765	765	740	(25)
Use of money and property:				
Investment income	81	81	81	-
Rental	40	40	1	(39)
Reimbursement of capital costs	-	-	11	11
Other	-	-	-	-
Total revenues	<u>1,580</u>	<u>1,580</u>	<u>1,695</u>	<u>115</u>
Expenditures:				
Operating budget:				
Operations and operating projects	2,485	2,520	2,406	114
Debris Service:				
Principal repayment	370	370	370	-
Interest and fiscal charges	244	244	241	3
Total operating budget	<u>3,099</u>	<u>3,134</u>	<u>3,017</u>	<u>117</u>
Capital budget:				
Capital improvement projects	201	692	218	474
Total expenditures	<u>3,300</u>	<u>3,826</u>	<u>3,235</u>	<u>591</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,720)</u>	<u>(2,246)</u>	<u>(1,540)</u>	<u>706</u>
Other financing sources (uses):				
Intra-district overhead reimbursement	-	-	-	-
Repayment from advance to other funds	720	720	720	-
Repayment to advance to other funds	-	-	-	-
COP proceeds	-	-	-	-
Transfers in	388	388	30	(358)
Transfers out	(239)	(239)	(233)	6
Total other financing sources (uses)	<u>869</u>	<u>869</u>	<u>517</u>	<u>(352)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ (851)</u>	<u>\$ (1,377)</u>	<u>(1,023)</u>	<u>\$ 354</u>
Fund balances, beginning of year			5,258	
Reconciliation of GAAP and budgetary basis:				
Less principal payment for advance to other funds			(667)	
Add principal payment for advance from other funds			-	
Less prior year budgetary basis expenditures			(32)	
Add current year budgetary basis encumbrances			43	
Fund balances, end of year			<u>\$ 3,579</u>	

Clean, Safe Creeks & Natural Flood Protection

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 28,456	\$ 28,456	\$ 28,618	\$ 162
-	-	-	-
1,012	1,012	1,287	275
20	20	82	62
100	100	372	272
-	-	72	72
<u>29,588</u>	<u>29,588</u>	<u>30,431</u>	<u>843</u>
7,085	7,254	7,378	(124)
-	-	-	-
<u>7,085</u>	<u>7,254</u>	<u>7,378</u>	<u>(124)</u>
11,253	50,062	19,400	30,662
18,338	57,316	26,778	30,538
<u>11,250</u>	<u>(27,728)</u>	<u>3,653</u>	<u>31,381</u>
-	-	-	-
-	-	-	-
-	-	-	-
300	300	300	-
(1,052)	(2,718)	(2,718)	-
<u>(752)</u>	<u>(2,418)</u>	<u>(2,418)</u>	-
\$ 10,498	\$ (30,146)	1,235	\$ 31,381
		59,093	
		-	
		-	
		(104)	
		7,867	
		<u>\$ 68,091</u>	

See accompanying notes to required supplementary information.

SANTA CLARA VALLEY WATER DISTRICT

Notes to Required Supplementary Information

For the Year Ended June 30, 2006

The District annually adopts a budget in June to be effective July 1 for the ensuing fiscal year. Annual appropriated budgets are adopted for the general fund, special revenue funds, and for all proprietary funds. The capital projects and debt service funds are not budgeted.

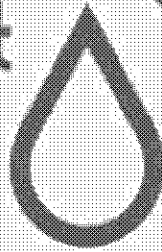
Legal budgetary (expenditure) control is established at the fund level, further controlled within the fund at the category level. The categories are defined as the operating budget (operations and maintenance, debt service, and operating projects) and the capital budget (capital improvement projects) in the budget and actual budgetary basis schedules. The amounts stated therein as proposed expenditures become appropriations to the various District organization units. The Board may amend the budget by motion during the fiscal year. The District Chief Executive Officer is authorized to transfer appropriations within budget categories by fund. All unencumbered appropriations for operations and maintenance, operating projects and debt service lapse at fiscal year-end. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated. Unexpended appropriations for capital projects are carried forward until project completion or termination.

The budget process is based upon accounting for certain transactions on a basis other than the Generally Accepted Accounting Principles (GAAP) basis. The results of operations are presented in the budget and actual schedules in accordance with the budgetary basis to provide a meaningful comparison with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

- Certain accruals (primarily accrued vacation and sick leave pay) are excluded from the budgetary basis because such amounts are budgeted on a cash basis.
- Year-end encumbrances are recognized as expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until incurred.
- Some operating transfers are not budgeted and therefore excluded from the budgetary basis.
- Certain budgeted debt service expenditures in special revenue funds are recorded as operating transfers out on a GAAP basis.
- Intra-district overhead reimbursement on a budgetary basis is reflected as a reimbursement of expenditures on a GAAP basis.
- Prior year operating encumbrances are not included in the budgetary basis schedules.

Reported budget amounts reflect the annual budget as originally adopted and as subsequently amended by the District Board of Directors. The budget amounts are based on estimates of the District's expenditures/expenses and the proposed means of financing them. Actual expenditures for capital items, as in the case of special revenue funds, may vary significantly from budget due to timing of such expenditures.

Santa Clara Valley
Water District



Water Enterprise Fund

**Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget and Actual on a Budgetary Basis**

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual on a Budgetary Basis Water Enterprise Fund For the Year Ended June 30, 2006 (Dollars in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 17,904	\$ 17,904	\$ 19,338	\$ 1,434
Intergovernmental services	4,153	4,153	2,676	(1,477)
Ground water charges	50,666	50,666	40,675	(9,991)
Treated water charges	68,197	68,197	66,614	(1,583)
Surface and reclaimed water charges	1,146	1,146	720	(426)
Investment income	2,487	2,487	3,086	599
Other	832	832	3,223	2,391
Total revenues	<u>145,385</u>	<u>145,385</u>	<u>136,332</u>	<u>(9,053)</u>
Expenditures:				
Current:				
Operations and operating projects	117,172	119,330	109,084	10,246
Debt Service:				
Principal repayment	2,548	2,548	2,548	-
Interest and fiscal charges	3,455	3,455	4,638	(1,183)
Capital outlay:				
Capital improvement projects	44,698	67,577	67,129	448
Total expenditures	<u>167,873</u>	<u>192,910</u>	<u>183,399</u>	<u>9,511</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(22,488)</u>	<u>(47,525)</u>	<u>(47,067)</u>	<u>458</u>
Other financing (uses):				
Commercial paper proceeds	13,500	16,426	1,115	(15,311)
Transfers out	(11,684)	(11,684)	(487)	11,197
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ (20,672)</u>	<u>\$ (42,783)</u>	<u>(46,439)</u>	<u>\$ (3,656)</u>
Net assets, beginning of year			561,514	
Reconciliation of GAAP and budgetary basis:				
Add GAAP basis expenses and other liabilities			17,738	
Less GAAP basis other financing sources			(1,115)	
Less depreciation and amortization expense not budgeted			(11,096)	
Add debt principal and GAAP basis accruals for interest payable			2,320	
Add capitalized expenditures			22,228	
Less prior year budgetary basis expenses			(8,017)	
Add current year budgetary basis encumbrances			23,937	
Net assets, end of year			<u>\$ 561,070</u>	

Internal Service Funds

The Internal Service Funds are similar to Enterprise Funds except that services are rendered to other District units rather than to the District's customers. This fund type consists of the Equipment Fund and the Risk Management Fund.

Equipment Fund - to account for the maintenance and operation of the District's vehicle fleet, heavy construction, and information system equipment. Financing is provided through rental charges to operations based upon usage.

Risk Management Fund - to account for the monies set aside to pay for all claims, judgments, and premium costs. Financing is provided through premiums charged to District operations.

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Net Assets

Internal Service Funds

June 30, 2006

(Dollars in Thousands)

	Equipment	Risk Management	Total
ASSETS			
Current assets:			
Cash and investments (Note 3)	\$ 2,345	\$ 13,624	\$ 15,969
Accounts receivable	-	-	-
Prepaid assets	-	413	413
Inventory	71	-	71
Total current assets	<u>2,416</u>	<u>14,037</u>	<u>16,453</u>
Noncurrent assets:			
Capital assets (Note 7)			
Depreciable assets	14,629	18	14,647
Accumulated depreciation	(9,217)	(6)	(9,223)
Total noncurrent assets	<u>5,412</u>	<u>12</u>	<u>5,424</u>
Total assets	<u>7,828</u>	<u>14,049</u>	<u>21,877</u>
LIABILITIES			
Current liabilities:			
Accounts payable	254	38	292
Accrued liabilities	70	80	150
Claims payable (Note 13)	-	9,554	9,554
Total liabilities	<u>324</u>	<u>9,672</u>	<u>9,996</u>
NET ASSETS			
Investment in capital assets, net of related debt	5,412	12	5,424
Unrestricted, designated for:			
Encumbrances	899	129	1,028
Operating contingencies	48	53	101
Specified purposes	-	4,183	4,183
Capital projects:			
Future capital projects	1,145	-	1,145
Total net assets	<u>\$ 7,504</u>	<u>\$ 4,377</u>	<u>\$ 11,881</u>

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Funds

For the Year Ended June 30, 2006

(Dollars in Thousands)

	Equipment	Risk Management	Total
Operating revenues:			
Vehicle service charges	\$ 2,049	\$ -	\$ 2,049
Computer equipment use charges	2,032	-	2,032
Self-insurance service charges	-	3,094	3,094
Total operating revenues	4,081	3,094	7,175
Operating expenses:			
Administration and general	-	2,091	2,091
Equipment maintenance	4,846	-	4,846
Insurance	-	2,984	2,984
Depreciation and amortization	1,296	1	1,297
Total operating expenses	6,142	5,076	11,218
Operating (loss)	(2,061)	(1,982)	(4,043)
Nonoperating revenues:			
Investment income	126	353	479
Other	4	15	19
Total nonoperating revenues	130	368	498
Income before transfers:	(1,931)	(1,614)	(3,545)
Transfers out	(9)	(6)	(15)
Change in net assets	(1,940)	(1,620)	(3,560)
Net assets, beginning of year	9,444	5,997	15,441
Net assets, end of year	\$ 7,504	\$ 4,377	\$ 11,881

SANTA CLARA VALLEY WATER DISTRICT

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2006

(Dollars in Thousands)

	Equipment	Risk Management	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 4,081	\$ 2,681	\$ 6,762
Payments to suppliers	(2,886)	(2,219)	(5,105)
Payments to employees	(1,735)	(1,031)	(2,766)
Net cash provided (used) by operating activities	(540)	(569)	(1,109)
Cash flows from noncapital financing activities:			
Other receipts	4	15	19
Transfers out to other funds	(9)	(6)	(15)
Net cash provided by noncapital financing activities	(5)	9	4
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(669)	1	(668)
Net cash (used) by capital and related financing activities	(669)	1	(668)
Cash flows from investing activities:			
Interest received on cash and investments	126	353	479
Net cash provided by investing activities	126	353	479
Net increase (decrease) in cash and cash equivalents	(1,088)	(206)	(1,294)
Cash and cash equivalents, beginning of year	3,433	13,830	17,263
Cash and cash equivalents, end of year	\$ 2,345	\$ 13,624	\$ 15,969
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (2,061)	\$ (1,982)	\$ (4,043)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,296	1	1,297
Change in operating assets and liabilities:			
(Increase) in prepaid assets	-	(413)	(413)
(Increase) in inventory	(35)	-	(35)
Increase (decrease) in accounts payable	197	8	205
Increase in accrued liabilities	63	80	143
Increase in claims payable	-	1,737	1,737
Net cash provided (used) by operating activities	\$ (540)	\$ (569)	\$ (1,109)

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Revenues, Expenses and Changes in
Fund Net Assets - Budget and Actual on a Budgetary Basis
Internal Service Funds
For the Year Ended June 30, 2006
(Dollars in Thousands)

	Equipment			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Investment income	\$ 108	\$ 108	\$ 126	\$ 18
Vehicle service charges	1,992	1,992	2,049	57
Computer equipment use charges	2,081	2,081	2,032	(49)
Gain on sale of fixed assets	75	75	3	(72)
Self-insurance service charges	-	-	-	-
Other	-	-	1	1
Total revenues	<u>4,256</u>	<u>4,256</u>	<u>4,211</u>	<u>(45)</u>
Expenditures:				
Current:				
Operations and operating projects	3,769	4,399	4,221	178
Capital equipment acquisition	910	2,256	2,210	46
Total expenditures	<u>4,679</u>	<u>6,655</u>	<u>6,431</u>	<u>224</u>
Other financing sources:				
Operating transfers out	(17)	(17)	(9)	8
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ (440)</u>	<u>\$ (2,416)</u>	<u>(2,229)</u>	<u>\$ (261)</u>
Net assets, beginning of year			9,444	
Reconciliation of GAAP and budgetary basis:				
Less depreciation and amortization expense not budgeted			(1,296)	
Add capitalized expenditures			750	
Add GAAP basis expense			-	
Less prior year budgetary basis expenses			(17)	
Add current year budgetary basis encumbrances			852	
Net assets, end of year			<u>\$ 7,504</u>	

Risk Management				Total			
Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 322	\$ 322	\$ 353	\$ 31	\$ 430	\$ 430	\$ 479	\$ 49
-	-	-	-	1,992	1,992	2,049	57
-	-	-	-	2,081	2,081	2,032	(49)
-	-	-	-	75	75	3	(72)
3,139	3,139	3,094	(45)	3,139	3,139	3,094	(45)
-	-	15	15	-	-	16	16
<u>3,461</u>	<u>3,461</u>	<u>3,462</u>	<u>1</u>	<u>7,717</u>	<u>7,717</u>	<u>7,673</u>	<u>(44)</u>
4,088	5,502	5,502	-	7,857	9,901	9,723	178
-	-	-	-	910	2,256	2,210	46
<u>4,088</u>	<u>5,502</u>	<u>5,502</u>	<u>-</u>	<u>8,767</u>	<u>12,157</u>	<u>11,933</u>	<u>224</u>
(11)	(11)	(6)	5	(28)	(28)	(15)	13
<u>\$ (638)</u>	<u>\$ (2,052)</u>	(2,046)	<u>\$ 6</u>	<u>\$ (1,078)</u>	<u>\$ (4,468)</u>	(4,275)	<u>\$ (255)</u>
		5,997				15,441	
		(1)				(1,297)	
		-				750	
		413				413	
		(108)				(125)	
		122				974	
		<u>\$ 4,377</u>				<u>\$ 11,881</u>	

Agency Funds

Agency funds are used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds.

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

Santa Clara Valley Urban Runoff Prevention Program - The District, Santa Clara County and 13 cities within the county jointly formed the Santa Clara Valley Nonpoint Source Pollution Control (NPS) Program in 1990, with the District functioning as program manager. The responsibility for the fund was transferred to the city of Sunnyvale at the end of fiscal year 2005. The final balance in fiscal year 2006 is a residual amount that was transferred during the year.

SANTA CLARA VALLEY WATER DISTRICT
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2006
(Dollars in Thousands)

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Deposit Fund				
Assets:				
Cash and investments (Note 3)	\$ 98	\$ 711	\$ 582	\$ 227
Due from other governments	23	137	149	11
Total assets	<u>\$ 121</u>	<u>\$ 848</u>	<u>\$ 731</u>	<u>\$ 238</u>
Liabilities:				
Accounts payable	\$ 18	\$ 426	\$ 397	\$ 47
Deposits payable	103	697	609	191
Total liabilities	<u>\$ 121</u>	<u>\$ 1,123</u>	<u>\$ 1,006</u>	<u>\$ 238</u>
Nonpoint Source Fund¹				
Assets:				
Cash and investments	\$ 6	\$ -	\$ 6	\$ -
Total assets	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ -</u>
Liabilities:				
Deposits payable	6	-	6	-
Total liabilities	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ -</u>
Total Agency Funds				
Assets:				
Cash and investments	\$ 104	\$ 711	\$ 588	\$ 227
Due from other governments	23	137	149	11
Total assets	<u>\$ 127</u>	<u>\$ 848</u>	<u>\$ 737</u>	<u>\$ 238</u>
Liabilities:				
Accounts payable	\$ 18	\$ 426	\$ 397	\$ 47
Deposits payable	109	697	615	191
Total liabilities	<u>\$ 127</u>	<u>\$ 1,123</u>	<u>\$ 1,012</u>	<u>\$ 238</u>

¹As of 06/30/2005 the responsibility of the Nonpoint Source Fund was transferred to the City of Summyvale. The remaining balance is a residual amount which was transferred in fiscal year 2006.

Capital Assets Used in the Operation of Governmental Funds

Land, improvements to land, buildings, and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period.

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Schedule By Source¹
June 30, 2006
(Dollars in Thousands)

Governmental activities capital assets:

Land	\$ 106,165
Buildings	37,473
Structures and improvements	409,649
Equipment	15,470
Construction in process	345,963
Total governmental funds capital assets	<u>\$ 914,720</u>

Investments in governmental funds capital assets by source:

General fund	\$ 81,830
Special revenue funds:	
Watershed & Stream Stewardship	16,214
Lower Peninsula Watershed	136,334
West Valley Watershed	90,364
Guadalupe Watershed	298,986
Coyote Watershed	204,381
Uvas/Llagas Watershed	49,630
Clean Safe Creeks	36,981
Total governmental funds capital assets	<u>\$ 914,720</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity¹
June 30, 2006
(Dollars in Thousands)

Function and Activity	Land	Buildings	Structures and Improvements	Equipment	Construction In Progress	Total
CEO Support Operations						
Chief Executive Office	\$ -	\$ -	\$ -	\$ 408	\$ -	\$ 408
Public Affairs	-	-	-	17	-	17
Watershed Operations						
Chief Operating Office	-	-	-	2,859	-	2,859
Watershed Management Division						
Watershed Business Management	-	-	-	94	-	94
Watershed Planning	-	-	-	12	-	12
Lower Peninsula/West Valley Mgmt.	-	-	-	9	-	9
Guadalupe Watershed Mgmt.	-	-	-	94	-	94
Coyote & Uvas/Llagas Mgmt.	-	-	-	13	-	13
Capital Program Services Division						
Capital Program Services Departments	-	-	-	180	-	180
Water Utility Enterprise Operations						
Chief Operating Office	-	-	-	3	-	3
Water Utility Enterprise	-	-	-	70	-	70
Administration						
Chief Administrative Office	-	-	-	219	-	219
Clerk Of The Board	-	-	-	5	-	5
Financial Services Division						
Office of Administrative Services	-	-	-	52	-	52
Business And Finance Program	-	-	-	1,519	-	1,519
Information Management Division						
Information Management Division	-	-	-	18	-	18
Information Mgmt. Support Departments	-	-	-	1,877	-	1,877
General Services Division						
Technical Services Division	-	-	-	12	-	12
Technical Services Support Division	-	-	-	1,024	-	1,024
Human Resources Program						
Human Resources Program	-	-	-	61	-	61
Other:						
District-wide property	<u>106,165</u>	<u>37,473</u>	<u>409,649</u>	<u>6,924</u>	<u>345,963</u>	<u>906,174</u>
Total capital assets	<u>\$ 106,165</u>	<u>\$ 37,473</u>	<u>\$ 409,649</u>	<u>\$ 15,470</u>	<u>\$ 345,963</u>	<u>\$ 914,720</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

SANTA CLARA VALLEY WATER DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity¹
For the Year Ended June 30, 2006
(Dollars in Thousands)

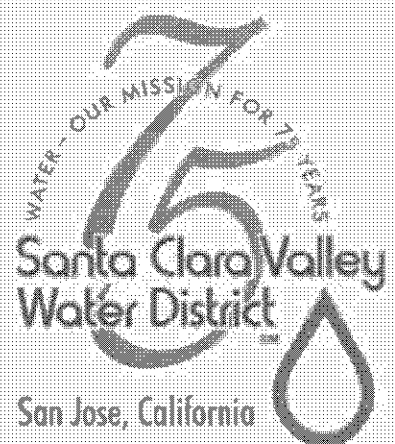
Function and Activity	Governmental Funds Capital Assets July 1, 2005	Additions	Deductions	Governmental Funds Capital Assets June 30, 2006
CEO Support Operations				
Chief Executive Office	\$ 408	\$ -	\$ -	\$ 408
Public Affairs	17	-	-	17
Watershed Operations				
Chief Operating Office	2,859	-	-	2,859
Watershed Management Division				
Watershed Business Management	94	-	-	94
Watershed Planning	12	-	-	12
Lower Peninsula/West Valley Mgmt.	9	-	-	9
Guadalupe Watershed Mgmt.	45	49	-	94
Coyote & Uvas/Llagas Mgmt.	13	-	-	13
Capital Program Services Division				
Capital Program Services Departments	180	-	-	180
Water Utility Enterprise Operations				
Chief Operating Office	-	3	-	3
Water Utility Enterprise	70	-	-	70
Administration				
Chief Administrative Office	219	-	-	219
Clerk Of The Board	5	-	-	5
Financial Services Division				
Office of Administrative Services	-	52	-	52
Business And Finance Program	1,519	-	-	1,519
Information Management Division				
Information Management Division	18	-	-	18
Information Mgmt. Support Departments	1,799	78	-	1,877
General Services Division				
Technical Services Division	12	-	-	12
Technical Services Support Division	978	46	-	1,024
Human Resources Program				
Human Resources Program	60	1	-	61
Other:				
District-wide property	861,595	72,285	(27,706)	906,174
	<u>\$ 869,912</u>	<u>\$ 72,514</u>	<u>\$ (27,706)</u>	<u>\$ 914,720</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.



**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

Statistical Section



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SANTA CLARA VALLEY WATER DISTRICT

Statistical Section

This part of the District's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the District's overall financial health.

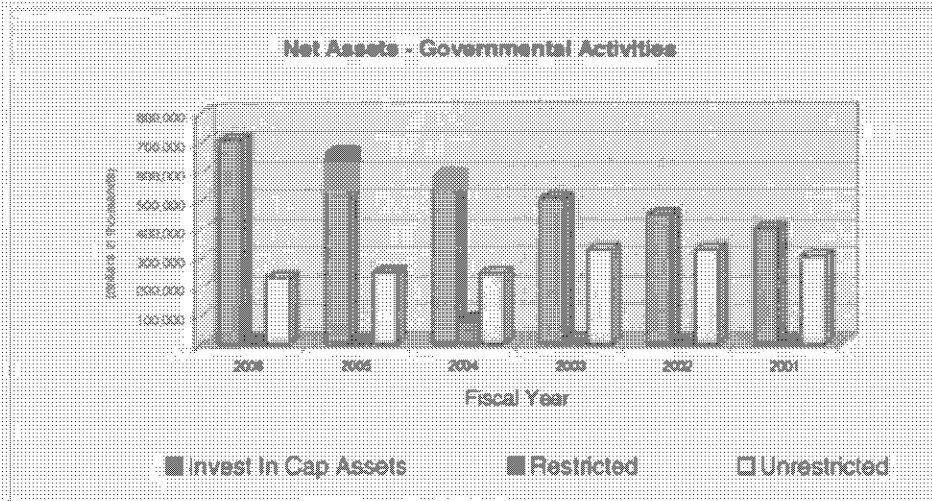
<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	100
Revenue Capacity These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.	108
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.	115
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	121
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	123

The District implemented GASB Statement No. 34 in fiscal year 2000/01; schedules presenting government-wide information include information beginning in that year.

The District implemented GASB Statement No. 44 in fiscal year 2005/06; newly required schedules presenting information in the Statistical Section beginning in that year.

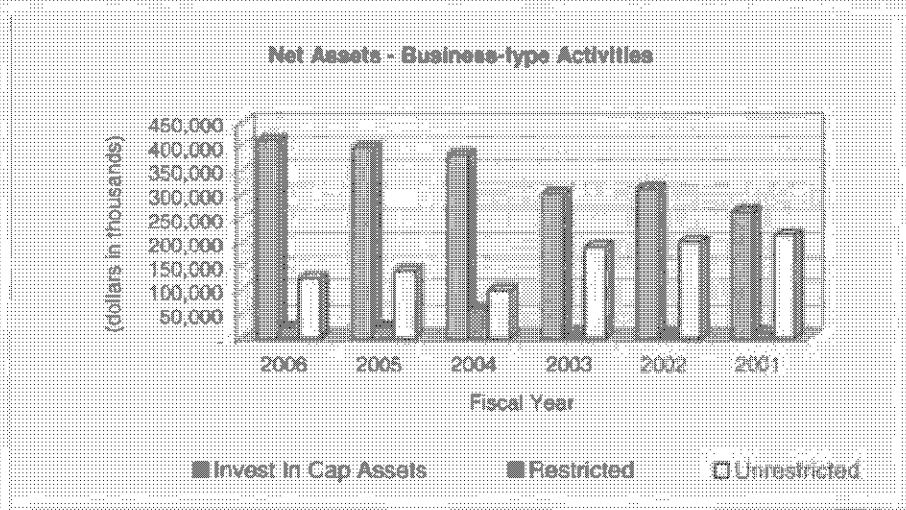
Santa Clara Valley Water District
Net Assets by Component
Last Six Fiscal Years
(accrual basis of accounting)
(dollars in thousands)

	2006	2005	2004
Governmental activities			
Investment in capital assets, net of related debt	\$ 706,201	\$ 664,735	\$ 587,667
Restricted	11,447	10,661	81,137
Unrestricted	228,844	251,220	243,841
Total governmental activities net assets	\$ 946,492	\$ 926,616	\$ 912,645
Business-type activities			
Investment in capital assets, net of related debt	\$ 412,458	\$ 397,271	\$ 382,192
Restricted	21,256	22,939	59,138
Unrestricted	124,540	140,045	100,240
Total business-type activities net assets	\$ 558,254	\$ 560,255	\$ 541,570
Primary government			
Investment in capital assets, net of related debt	\$ 1,118,659	\$ 1,062,006	\$ 969,859
Restricted	32,703	33,600	140,275
Unrestricted	353,384	391,265	344,081
Total primary government net assets	\$ 1,504,746	\$ 1,486,871	\$ 1,454,215



Source: Santa Clara Valley Water District General Accounting Unit

2003	2002	2001
\$ 505,218	\$ 448,045	\$ 403,384
16,289	14,168	13,848
328,336	328,714	304,507
<u>\$ 849,843</u>	<u>\$ 790,927</u>	<u>\$ 721,739</u>
\$ 300,872	\$ 312,023	\$ 264,871
12,442	11,925	12,109
190,843	200,314	216,504
<u>\$ 504,157</u>	<u>\$ 524,262</u>	<u>\$ 493,484</u>
\$ 806,090	\$ 760,068	\$ 668,255
28,731	26,093	25,957
519,179	529,028	521,011
<u>\$ 1,354,000</u>	<u>\$ 1,315,189</u>	<u>\$ 1,215,223</u>



Santa Clara Valley Water District
Change in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)
(dollars in thousands)

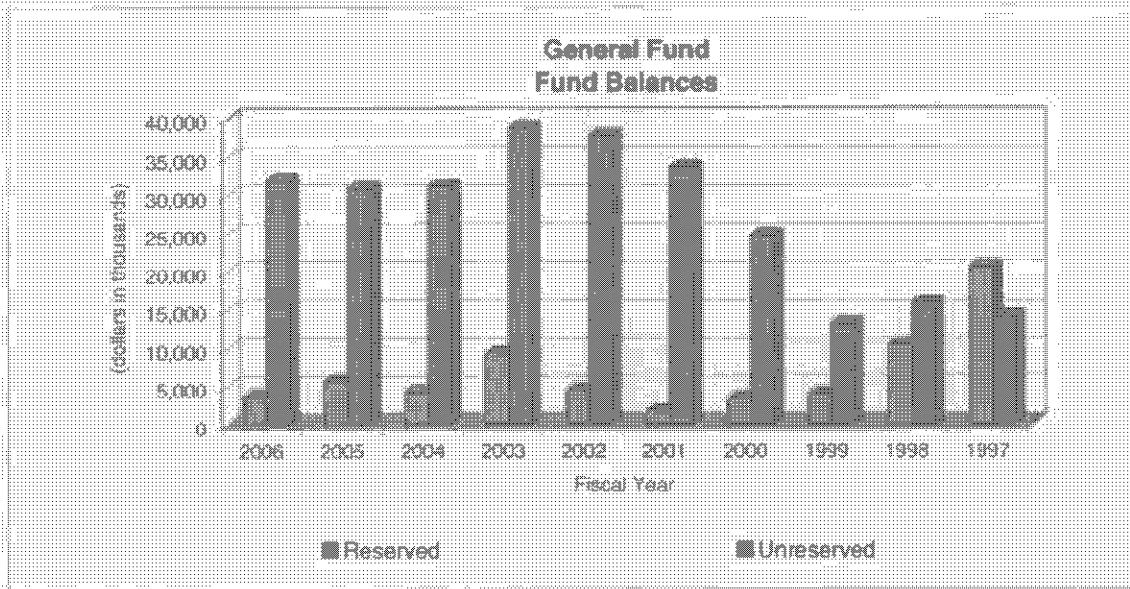
	2006	2005	2004
Expenses			
Governmental activities:			
General government:			
Watersheds	\$ 7,149	\$ 4,846	\$ 15,553
Interest on long-term debt	48,406	46,188	34,033
Total governmental activities expenses	9,344	11,735	8,406
Business-type activities:			
Water enterprise	64,899	62,769	57,992
Total primary government expenses	<u>\$ 137,846</u>	<u>\$ 115,340</u>	<u>\$ 104,752</u>
	<u>\$ 202,745</u>	<u>\$ 178,109</u>	<u>\$ 162,744</u>
Program Revenues			
Governmental activities:			
Capital grants and contributions	\$ 24,613	\$ 19,135	\$ 40,936
Business-type activities:			
Charges for services	108,009	104,831	108,565
Operating grants and contributions	1,269	2,039	3,412
Capital grants and contributions	1,407	313	6,304
Total business-type activities program revenues	<u>110,685</u>	<u>107,183</u>	<u>118,281</u>
Total primary government program revenues	<u>\$ 135,298</u>	<u>\$ 126,318</u>	<u>\$ 159,217</u>
Net (expense)/revenue			
Governmental activities	\$ (40,286)	\$ (43,634)	\$ (17,056)
Business-type activities	(27,161)	(8,157)	13,529
Total primary government net expense	<u>\$ (67,447)</u>	<u>\$ (51,791)</u>	<u>\$ (3,527)</u>
General Revenues and Other Changes in Net Assets			
Governmental activities:			
Property taxes	\$ 50,923	\$ 46,396	\$ 65,954
Unrestricted investment earnings	6,616	9,188	7,501
Miscellaneous	2,136	2,408	3,383
Transfers	487	(387)	3,020
Total governmental activities	<u>60,162</u>	<u>57,605</u>	<u>79,858</u>
Business-type activities:			
Property taxes	19,338	20,085	19,548
Unrestricted investment earnings	3,086	3,614	2,369
Miscellaneous	3,223	2,756	4,987
Transfers	(487)	387	(3,020)
Total business-type activities	<u>\$ 25,160</u>	<u>\$ 26,842</u>	<u>\$ 23,884</u>
Change in Net Assets			
Governmental activities	\$ 19,876	\$ 13,971	\$ 62,802
Business-type activities	(2,001)	18,685	37,413
Total primary government	<u>\$ 17,875</u>	<u>\$ 32,656</u>	<u>\$ 100,215</u>

Source: Santa Clara Valley Water District General Accounting Unit

2003	2002	2001
\$ 7,393	\$ 3,906	\$ 9,269
32,734	30,801	20,614
11,847	12,516	11,460
<u>51,974</u>	<u>47,223</u>	<u>41,343</u>
105,871	95,643	81,962
<u>\$ 157,845</u>	<u>\$ 142,866</u>	<u>\$ 123,305</u>
\$ 29,149	\$ 27,833	\$ 22,427
94,551	93,669	68,570
2,220	1,974	2,310
1,505	102	902
<u>98,276</u>	<u>95,745</u>	<u>91,782</u>
<u>\$ 127,425</u>	<u>\$ 123,578</u>	<u>\$ 114,209</u>
\$ (22,825)	\$ (19,390)	\$ (18,916)
(7,595)	102	9,820
<u>\$ (30,420)</u>	<u>\$ (19,288)</u>	<u>\$ (9,096)</u>
\$ 64,895	\$ 61,780	\$ 32,916
14,634	22,035	27,986
1,810	1,366	1,614
354	3,397	-
<u>81,893</u>	<u>88,578</u>	<u>62,516</u>
16,239	13,865	14,447
7,281	12,104	15,370
1,068	8,104	441
(354)	(3,397)	-
<u>\$ 24,234</u>	<u>\$ 30,578</u>	<u>\$ 30,258</u>
\$ 59,068	\$ 69,188	\$ 43,600
16,639	30,778	40,078
<u>\$ 75,707</u>	<u>\$ 99,966</u>	<u>\$ 83,678</u>

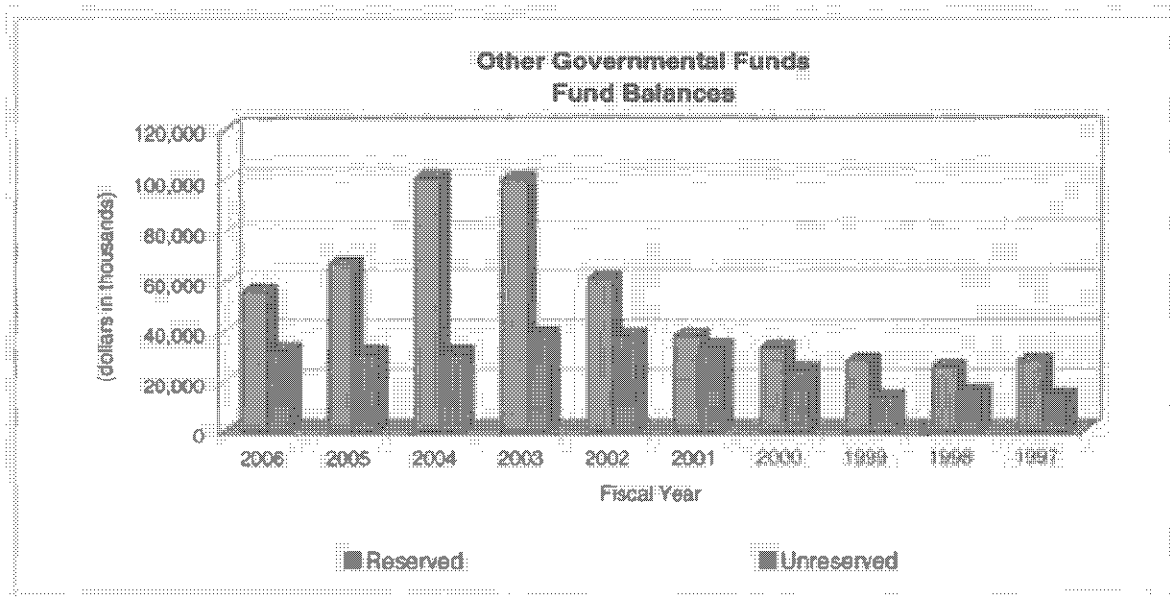
Santa Clara Valley Water District
Fund Balances of Governmental Funds
Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (dollars in thousands)

	2006	2005	2004	2003
General Fund				
Reserved	\$ 3,742	\$ 5,645	\$ 4,338	\$ 9,269
Unreserved	32,131	31,094	31,284	38,788
Total general fund	\$ 35,873	\$ 36,739	\$ 35,622	\$ 48,057
All other governmental funds				
Reserved, reported in				
Special revenue funds	\$ 26,232	\$ 34,053	\$ 63,322	\$ 79,747
Capital project fund	14,609	18,651	21,553	-
Debt service fund	14,964	14,270	16,021	20,558
Unreserved, reported in:				
Special revenue funds	126,304	141,295	170,474	174,622
Capital project fund	-	-	-	31,042
Total all other governmental funds	\$ 182,109	\$ 208,269	\$ 271,370	\$ 305,969



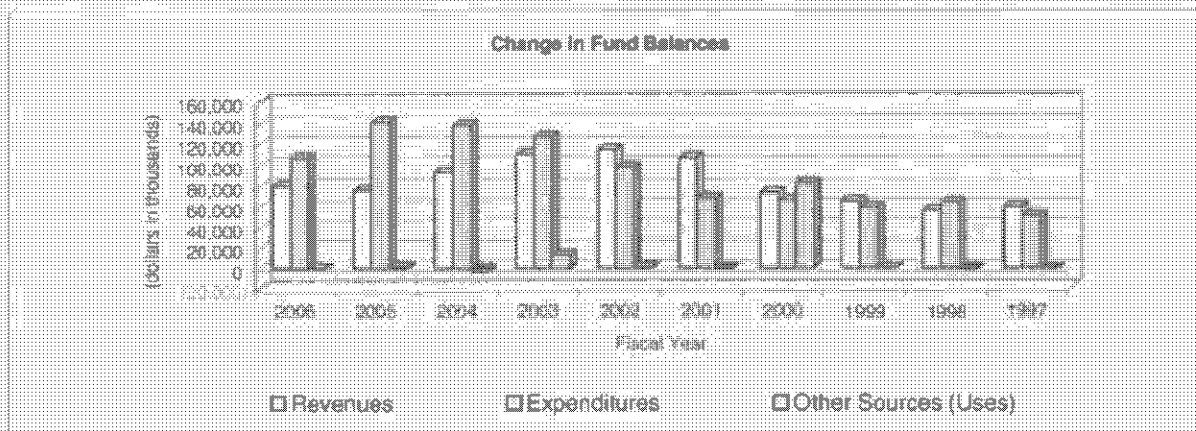
Source: Santa Clara Valley Water District General Accounting Unit

2002	2001	2000	1999	1998	1997
\$ 4,435	\$ 1,686	\$ 3,435	\$ 3,997	\$ 10,360	\$ 20,615
37,825	33,709	24,754	13,248	15,830	14,212
\$ 42,260	\$ 35,395	\$ 28,189	\$ 17,245	\$ 26,190	\$ 34,827
\$ 18,909	\$ 20,104	\$ 16,047	\$ 17,241	\$ 14,828	\$ 17,049
41,628	17,730	17,232	10,947	10,950	10,950
216,169	210,672	172,995	142,241	124,710	118,905
37,985	47,802	58,375	15,337	20,288	22,608
\$ 314,691	\$ 296,308	\$ 264,649	\$ 185,766	\$ 170,776	\$ 169,512



Santa Clara Valley Water District
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (dollars in thousands)

	2006	2005	2004	2003
Revenues				
Property taxes	\$ 50,923	\$ 46,396	\$ 65,954	\$ 64,895
Benefit assessments	19,212	19,187	19,234	19,161
Intergovernmental services	-	-	-	-
Use of money and property:				
Investment income	6,360	7,537	5,666	14,942
Rental	1,533	1,463	1,436	1,100
Reimbursement of capital costs	1,765	1,171	365	9,626
Other	584	912	1,925	1,385
Total Revenues	80,377	76,666	94,580	111,109
Expenditures				
Operations and operating project	41,707	42,974	47,469	37,529
Capital improvement projects	49,685	80,011	78,835	64,831
Debt Service:				
Principal repayment	7,380	7,125	2,670	12,683
Interest and fiscal charges	9,133	10,716	9,274	12,219
Total expenditures	107,905	140,826	138,248	127,262
Excess of revenues over (under) expenditures	(27,528)	(64,160)	(43,668)	(16,153)
Other financing sources (uses)				
Transfers in	34,607	33,039	42,640	31,536
Transfers out	(34,105)	(30,863)	(40,206)	(31,866)
Proceeds from issuance of debt	-	-	32,965	85,715
Payment to refunded bond escrow agent	-	-	(40,738)	(74,294)
Net original issue premium	-	-	1,973	2,137
Sale of asset	-	-	-	-
Total other financing sources (uses)	502	2,176	(3,366)	13,228
Net change in fund balances	(27,026)	(61,984)	(47,034)	(2,925)
Debt service as a percentage of non-capital expenditures	28.4%	29.3%	20.1%	39.9%



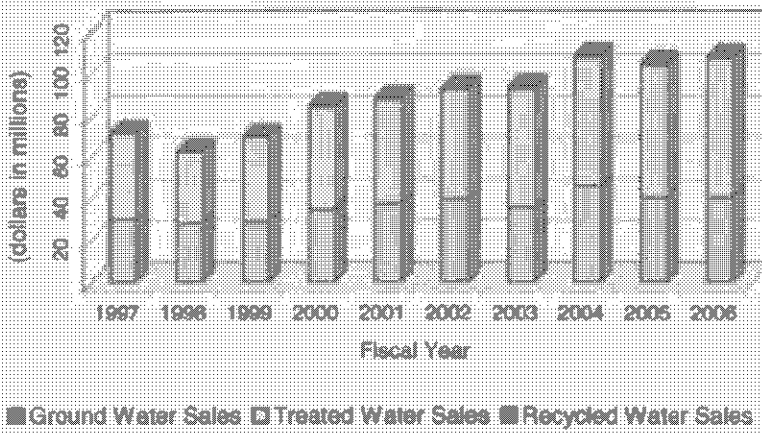
Source: Santa Clara Valley Water District General Accounting Unit

2002	2001	2000	1999	1998	1997
\$ 61,780	\$ 32,916	\$ 21,869	\$ 19,591	\$ 17,831	\$ 16,673
19,141	19,137	24,844	25,711	23,184	23,341
69	1,226	1,023	82	51	112
22,342	26,064	11,240	9,613	12,673	12,068
1,045	903	954	855	746	714
9,775	26,696	13,355	8,965	2,152	6,715
814	501	378	213	161	261
<u>114,966</u>	<u>107,443</u>	<u>73,663</u>	<u>65,030</u>	<u>56,798</u>	<u>59,884</u>
32,175	26,417	24,200	28,858	28,488	16,491
49,937	25,424	30,028	19,403	24,263	24,199
5,160	5,180	3,515	3,360	3,205	3,070
<u>11,657</u>	<u>11,297</u>	<u>6,813</u>	<u>7,687</u>	<u>7,840</u>	<u>7,980</u>
<u>98,929</u>	<u>68,318</u>	<u>66,556</u>	<u>59,308</u>	<u>63,796</u>	<u>51,740</u>
16,037	39,125	7,107	5,722	(6,998)	8,144
52,631	29,924	60,281	16,909	13,921	30,500
(50,712)	(30,184)	(60,671)	(17,662)	(14,444)	(30,720)
-	-	83,110	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,076	-	-
<u>1,919</u>	<u>(260)</u>	<u>82,720</u>	<u>323</u>	<u>(523)</u>	<u>(220)</u>
17,956	38,865	89,827	6,045	(7,521)	7,924
34.3%	38.4%	33.7%	27.7%	27.9%	40.1%

**Santa Clara Valley Water District
Water Sales by Category
Last Ten Fiscal Years
(dollars in thousands)**

Fiscal Year	Ground Water Sales	Treated Water Sales	Surface & Recycled Water Sales	Total Water Sales
1997	\$ 29,727	\$ 42,040	\$ 260	\$ 72,027
1998	28,044	34,662	242	62,948
1999	28,779	41,015	247	70,041
2000	35,033	49,090	465	84,588
2001	37,669	49,982	919	88,570
2002	39,901	53,055	713	93,669
2003	36,004	57,007	1,540	94,551
2004	46,143	61,688	734	108,565
2005	40,798	63,219	814	104,831
2006	40,675	66,614	720	108,009

Water Sales by Category



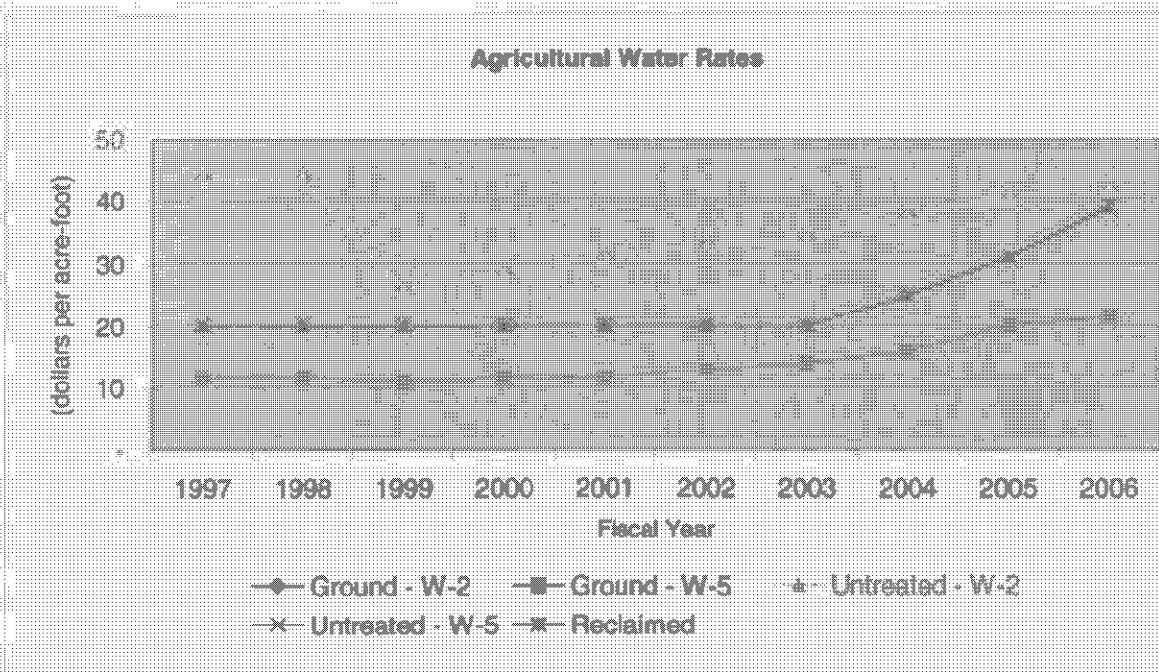
Santa Clara Valley Water District
Principal Water Sales Customers
Current year and Nine years ago
(dollars in thousands)

Water Customer	Fiscal Year 2006			Fiscal Year 1997		
	Water Sales	Rank	Percent of Total Water Sales	Water Sales	Rank	Percent of Total Water Sales
San Jose Water Company	\$ 60,079	1	55.62%	\$ 38,623	1	53.62%
City of Santa Clara	8,196	2	7.59%	6,243	2	8.67%
City of San Jose	8,176	3	7.57%	4,116	4	5.71%
California Water Service Co.	6,943	4	6.43%	4,045	5	5.62%
City of Sunnyvale	5,724	5	5.30%	4,209	3	5.84%
Great Oaks Water Company	4,623	6	4.28%	2,992	6	4.15%
City of Milpitas	2,089	7	1.93%	1,736	7	2.41%
Gilroy City Water	1,860	8	1.72%	752	9	1.04%
City of Morgan Hill	1,701	9	1.57%	704	10	0.98%
City of Cupertino	1,677	10	1.55%	971	8	1.35%
Total	\$ 101,068		93.56%	\$ 64,391		89.39%
Total Water Sales	\$ 108,009			\$ 72,027		

Source: Santa Clara Valley Water District - Wells & Water Production Unit

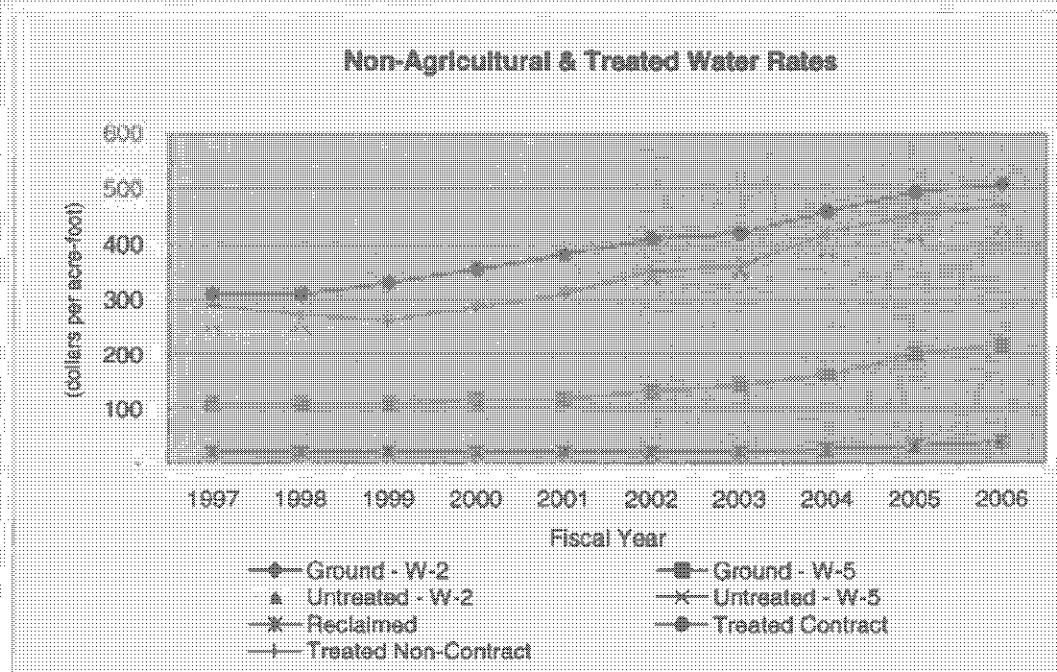
**Santa Clara Valley Water District
Water Enterprise Rates Summary
Last Ten Fiscal Years
(rates in dollars per acre-foot)**

Fiscal Year	Groundwater Rates				Treated Water Rates	
	Zone W-2		Zone W-5		Contract	Non Contract
	AG	Non-AG	AG	Non-AG		
1997	\$ 43.75	\$ 240.00	\$ 11.50	\$ 108.00	\$ 310.00	\$ 290.00
1998	43.75	240.00	11.50	108.00	310.00	270.00
1999	26.00	260.00	10.80	108.00	330.00	260.00
2000	28.50	285.00	11.50	115.00	355.00	285.00
2001	31.00	310.00	11.50	115.00	380.00	310.00
2002	33.00	330.00	13.00	130.00	410.00	350.00
2003	34.00	340.00	14.00	140.00	420.00	360.00
2004	37.50	375.00	16.00	160.00	460.00	420.00
2005	40.50	405.00	20.00	200.00	495.00	455.00
2006	42.00	420.00	21.50	215.00	510.00	470.00



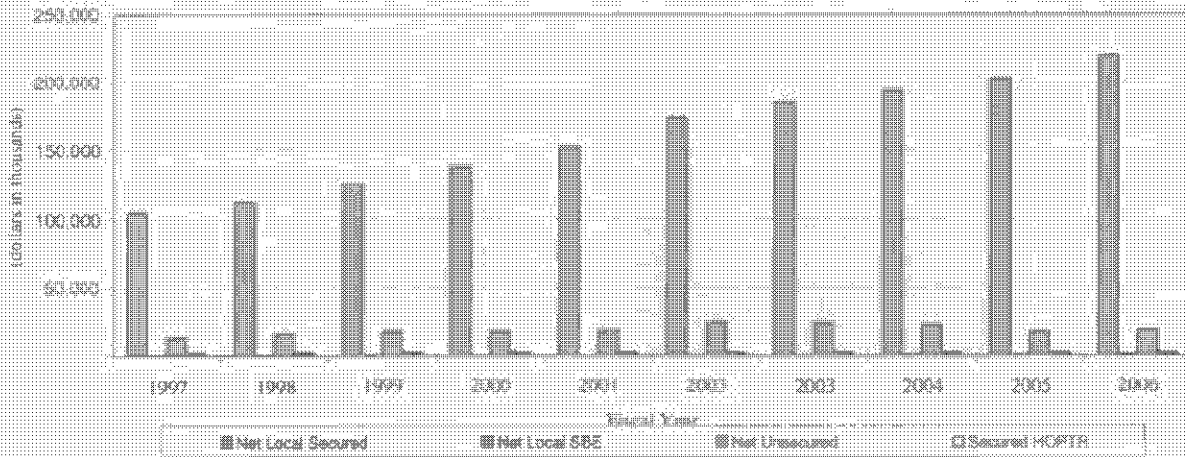
Source: Santa Clara Valley Water District - Wells & Water Production Unit

Untreated Water Rates				Reclaimed Water Rates	
Zone W-2		Zone W-5		AG	Non-AG
AG	Non-AG	AG	Non-AG	AG	Non-AG
\$ 43.75	\$ 240.00	\$ 11.50	\$ 108.00	\$ 20.00	\$ 80.00
43.75	240.00	11.50	108.00	20.00	80.00
26.00	260.00	10.80	108.00	20.00	80.00
28.50	285.00	11.50	115.00	20.00	80.00
31.00	310.00	11.50	115.00	20.00	80.00
33.00	330.00	13.00	130.00	20.00	80.00
34.00	340.00	14.00	140.00	20.00	80.00
37.50	375.00	16.00	160.00	25.00	100.00
40.50	405.00	20.00	200.00	31.00	125.00
42.00	420.00	21.50	215.00	39.00	156.00



SANTA CLARA VALLEY WATER DISTRICT
 Assessed and Estimated Actual Value of Property
 Last Ten Fiscal Years
 (dollars in thousands)

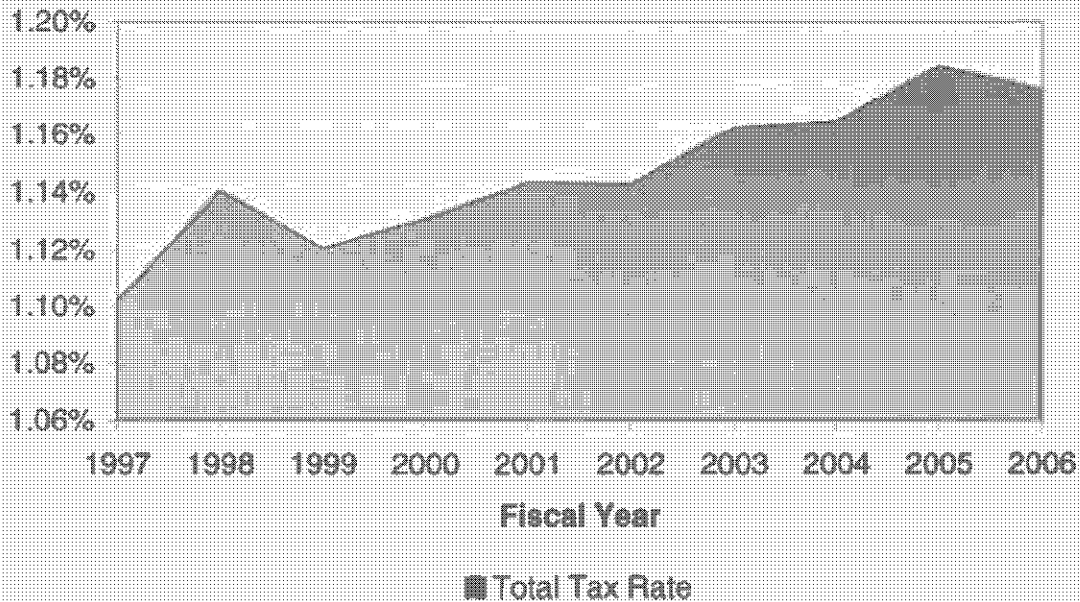
Fiscal Year	Net Local		Total Secured	Net		Exempt Valuation	
	Secured	SBE		Unsecured	Total	Secured HOPTR	Total
1997	\$104,676,859	\$138,046	\$105,014,905	\$13,649,636	\$118,664,541	\$1,931,511	\$120,596,052
1998	112,459,768	130,203	112,589,971	16,196,939	128,786,910	1,971,741	130,758,651
1999	124,589,233	132,575	124,721,808	17,716,803	142,438,611	1,999,968	144,438,579
2000	137,489,364	112,382	137,601,746	17,770,942	155,372,688	2,014,996	157,387,684
2001	151,925,296	76,022	152,001,318	18,505,086	170,506,404	2,010,724	172,517,128
2003	173,034,086	88,467	173,122,553	24,194,609	197,317,162	2,014,905	199,332,067
2003	184,590,934	100,808	184,691,742	23,906,620	208,598,360	1,998,229	210,596,589
2004	193,169,575	465,989	193,635,564	22,076,991	215,732,555	1,967,624	217,700,179
2005	201,958,267	548,864	202,507,131	17,712,736	220,220,867	1,945,661	222,166,528
2006	216,911,222	713,190	217,624,412	18,802,938	236,427,350	1,956,373	238,383,723



Source: County of Santa Clara Department of Finance

Santa Clara Valley Water District
Property Tax Rates-Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	Basic County Wide Levy	County	Cities	Santa Clara Valley Water District	Schools and Other Districts	Total Tax Rate
1997	1.0000%	0.0341%	0.0000%	0.0102%	0.0576%	1.1019%
1998	1.0000%	0.0388%	0.0000%	0.0098%	0.0920%	1.1406%
1999	1.0000%	0.0388%	0.0000%	0.0082%	0.0736%	1.1206%
2000	1.0000%	0.0319%	0.0000%	0.0085%	0.0902%	1.1306%
2001	1.0000%	0.0356%	0.0000%	0.0075%	0.1001%	1.1432%
2002	1.0000%	0.0364%	0.0095%	0.0062%	0.0906%	1.1427%
2003	1.0000%	0.0388%	0.0193%	0.0072%	0.0973%	1.1626%
2004	1.0000%	0.0388%	0.0129%	0.0087%	0.1043%	1.1647%
2005	1.0000%	0.0388%	0.0247%	0.0092%	0.1118%	1.1845%
2006	1.0000%	0.0388%	0.0258%	0.0078%	0.1036%	1.1760%



Source: County of Santa Clara, Department of Finance (tax rate area 17-028)

Santa Clara Valley Water District
Principal Property Tax Payers
Current year and Nine years ago
(Dollars in thousands)

Taxpayer	Fiscal Year 2008			Fiscal Year 1997		
	Taxable Assessed Value ⁽¹⁾	Rank	Percent of Taxable Assessed Value	Taxable Assessed Value ⁽¹⁾	Rank	Percent of Taxable Assessed Value
Leland Stanford Jr. University	\$ 2,589,099	1	1.08%	\$ 1,425,941	1	1.20%
Intel Corporation	1,322,324	2	0.55%			
Applied Materials, Inc.	844,918	3	0.35%	249,489	10	0.21%
Sobrato Development	800,586	4	0.33%	447,680	6	0.38%
Cisco Systems Inc.	779,489	5	0.32%			
Hitachi	606,333	6	0.25%			
Equity Office Properties	592,915	7	0.25%			
Peery Joint Venture	586,989	8	0.24%	453,052	5	0.38%
Lockheed Missiles and Space Co.	559,615	9	0.23%			
VF Mall LLC	505,723	10	0.21%	918,640	3	0.77%
International Business Machines Corp.				1,317,037	2	1.11%
Hewlett - Packard Co				659,401	4	0.56%
AMD Properties				348,548	7	0.29%
National Semiconductor Corp.				321,589	8	0.27%
Metropolitan Life Insurance Co.				296,045	9	0.25%
Total	\$ 9,190,991		3.81%	\$ 6,437,622		5.42%
Net Assessed Value of Taxable Property	\$ 240,383,663			\$ 118,864,541		

⁽¹⁾ The taxable assessed value includes tax assessments on real property and personal property.

Source: Santa Clara County Tax Collector's Office

Santa Clara Valley Water District
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds	Percentage of Assessed Value of Property	Per Capita
1997	\$ 17,850	0.0148%	\$ 11
1998	16,175	0.0124%	10
1999	14,425	0.0100%	9
2000	12,580	0.0080%	7
2001	10,655	0.0062%	6
2002	8,645	0.0043%	5
2003	7,255	0.0034%	4
2004	5,835	0.0027%	3
2005	4,565	0.0021%	3
2006	3,205	0.0013%	2

Source: Santa Clara Valley Water District General Accounting Unit

Santa Clara Valley Water District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
 (dollars in thousands, except per capita)

Fiscal Year	Governmental Activities		Business-type Activities	
	General Obligation Bonds	Certificates of Participation	General Obligation Bonds	Revenue Bonds
1997	\$ 1,455	\$ 135,910	\$ 16,395	\$ 45,143
1998	1,275	132,885	14,900	39,393
1999	1,085	129,715	13,340	33,345
2000	885	209,510	11,695	26,962
2001	675	204,540	9,980	79,436
2002	455	199,600	8,190	71,425
2003	215	203,670	7,040	62,971
2004	-	195,265	5,835	56,402
2005	-	188,140	4,565	56,370
2006	-	180,760	3,205	55,265

Source: Santa Clara Valley Water District General Accounting Unit

Total Primary Government	Percentage of Personal Income	Per Capita
\$ 198,903	0.3315%	\$ 123
188,453	0.2906%	115
177,485	0.2430%	107
249,052	0.2725%	148
294,631	0.3514%	174
279,670	0.3606%	163
273,896	0.3526%	158
257,502	0.3116%	149
249,075	n/a	142
239,230	n/a	135

SANTA CLARA VALLEY WATER DISTRICT

Computation of Direct and Overlapping Debt

June 30, 2006

2005-06 Assessed Valuation:	\$ 240,383,682,703
Redevelopment Incremental Valuation:	24,156,582,305
Adjusted Assessed Valuation:	\$ 216,227,090,398

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

	% Applicable (1)	District's Share of Debt 6/30/06
Community College Districts	75.232 - 100%	\$626,736,555
Gilroy Unified School District	100%	67,390,000
Milpitas Unified School District	100%	58,795,000
Morgan Hill Unified School District	100%	69,862,754
Palo Alto Unified School District	100%	110,805,000
Patterson Joint Unified School District	0.838%	174,068
San Jose Unified School District	100%	471,102,968
Santa Clara Unified School District	100%	198,170,000
Campbell Union High School District	100%	92,240,000
East Side Union High School District	100%	370,916,477
Fremont Union High School District	100%	139,690,000
Other High School Districts	93.713 - 100%	109,596,852
Campbell School District	100%	92,134,878
Cupertino Union School District	100%	124,045,023
Evergreen School District and Community Facilities District No. 92-1	100%	87,009,701
Los Altos School District	100%	102,721,243
Los Gatos Union School District	100%	75,250,000
Moreland School District	100%	104,520,566
Oak Grove School District	100%	70,407,559
Union School District	100%	83,714,231
Other School Districts	20.709 - 100%	395,814,938
City of San Jose	100%	432,445,000
City of Saratoga	100%	14,170,000
Saratoga Fire Protection District	100%	5,653,737
North County Library District Special Tax Obligations	100%	1,695,000
Parking Districts	100%	225,000
City Community Facilities Districts	100%	81,520,000
City of San Jose Special Assessment Bonds	100%	35,722,485
Other City 1915 Act Bonds (Estimated)	100%	111,411,393
Santa Clara Valley Water District Benefit Assessment District	100%	183,850,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 4,212,836,676

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the District.

OVERLAPPING GENERAL FUND DEBT:

	% Applicable (1)	District's Share of Debt 6/30/06
Santa Clara County General Fund Obligations	100%	\$ 920,595,000
Santa Clara County Office of Education Certificates of Participation	100%	17,170,000
Foothill-DeAnza Community College District Certificates of Participation	100%	20,440,000
Other Community College District Certificates of Participation	.031 - 98.500%	35,407,400
Gilroy Unified School District General Fund Obligations	100%	39,120,000
San Jose Unified School District General Fund Obligations	100%	119,174,371
Santa Clara Unified School District Certificates of Participation	100%	7,575,000
Franklin-McKinley School District Certificates of Participation	100%	6,330,000
Other High School and School District General Fund Obligations	93.713 - 100%	25,972,832
City of Campbell Certificates of Participation	100%	23,040,843
City of Cupertino Certificates of Participation	100%	52,305,000
City of Gilroy Certificates of Participation	100%	45,900,000
City of Mountain View General Fund Obligations	100%	23,525,000
City of San Jose General Fund Obligations	100%	815,920,862
City of Santa Clara General Fund Obligations	100%	63,345,000
City of Sunnyvale General Fund Obligations	100%	32,345,000
Other City General Fund Obligations	100%	35,975,000
Mid-peninsula Regional Park District Certificates of Participation	66.801%	78,543,970
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$ 2,380,683,104
Less: Cities of San Jose and Mountain View Certificates of Participation (100% self-supporting from tax increment revenues)		167,220,000
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$ 2,172,898,104
GROSS COMBINED TOTAL DEBT		\$ 6,572,829,790 (2)
NET COMBINED TOTAL DEBT		\$ 6,386,406,790

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the District.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratio to 2005 - 06 Assessed Valuation:

Direct Debt (\$183,850,000)	0.08%
Total Overlapping Tax and Assessment Debt	1.75%

Ratio to Adjusted Assessed Valuation:

Gross Combined Total Debt	3.04%
Net Combined Total Debt	2.94%

State School Building Aid Repayable as of 06/30/06 \$ 3,153,018

Source: Prepared for the Santa Clara Valley Water District by California Municipal Statistics, Inc.

SANTA CLARA VALLEY WATER DISTRICT
 Revenue Bond Coverage
 Last Ten Fiscal Years
 (Dollars in Thousands)

Fiscal Year	Adjusted Revenue	Adjusted Operating Expense	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage Factor
				Principal*	Interest	Total	
1997	\$ 81,415	\$ 49,225	\$ 32,190	\$ 6,045	\$ 2,735	\$ 8,780	3.6663
1998	74,186	38,639	35,547	6,230	2,466	8,696	4.0877
1999	79,591	56,051	23,540	6,520	2,170	8,690	2.7089
2000	90,901	51,303	39,598	6,845	1,847	8,692	4.5557
2001	106,699	61,223	45,476	7,190	2,878	10,068	4.5169
2002	108,930	74,440	34,490	8,490	4,055	12,545	2.7493
2003	105,120	80,190	24,930	8,920	3,610	12,530	1.9896
2004	119,581	75,902	43,679	7,025	3,197	10,222	4.2730
2005	113,239	79,909	33,330	1,060	2,992	4,052	8.2256
2006	115,587	99,973	15,614	1,105	2,947	4,052	3.8534

Source: Santa Clara Valley Water District General Accounting Unit

* Does not include debt service on general obligation debt

In July 1994, the District refunded its outstanding water revenue bonds and restructured its debt covenants under a Master Resolution governing the issuance of all Water Utility System debt obligations. This restructuring of debt covenants included the method of calculating revenue bond coverage.

For fiscal year 2005/06, operating revenue of \$109,278 has been increased by \$6,309 and operating expense of \$131,422 has been decreased by \$31,449 as prescribed by the Master Resolution. These adjustments relate primarily to intergovernmental revenues and depreciation and amortization. The complete calculation can be obtained from the Finance Department at 5750 Almaden Expressway, San Jose, CA 95118.

SANTA CLARA VALLEY WATER DISTRICT

Computation of District Act Debt Margin

June 30, 2006

(Dollars in Thousands)

Authorized short-term debt under authority of District Act Section 25.6	\$8,000
Outstanding short-term debt under Section 25.6, June 30, 2006	<u>0</u>
District Act Section 25.6 debt margin on short-term debt	<u>\$8,000</u>

Note: California law authorizes the issuance of debt that is not subject to the Section 25.6 District Act limit and the District has issued commercial paper short term debt in a transaction with the Santa Clara Valley Water District Public Facilities Financing Corporation and others. See Note 7. The Santa Clara Valley Water District's debt issuance practices are governed by the provisions of California law. The Codes do not set a formal debt limit for water districts. However, the short term borrowing authority set in Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act) provides a limit on short term debt (maturity of less than five years) of \$8,000,000 that can be borrowed under authority of that Section. The District is in compliance with its District Act and the other provisions of California law provide additional independent authority for debt.

Santa Clara Valley Water District
Demographic and Economic Statistics
For Santa Clara County
Last Ten Fiscal Years

Fiscal Year	Population ⁽¹⁾	Personal Income (thousands of dollars) ⁽²⁾	Per Capita Personal Income	Consumer Price Index ⁽³⁾	School Enrollment ⁽⁴⁾	Total Employment ⁽⁵⁾	Unemployment Rate ⁽⁶⁾
1997	1,612,700	\$ 60,003,513	\$ 37,207	3.1%	248,377	898,800	3.2%
1998	1,638,300	64,850,110	39,584	3.4%	252,207	922,300	3.2%
1999	1,658,000	73,045,821	44,057	3.8%	253,367	921,600	3.4%
2000	1,682,585	91,386,181	54,313	4.2%	254,782	906,100	3.5%
2001	1,697,800	83,838,707	49,381	6.6%	254,004	898,200	4.9%
2002	1,719,600	77,548,912	45,097	1.2%	248,777	814,300	8.6%
2003	1,729,900	77,680,349	44,905	1.6%	250,435	776,000	9.2%
2004	1,731,300	82,638,917	47,732	1.4%	251,198	773,400	6.8%
2005	1,759,585	n/a	n/a	1.1%	253,055	774,700	5.7%
2006	1,773,258	n/a	n/a	3.9%	n/a	775,300	5.0%

Source: ⁽¹⁾ State of California - Department of Finance

⁽²⁾ U.S. Department of Commerce - Bureau of Economic Analysis

⁽³⁾ U.S. Department of Labor - Bureau of Labor Statistics - San Francisco Bay Region

⁽⁴⁾ State of California - Department of Education and Santa Clara County Office of Education

⁽⁵⁾ State of California - Employment Development Department

n/a - Current information not available

Santa Clara Valley Water District
Principal Employers
Current year and Nine years ago
(unaudited)

Company or Organization	Fiscal Year 2008			Fiscal Year 1997		
	Employees ⁽²⁾	Rank	Percentage of Total County Employment	Employees ⁽²⁾	Rank	Percentage of Total County Employment
Cisco Systems, Inc.	13,000	1	1.67%			
Stanford University	12,000	2	1.54%			
Hewlett-Packard Co.	9,400	3	1.21%	9,950	3	1.13%
Lockheed Martin Space Systems	8,000	4	1.03%	10,000	2	1.14%
IBM Storage Group	7,000	5	0.90%	5,650	7	0.64%
Stanford Hospitals & Clinics	5,500	6	0.71%	5,500	8	0.63%
Intel Corp	5,000	7	0.64%	6,000	5	0.68%
Kaiser Permanente Medical Center	5,000	8	0.64%			
Fujitsu IT Holdings Inc.	4,500	9	0.58%			
Applied Materials Inc.	4,130	10	0.53%			
Apple Computer				8,000	4	0.91%
Sun Microsystems, Inc.				13,000	1	1.48%
Sollectron California Corp.				5,800	6	0.66%
Tandem Computers				5,000	9	0.57%
Amdahl Corp.				4,500	10	0.51%
Total	73,530		9.45%	73,400		8.35%
Total County Employment⁽¹⁾			779,517			879,842

Source: (1) State Employment Development Department, Labor Market Information Division
(2) Rich's Everyday Sales Prospecting Directory - Santa Clara County

Santa Clara Valley Water District
Full-time Equivalent District Employees by Function/Program
Fiscal Year 2006

<u>Function/Program</u>	<u>Fiscal Year</u>
	<u>2006</u>
Office of the CEO	16
Office of the District Counsel	4
Community & Government Relations	16
County-Wide Watershed Management	134
Capital Programs	153
Water Utility Operations	23
Water Supply	31
Water Conservation	10
Surface & Groundwater Management	32
Water Quality	25
Control Systems	11
Water Utility Maintenance	31
Treated Water Operations	33
Raw Water Operations	23
Administrative & Business Management	12
Clerk of the Board	7
Organizational Training & Development	6
Business Support Services	17
Library & Records	8
Budget Office	7
Accounting	20
Information & Systems Management	46
Technical Services	6
Wells & Water Production	15
Real Estate & Right-of-Way	9
Equipment Management	11
Warehouse & Inventory Control	8
Facilities Maintenance	14
Purchasing	10
Contracts Administration	5
Human Resources & Benefits	27
Health & Safety	8
Total	778

Source: SCVWD Human Resources & Benefits Unit

Santa Clara Valley Water District
 Operating Indicators by Function/Program
 Fiscal Year 2006

<u>Function/Program</u>	<u>Fiscal Year 2006</u>
Wells & Groundwater Production	
New Wells	713
Destroyed Wells	707
Well Permits	1,955
Well Inspections	1,420
Watershed Management	
Miles of Vegetation Removed/Managed	188
Cubic Yards of Sediment Removed	39,420
Miles of Bank Erosion Protection	1.2
Laboratory Services Unit	
Water Samples Tested (approx.)	146,000
Water Quality Violations	0
Water Measurement Division	
Meter Readings/Site Visits	6,627
Meter Repairs/Preventative Maintenance	200
Backflow Device Testings	120
Community Projects Review	
Permits Issued	401
Land Development Review Requests	2,342
Underground Service Alerts	40,356
Requests for Flood Zone Information	246
Environmental Impact Reports Reviewed	144
Ordinance 83-2 Violation Notices	23
Human Resources	
Permanent Positions Hired	63
Temporary Workers Employed	150
Employment Applications Processed	1,445
Health & Safety	
Ergonomic Assessments	42
Confined Space Assessments	200
Employee Safety Committee Meetings	12
Projects Managed by Type:	
Capital Projects	128
Operating Projects	62
Operations Projects	350

Source: Various Government Departments

Santa Clara Valley Water District
 Capital Asset Statistics by Function/Program
 Fiscal Year 2006

<u>Function/Program</u>	<u>Fiscal Year</u> <u>2006</u>
Water Utility Enterprise	
Acres of groundwater recharge ponds	393
Miles of canals	17
Miles of pipeline	142
Miles of tunnels	8
Number of treatment plants	3
Number of pumping stations	3
Number of treated water reservoirs	1
Water Utility Operations	
Process Control Instrumentation	660
Mechanical Drives	47
Chemical Mixers	85
Electrical Motors	341
Power Distribution Equipment	22
Pumps	436
Utility Vaults & Structures	988
Chemical & Water Storage Tanks	120
Transformers	4
Valves	678
Valve Operators	365
Generators	13
Flow Meters	188
Drive Engines	4
Electric Drives	119
Watersheds	
Miles of creeks and rivers managed for flood control	700
Number of reservoirs	10
Total District reservoir capacity (acre-feet)	169,415
Fleet Equipment	
Class I Passenger Vehicles	227
Class II Heavy Duty Trucks	70
Class III Tractors, Const. Equip., Generators, Forklifts	29
Class IV Misc. Small Tools & Engines	946

Source: Various Government Departments

SANTA CLARA VALLEY WATER DISTRICT

Flood Control System
Historical Operating Results
Combined Statement of Revenues and Debt Service Coverage
For the Fiscal Years Ending June 30,
(Dollars in Thousands)

	2006	2005	2004	2003	2002
Flood Control System Revenues:					
Benefit assessment, gross ¹	\$ 19,408	\$ 19,381	\$ 19,429	\$ 19,358	\$ 19,335
Property tax	14,416	12,036	25,328	25,201	23,845
Intergovernmental services	-	-	-	-	-
Investment income	2,291	3,902	1,906	8,321	15,517
Rental income	1,395	1,338	1,359	1,045	1,008
Other	1,676	821	1,781	146	62
Total Flood Control System Revenue	\$ 39,184	\$ 37,478	\$ 49,803	\$ 54,071	\$ 59,767
Debt Service:					
1994A Certificates of participation, net ²	\$ -	\$ -	\$ 6,353	\$ 10,049	\$ 10,045
2000A Certificates of participation	5,545	5,545	5,542	5,546	5,547
2003 Certificates of participation	7,675	4,358	4,355	-	-
2004 Certificates of participation	3,072	6,354	-	-	-
Total Debt Service	\$ 16,292	\$ 16,257	\$ 16,250	\$ 15,595	\$ 15,592
Coverage:					
Total Flood Control System Revenues over Total Debt Service	2.41	2.31	3.07	3.47	3.83

(1) The benefit assessment presented on the Statement of Revenues, Expenditures and Changes in Fund Balances are net of collection fees. For the purpose of the Flood Control System Debt Service Coverage collection fees are excluded. Therefore, the benefit assessments presented above have been increased by:

FY 2006 - \$194
FY 2005 - \$194
FY 2004 - \$194
FY 2003 - \$197
FY 2002 - \$194

In accordance with voter authorizations, benefit assessments are set at 1.25 of gross debt service allocable to flood control projects starting during fiscal year 2001.

(2) The debt service payment presented on the budgetary basis statements for the 1994A Certificates of participation includes amounts for the watersheds and the general fund. For the purpose of the Flood Control System Debt Service Coverage the general fund portion of the principal and interest debt payment (7.11%) has been excluded.

Source: Santa Clara Valley Water District General Accounting Unit

Santa Clara Valley
Water District



5750 Almaden Expressway
San Jose, CA 95118-3686
Telephone: 408-265-2600
www.valleywater.org

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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Resolution, the 1995 Installment Purchase Agreement, as amended, and the Trust Agreement, which are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive and reference should be made to the respective document for a full and complete statement of the provisions thereof.

THE MASTER RESOLUTION

DEFINITIONS

Unless the context otherwise requires, capitalized terms used under the caption "THE MASTER RESOLUTION" will have the meanings defined below.

Accreted Value means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates or other Capital Appreciation Parity Obligations, (i) as of any Valuation Date, the Accreted Value of any Capital Appreciation Bond or any Capital Appreciation Certificate or other Capital Appreciation Parity Obligation set forth for such date in the instrument authorizing such Capital Appreciation Bond or Capital Appreciation Certificate or other Capital Appreciation Parity Obligation, and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

Appreciated Value means, with respect to any Deferred Income Bond or Deferred Income Certificate or other Deferred Income Parity Obligation, prior to the Interest Commencement Date, (i) as of any Valuation Date, the Appreciated Value of any Deferred Income Bond or any Deferred Income Certificate or other Deferred Income Parity Obligation set forth for such date in the instrument authorizing such Deferred Income Bonds or Deferred Income Certificate or other Deferred Income Parity Obligation and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

Assumed Amortization Period means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations pursuant to the provisions of the Master Resolution, the period of time determined, at the election of the District, pursuant to either paragraph (a) twenty-five (25) years; or (b) the period of time, not exceeding twenty-five (25) years, set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the maximum period of time over which obligations having comparable terms and security issued or incurred by water districts of comparable type and credit standing would, if then being offered, be marketable on reasonable and customary terms.

Assumed Interest Rate means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations pursuant to the provisions of the Master Resolution, the rate per annum determined as of the last Business Day of the preceding calendar month and determined, at the election of the District, pursuant to clause (i) or clause (ii): (i) (A) in the event the payment of the principal and interest on the Parity Obligations is from the District's Flood Control Benefit Assessments, then at a rate per annum equal to maximum interest rate allowed under then existing law, or (B) in the event the payment of the principal and interest on the Parity Obligation is from Fees imposed in lieu of Flood Control Benefit Assessments,

then at a rate per annum equal to (1) ninety percent (90%), if interest on the Parity Obligations is exempt from federal income taxation, or (2) one hundred ten percent (110%), if interest on the Parity Obligations is subject to federal income taxation, of the most recently published daily yields to maturity of United States Treasury securities adjusted to a constant maturity of thirty (30) years as published by the Board of Governors of the Federal Reserve System; or (ii) the rate per annum set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the lowest rate of interest (which may be a rate which reflects the exemption of such interest from federal income taxation if such exemption is then available) at which obligations having comparable terms and security, amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by water districts of comparable type and credit standing would, if being offered as of such last Business Day of the calendar month, be marketable on reasonable and customary terms, provided that such rate will not be less than the rate specified in the "Revenue Bond Index" published in The Bond Buyer, or successor index, as in effect on the date of such opinion.

Average Annual Debt Service means the amount determined by dividing the sum of all Debt Service due following the date of such calculation by the number of such Fiscal Year.

Bond or Contract or Other Parity Obligation Reserve Fund means any debt service reserve fund established to secure the payment of Bond Payments, Obligation Payments or Other Parity Obligation Payments.

Bond Payments means the principal and interest payments scheduled to be paid by the District on Bonds.

Bonds means all revenue bonds or notes of the District authorized, issued and delivered by the District under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Flood Control System Revenues on a parity with all other Parity Obligations.

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

Capital Appreciation Bonds means any Bonds described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Bonds.

Capital Appreciation Certificates means any certificates of participation in Obligation Payments described as such when issued and as to which the interest is payable only at the maturity or prior prepayment of such Certificates.

Capital Appreciation Parity Obligations means Parity Obligations described as such when issued and as to which the interest is payable only at the maturity or prior redemption of such Parity Obligations, excluding Capital Appreciation Bonds and Capital Appreciation Certificates.

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

Certificates means any certificates of participation representing interests in payments to be made by the District pursuant to Leases, Installment Sale Agreements or Contracts of Indebtedness.

Contract Payments means the contract payments scheduled to be paid by the District under and pursuant to Contracts of Indebtedness.

Contracts means all Installment Sale Agreements, Leases, Reimbursement Agreements, and Contracts of Indebtedness.

Contracts of Indebtedness means contracts of indebtedness or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Flood Control System Revenues on a parity with all other Parity Obligations.

Convertible Parity Obligations means Parity Obligations which by their terms permit the District or another designated party on one or more occasions to elect or modify the period for which the rate of interest thereon is fixed.

Credit Enhanced Parity Obligations means Parity Obligations the principal of and interest on which are secured by the proceeds of an irrevocable letter of credit, surety bond, insurance policy or other credit facility or arrangement with a person whom the District is obligated to reimburse for advances made for amounts due on such Credit Enhanced Parity Obligations.

Debt Service means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all Outstanding Bonds, assuming that all Outstanding serial Bonds are retired as scheduled and that all Outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amount of all Outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all Outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, (4) that portion of the Obligation Payments required to be made at the times provided in Contracts that would have accrued during such Fiscal Year or period if such Obligation Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Obligation Payment Date of interest or principal, as the case may be, and (5) that portion of the Other Parity Obligation Payments required to be made at the times provided in the Other Parity Obligations that would have accrued during such Fiscal Year or period if such Other Parity Obligation Payments were deemed to accrue daily in equal amounts from the next preceding Other Parity Obligation Payment Date or, with respect to the principal portion thereof, during the year preceding the first principal payment date, as the case may be; provided, that (1) if any of such Bonds are Capital Appreciation Bonds or Deferred Income Bonds, or if the Obligation Payments due under any such Contracts are evidenced by Capital Appreciation Certificates or Deferred Income Certificates, or if any Other Parity Obligation Payments due under any such Other Parity Obligations constitute Capital Appreciation Parity Obligations or Deferred Income Parity Obligations, then the principal and interest portion of the Accreted Value of all such Capital Appreciation Parity Obligations and the Appreciated Value of all such Deferred Income Parity Obligations becoming due at maturity or on a scheduled redemption date will be included in the calculations of Debt Service made under this definition only from and after the date (the "Calculation Date") which is one year (or such lesser period if so provided in the instrument authorizing such Obligation) prior to the date on which such Accreted Value or Appreciated Value becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value will be deemed to accrue in equal daily installments from the Calculation Date to such date, and (2) that the principal amount of Option Parity Obligations tendered for payment and not remarketed before the stated maturity thereof will be deemed to accrue on the date required to be paid pursuant to such tender in the manner and only to the extent required by the instrument authorizing such Option Parity Obligations; and provided further, that "Debt Service" will not include (1) payments due on general obligation bonds for which ad valorem property taxes have been levied and pledged and other general obligation debts for which ad valorem taxes are then being levied and collected or (2) interest on Bonds or Contracts or Other Parity Obligations which are to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement.

Debt Service Coverage Ratio means for the period in question the ratio of Flood Control System Revenues to the Maximum Annual Debt Service; provided, however, that for purposes of calculating such ratio: (a) principal and interest requirements on Long-Term Parity Obligations, or portions thereof, will not be included in the computation of the Maximum Annual Debt Service (i) for any period to the extent such principal or interest, or portions thereof, is payable from amounts (including investment earnings thereon, if any) deposited in trust with a bank or other financial institution for the payment thereof (including without limitations capitalized interest and accrued interest so deposited into trust, escrow or otherwise set aside) or (ii) for any period occurring after the date on which the Long-Term Parity Obligations are to be redeemed from monies (including investment earnings thereon, if any) which are (1) irrevocably deposited in trust with a bank or other financial institution for such purpose, (2) invested in Defeasance Obligations pending their application to such purpose and (3) verified by an independent certified public accountant as sufficient for such purpose, provided that notice of such redemption will be given or arrangements will be made therefor, or waiver of such notice will be received by the District; (b) any Long-Term Parity Obligations having a single principal maturity and no sinking fund redemption requirements, or having a principal amount due in any Fiscal Year which exceeds an amount equal to 200% of the maximum principal amount of such Long-Term Parity Obligations that would have become due (whether at maturity or pursuant to sinking fund redemption requirements) in such Fiscal Year if such Parity Obligations Outstanding on the date of calculation had been amortized on a level debt service basis from the date of calculation over the stated term of such Parity Obligations, will be deemed to bear interest at the Assumed Interest Rate determined in accordance with paragraph (ii) of the definition of Assumed Interest Rate and will be deemed to be amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period; (c) the interest on any Variable Rate Parity Obligations will be calculated in accordance with the definition of Assumed Interest Rate; (d) the annual principal and interest payments on Long-Term Parity Obligations arising from any Guaranty will be taken into account as follows: (i) if at any time within the three full Fiscal Years immediately preceding the computation date, the obligee of the guaranteed obligation will have demanded that the District pay principal or interest on the guaranteed obligation and if, within thirty (30) calendar days of the District's receipt of such demand, the District shall have failed to obtain an Opinion of Counsel to the effect that the District is not legally obligated to honor such demand, then 100% of the annual principal and interest payments scheduled to become due on the guaranteed obligations; or (ii) otherwise, (A) one hundred percent (100%) of the annual principal and interest payments scheduled to become due on the guaranteed obligation so long as the District has fixed, prescribed and caused to be collected Flood Control Benefit Assessments, or (B) twenty percent (20%) of the annual principal and interest payments scheduled to become due on the guaranteed obligation so long as the District has taken such actions to impose Fees in lieu of Flood Control Benefit Assessments; (e) principal and interest on Option Parity Obligations Certificates shall be determined in accordance with the provisions of the Master Resolution; (f) principal and interest on Convertible Parity Obligations shall be determined in accordance with the provisions of the Master Resolution; and (g) principal and interest on Credit Enhanced Parity Obligations shall be determined in accordance with the provisions of the Master Resolution.

Defeasance Securities means and includes, if and to the extent the same are permitted by law, only such securities as are described in clauses (i), (ii) and (iii) below which will not be subject to redemption prior to their maturity other than at the option of the holder thereof, or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, as follows: (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies to the extent unconditionally guaranteed by the United States of America, including obligations issued pursuant to paragraph 21B(d)(3) of the Federal Home Loan Bank Act, as amended by paragraph 511(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, or any successor provisions to paragraph 21B of the Federal Home Loan Bank Act, as so amended; (ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if

any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) above which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; and (iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i) above, provided that such obligations will be held in trust by a bank or trust company or a national banking association.

Deferred Income Bonds means any Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Bonds.

Deferred Income Certificates means any Certificates as to which accruing interest is not paid prior to the Interest Commencement Date.

Deferred Income Parity Obligations means Parity Obligations as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Parity Obligations, excluding Deferred Income Bonds and Deferred Income Certificates.

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

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

Fees means the fees and charges imposed under the Revenue Bond Law of 1941, as amended, or any similar law, which imposes a lien on property.

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

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

Flood Control Benefit Assessments means the benefit assessments of the District established pursuant to Resolution No. 86-54 relating to the Northwest Flood Control Zone, Resolution No. 86-55 relating to the Central Flood Control Zone, Resolution No. 86-56 relating to the East Flood Control Zone, and Resolution No. 86-57 relating to the South Flood Control Zone, all as adopted on July 29, 1986 and as approved by the voters of the respective flood control zones on November 4, 1986, and Resolution No. 90-8 adopted on February 20, 1990, relating to the North Central Flood Control Zone, as approved by the voters of the North Central Flood Control Zone on June 5, 1990, and any other benefit assessments of the District established under the Benefit Assessment Act of 1982, as amended, or any similar law.

Flood Control Service means the flood and storm water control service furnished, made available or provided by the Flood Control System.

Flood Control System means all property rights, contractual rights and facilities of the District relating to flood and storm water control service, including all other properties or structures in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Flood Control System, together with all additions, betterments, extensions or improvements to such facilities, properties or structures or any part thereof acquired and constructed, and designated by the District to be a part or a portion of the Flood Control System.

Flood Control System Revenues means all gross income and revenue received or receivable by the District from the ownership or operation of the Flood Control System, determined in accordance with Generally Accepted Accounting Principles, including Flood Control Benefit Assessments, all Fees imposed in lieu of Flood Control Benefit Assessments, and all proceeds of taxes received by the District, and (i) all income from the deposit or investment of any money in the Flood Control System Revenue Fund, (ii) all income from the deposit or investment of money held in any Bond or Contract or Other Parity Reserve Fund or any fund (including without limitation a construction or acquisition fund) established pursuant to a Trust Agreement to the extent such income is required to be available to pay Bond Payments, Obligation Payments or Other Parity Obligation Payments or is required to be deposited in the Flood Control System Revenue Fund, excluding (i) property taxes levied for the payment of debt service on the District's general obligation bonds, (ii) property taxes levied for the payments of amounts due under the District's State Water Project Contract, (iii) any future property taxes which pursuant to statute are to be applied to a specified purpose, except with respect to such future property taxes to be used for payment of debt service on Parity Obligations.

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.

Guaranty means a loan commitment or other obligation of the District, which loan commitment or other obligation guarantees in any manner, whether directly or indirectly, any obligation of any other person and which obligation of the District is payable from Flood Control System Revenues on a parity with all other Parity Obligations.

Independent Consultant means any consultant or firm of such consultants appointed by the District, and who, or each of whom (i) is judged by the District to have experience in matters relating to the collection of Flood Control Benefit Assessments and Fees in lieu thereof or otherwise with respect to the financings of flood control systems, (ii) is in fact independent and not under domination of the District, (iii) does not have any substantial interest, direct or indirect, with the District, and (iv) 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.

Installment Sale Agreements means installment sale agreements or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Flood Control System Revenues on a parity with all other Parity Obligations.

Installment Sale Payments means the installment or other periodic payments scheduled to be paid by the District under and pursuant to Installment Sale Agreements.

Interest Commencement Date means, with respect to any particular Deferred Income Bonds or Deferred Income Certificates or other Deferred Income Parity Obligations, the date specified in the instrument authorizing such Bonds or Certificates or other Deferred Income Parity Obligations (which date must be prior to the maturity date for such Bonds or Certificates or other Deferred Income Parity Obligations) after which interest accruing on such Bonds or Certificates or other Deferred Income Parity Obligations will be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

Interest Payment Date means an Obligation Payment Date on which interest is payable.

Interim Parity Obligations means Parity Obligations incurred or assumed in anticipation of being refinanced or refunded with Long-Term Parity Obligations.

Lease Payments means the rental payments scheduled to be paid by the District under and pursuant to Leases.

Leases means capital leases or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Flood Control System Revenues on a parity with the payment of all other Parity Obligations.

Liquidity Backer means any bank or other financial institution whose long-term indebtedness is rated "AA" or better by Standard & Poor's Ratings Group and whose long-term indebtedness is rated "Aa" or better by Moody's Investors Service, such ratings to be determined without regard to gradations within a rating category.

Long-Term, when used in connection with Parity Obligations, will mean Parity Obligations, exclusive of Interim Parity Obligations, having an original maturity greater than one year or renewable at the option of the District for a period greater than one year from the date of original incurrence or issuance thereof, which will not include the current portion of such Long-Term Parity Obligations as determined in accordance with Generally Accepted Accounting Principles.

Maintenance and Operation Costs means all costs paid or incurred by the District for maintaining and operating the Flood Control System, determined in accordance with Generally Accepted Accounting Principles, including all expenses of management and repair and other expenses necessary to maintain and preserve the Flood Control System in good repair and working order, and including all administrative costs of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District relating to the Flood Control System or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, and fees and expenses of independent certified public accountants; but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Flood Control System Revenues.

Maximum Annual Debt Service means the greatest total Debt Service on Long-Term Parity Obligations (computed in accordance with clauses (a) through (g) of the definition of Debt Service Coverage Ratio) due in any Fiscal Year during the period commencing with the Fiscal Year in which such computation is made and terminating (except as otherwise provided in the Master Resolution) with the Fiscal Year in which payments are due under the last Outstanding Bond or the last Outstanding Contract or the last Outstanding Other Parity Obligation, whichever is later.

Obligation means, without duplication, (a) all obligations of the District for borrowed money or which have been incurred or assumed in connection with the acquisition of any portion of the Flood Control System; (b) the liability of the District under any lease, installment sale agreement or other agreement which is properly capitalized on the balance sheet of the District in accordance with Generally Accepted Accounting Principles; and (c) any Guaranty.

Obligation Payment Date means any date on which Bond Payments or Obligation Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

Obligation Payments means Contract Payments, Installment Sale Payments or Lease Payments.

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

Option Bonds means Bonds which by their terms may be or are required to be tendered by and at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Certificates means any certificates of participation in Obligation Payments which by their terms may be or are required to be tendered by or at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Parity Obligations means any Parity Obligations which by their terms may be or are required to be tendered by and at the option of the holder or owner thereof for payment or purchase by the District or a third party prior to the stated maturity thereof, including without limitation Option Bonds and Option Certificates.

Other Parity Obligation Payments means the periodic payments scheduled to be paid by the District under and pursuant to Other Parity Obligations.

Other Parity Obligation Payment Date means any date on which Other Parity Obligation Payments are scheduled to be paid by the District under and pursuant to any Other Parity Obligation.

Other Parity Obligations means all Parity Obligations except Bonds, Contracts and Reimbursement Agreements.

Outstanding means, with respect to any Parity Obligations, those Parity Obligations which are not deemed paid in accordance with their terms.

Parity Obligation Payments means the periodic payments scheduled to be made by the District under and pursuant to Parity Obligations.

Parity Obligations means all Obligations, the payments of which are payable from Flood Control System Revenues on a parity with all other Parity Obligations, including without limitation Bonds, Contracts, Guaranties and Reimbursement Agreements.

Principal Payment Date means any Obligation Payment Date on which principal is payable.

Project means a specified list of any additions, betterments, extensions or improvements to the Flood Control System, financed in whole or in part from proceeds of Parity Obligations.

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

Refunding Parity Obligations means any Parity Obligations issued for the purpose of refunding Outstanding Parity Obligations.

Reimbursement Agreement means an agreement between the District and a bank or other financial institution providing for the issuance of a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Obligation Payments or Other Parity Obligation Payments and requiring the District to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Flood Control System Revenues on a parity with all other Parity Obligations.

Reimbursement Payments means amounts payable by the District as compensation or reimbursement for draws or the right to make draws or to have draws made on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments, Obligation Payments or Other Parity Obligation Payments in accordance with any Reimbursement Agreement.

Reserve Fund Policy means the municipal bond debt service fund policy issued by a municipal bond insurer rated in the two highest rating categories (without regard to “+”s and “-”s) by Moody’s and S&P’s, guaranteeing certain payments into the applicable debt service reserve fund as provided in the applicable Trust Agreement and subject to the limitations set forth in the Master Resolution.

Reserve Requirement means, as of any date of calculation, an amount equal to the least of (i) 10% of the proceeds of the applicable issue of Parity Obligations, (ii) Maximum Annual Debt Service on the applicable issue of Parity Obligations, or (iii) 125% of the Average Annual Debt Service on the applicable Parity Obligations.

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

Short-Term, when used in connection with Parity Obligations, means Parity Obligations having an original maturity less than or equal to one year and not renewable at the option of the District for a term greater than one year beyond the date of original incurrence or issuance.

Subordinate Obligation Payments means the payments scheduled to be paid by the District under and pursuant to Subordinate Obligations.

Subordinate Obligations means obligations of the District authorized and executed by the District under applicable law, the payments under and pursuant to which are payable from Flood Control System Revenues, subject and subordinate to Parity Obligation Payments and are payable from any fund established pursuant to a trust agreement.

Trust Agreement means any resolution, indenture or trust agreement providing for the issuance of Bonds or Certificates or any Other Parity Obligation.

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

Valuation Date means, with respect to any Capital Appreciation Bond, Capital Appreciation Certificate, Deferred Income Bond or Deferred Income Certificate, any date on which the value of such Bond or Certificate is to be determined in accordance with the instrument authorizing such Bond or Certificate.

Variable Rate Parity Obligations means any portion of Parity Obligations the rate of interest on which is not established at the time of incurrence as one or more numerical rates applicable throughout the term thereof or for specified periods during the term thereof, with the result that at the time of incurrence the numerical rate of interest which will be in effect during any portion of the term thereof cannot be determined.

ESTABLISHMENT OF FLOOD CONTROL SYSTEM REVENUE FUND

So long as any Parity Obligations or Subordinate Obligations remain outstanding, the District will establish and maintain the Flood Control System Revenue Fund to be held by the Finance Manager. Amounts in such fund will be disbursed, allocated and applied solely to the uses and purposes set forth in the Master Resolution, and will be accounted for separately and apart from all other accounts, funds, money or other resources of the District. The District will only have such beneficial right or interest in such money as is provided in the Master Resolution.

ALLOCATION OF FLOOD CONTROL SYSTEM REVENUES

In order to carry out and effectuate the obligations of the District to make Parity Obligation Payments and Subordinate Obligation Payments, the District has agreed and covenanted that all Flood Control System Revenues received by it will be deposited when and as received in the Flood Control System Revenue Fund.

The District will transfer or make payments from the Flood Control System Revenue Fund the amounts set forth below at the following times and in the following order of priority:

(a) To each Trustee to pay Parity Obligation Payments at the times and in the amounts required by applicable Parity Obligations or the resolutions, trust agreements, indentures or other instruments securing each Parity Obligation;

(b) To each Trustee for deposit in the applicable Bond or Contract or Other Parity Reserve Fund with respect to Parity Obligations 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 or Other Parity Reserve Fund as and to the extent required by the applicable Parity Obligations or the resolutions, trust agreements, indentures or other instruments securing each Parity Obligation;

(c) To each Trustee to pay Subordinate Obligation Payments, the amount at such times as required by applicable Subordinate Obligations or the resolutions, trust agreements, indentures or other instruments securing each Subordinate Obligation;

(d) To each Trustee for deposit in the debt service reserve fund, if any, with respect to such Subordinate Obligations an amount equal to the amount, if any, at such times as required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligations or the resolutions, trust agreements, indentures or other instruments securing each Subordinate Obligation;

(e) Such amounts at such times as the District will require to provide for the payment of Maintenance and Operation Costs;

(f) Prior to the last Business Day of each Fiscal Year, after making each of the foregoing payments, the balance of the money in the Flood Control System Revenue Fund may be used for any lawful purpose of the Flood Control System; and

(g) On the last Business Day of each Fiscal Year, the balance of the money then remaining in the Flood Control System Revenue Fund may be used for any lawful purpose of the District.

ADDITIONAL BONDS AND CONTRACTS AND OTHER PARITY OBLIGATIONS

The District may at any time incur or issue Parity Obligations, including without limitation any Bonds the Bond Payments under and pursuant to which, or execute any Contract the Obligation Payments under and pursuant to which, or incur any Other Parity Obligations the Other Parity Obligation Payments under and pursuant to which, as the case may be, are payable from the Flood Control System Revenues on a parity with all Outstanding Parity Obligations; provided:

(a) The District will file a Certificate of the District with each Trustee to the effect that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

(b) Such Bond or Contract or Other Parity Obligation will not allow the declaration of Bond Payments, Obligation Payments or Other Parity Obligation Payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement

or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there will be no limitations on the ability of the District to execute Reimbursement Agreements.

(c) Long-Term Parity Obligations may be incurred provided that the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account (i) all Outstanding Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred, and (iii) (A) the Flood Control Benefit Assessments then being collected as of such date of calculation, so long as the District has fixed, prescribed and caused to be collected such Flood Control Benefit Assessments, or (B) the Fees in lieu of Flood Control Benefit Assessments then being imposed , so long as the District has taken such actions to impose such Fees in lieu of Flood Control Benefit Assessments, is not less than 1.25, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with each Trustee along with the financial statements and report of accountants thereon if they are not already on file with such Trustee.

(d) Refunding Parity Obligations may be incurred provided that the reports or opinions set forth in paragraph (c) above will be delivered unless, at the time of issuance of such Refunding Parity Obligations and after giving effect thereto and to the application of the proceeds thereof, Maximum Annual Debt Service, for each subsequent Fiscal Year up to and including the Fiscal Year in which the Long-Term Parity Obligations to be refunded were originally scheduled to be Outstanding, (i) would not be increased as a result of such refunding so long as the District has fixed, prescribed and caused to be collected Flood Control Benefit Assessments for the payment of principal and interest on its Parity Obligations, or (ii) would not be increased by more than 5% so long as the District has taken such actions to impose Fees in lieu of Flood Control Benefit Assessments for the payment of principal and interest on its Parity Obligations; provided, however, that if the Long-Term Parity Obligations to be refunded do not cease to be Outstanding upon, or substantially contemporaneously with the incurrence of such Refunding Parity Obligations, such Refunding Parity Obligations may be incurred pursuant to this paragraph only if the proceeds (including investment earnings, thereon, if any) of the Refunding Parity Obligations are (i) irrevocably deposited in trust with an escrow agent, (2) invested in Defeasance Obligations pending their application to such purpose, and (3) verified by an independent certified public accountant as sufficient for such purpose; provided that notice of such redemption will have been given or arrangements will have been made therefor, or waiver of such notice will have been received by the District.

(e) Short-Term Parity Obligations may be incurred provided that (1) the Outstanding principal amount of Short-Term Parity Obligations incurred pursuant to this paragraph does not exceed twenty percent (20%) of the Flood Control System Revenues, and (2) for a period of twenty (20) consecutive days during each Fiscal Year any Short-Term Parity Obligations will be reduced to an aggregate Outstanding principal amount not exceeding seven percent (7%) of the Flood Control System Revenues for the most recent Fiscal Year, provided that Parity Obligations initially incurred pursuant to this paragraph will be deemed incurred pursuant to paragraph (c) above (and will no longer be deemed incurred pursuant to this paragraph) on the day following that on which a Certificate of the District will be delivered to each Trustee pursuant to paragraph (c) above, which Certificate will include such Parity Obligations.

(f) Interim Parity Obligations may be incurred provided that, at the time such Interim Parity Obligations are incurred or assumed, there will be delivered to each Trustee:

(i) a Certificate of the District and an opinion of an Experienced Banker or Advisor selected by the District stating that the anticipated financing thereof by the issuance of Long-

Term Parity Obligations is reasonably expected to be completed within the next sixty (60) months;

(ii) reports or opinions of the type required by paragraph (c) above demonstrating that all requirements of paragraph (c) above would be met if such Interim Parity Obligations were then being issued as Long-Term Parity Obligations maturing over a term equal to the Assumed Amortization Period with level annual combined payments of principal and interest and having an interest rate equal to the Assumed Interest Rate; and

(iii) either (x) evidence that such Interim Parity Obligations are secured by an irrevocable extension of credit of, or an agreement to purchase such Interim Parity Obligations from the owner thereof by, a person or (y) a written statement of an Experienced Banker or Advisor setting forth the opinion of such Experienced Banker or Advisor (which opinion will be based upon the best estimates and recent experience of such Experienced Banker or Advisor under the then-prevailing market conditions but will not in any event be deemed to constitute an offer to purchase any such Long-Term Parity Obligations or otherwise to create or give rise to any liability or obligation on the part of said Experienced Banker or Advisor with respect thereto) to the effect that long-term parity obligations of similar credit quality maturing over the term and bearing interest at the rate referred to in the foregoing paragraph (ii) would, if then being offered, be marketable on reasonable and customary terms.

Except to the extent expressly required by paragraph (d) above or this paragraph (f), the reports or opinions setting forth the computation of Debt Service Coverage Ratio need not be delivered in connection with the incurrence or assumption of Parity Obligations pursuant to the provisions of paragraphs (c) or (e) above.

(g) In measuring compliance with the applicable tests under the Master Resolution for incurring Option Parity Obligations and generally for purposes of determining the Debt Service Coverage Ratio: (i) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations will include 1.25 times the annual principal and interest payments scheduled to become due thereon, but in any event, will not include amounts payable upon exercise by the registered owner thereof of the option to tender such Parity Obligations for payment to the extent and for so long as a Liquidity Backer is required to provide the moneys necessary for such payment, (ii) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations will be deemed to include any periodic fees payable to the Liquidity Backer as a condition of the Liquidity Backer standing ready to provide the moneys necessary for such payment, and (iii) debt service on Option Bonds or Option Certificates or other Option Parity Obligations will not be based upon the terms of any reimbursement obligation to the Liquidity Backer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Liquidity Backer advancing funds and not being reimbursed.

(h) Convertible Parity Obligations may be incurred if at the time of incurrence all applicable provisions of the Master Resolution are complied with for the type of Parity Obligations the Convertible Parity Obligations will be upon its incurrence; provided, however, that the District has no current intention or expectation that the conversion option of such Parity Obligations will be exercised at any particular future time but rather the conversion option has been included to provide flexibility in reacting to future circumstances, and the conversion option has not been included for the purpose of avoiding any limit or restriction in the Master Resolution on the incurrence of Parity Obligations of a type into which such Convertible Parity Obligations may by its terms be converted, and a Certificate of the District and a written statement of an Experienced Banker or Advisor selected by the District so stating is filed with each Trustee. If such a Certificate of the District is not filed with each Trustee, such Convertible Parity Obligations may be incurred only upon compliance with the provisions of the Master Resolution applicable to the form of Parity Obligations such Convertible Parity Obligations will be upon incurrence or into which it may be converted, whichever would have the highest debt service (determined in accordance with the definition of Debt Service Coverage Ratio) for any one-year period.

(i) In determining compliance with the applicable provisions of the Master Resolution for the incurrence of Credit Enhanced Parity Obligations, the District which is also undertaking any contingent repayment obligation to a person who has undertaken to provide moneys necessary for payment to registered owners of such Credit Enhanced Parity Obligations (the "Credit Enhancer") will not also be deemed to be incurring separate Parity Obligations to the Credit Enhancer.

In measuring compliance with the applicable tests under the Master Resolution for incurring Credit Enhanced Parity Obligations, and generally for purposes of determining the Debt Service Coverage Ratio, Debt Service on Credit Enhanced Parity Obligations will be deemed to include any periodic payment payable to the Credit Enhancer as a condition of the Credit Enhancer standing ready to provide moneys necessary for payment to the registered owners of such Credit Enhanced Parity Obligations, and Debt Service on Credit Enhanced Parity Obligations will not be based upon the terms of any reimbursement obligation to the Credit Enhancer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Credit Enhancer advancing funds and not being reimbursed.

Subordinated Obligations may be incurred without meeting any of the tests described under this heading.

DEBT SERVICE RESERVE FUND

In addition to the provisions set forth under the caption above, prior to the issuance and delivery of each issue of Parity Obligations, the District will establish a debt service reserve fund and cause to be deposited therein a portion of the Parity Obligation proceeds in an amount equal to the Reserve Requirement or such other legally required reserve requirement established for such Parity Obligations under the applicable Trust Agreement. The Board finds that the creation of the debt service reserve fund is of benefit to all five flood control benefit zones within the District and further finds and declares that the funding and replenishment of such debt service reserve fund will be made from any available Flood Control Benefit Assessment without regard to and distinction of the source of such Flood Control Benefit Assessment.

At any time and from time to time, the District, at its option, may substitute all or any portion of the Reserve Requirement or such other legally required reserve requirement by providing to the Trustee a Reserve Fund Policy, a letter of credit or other form of guarantee. The Trust Agreement relating to the applicable issue of Parity Obligations will provide, among others, the payment procedure in the event of a deficiency with respect to the payment of principal and interest on the applicable issue of Parity Obligations and the replenishment of such debt service reserve fund.

OTHER UTILITY SYSTEMS

Nothing in the Master Resolution will prohibit the District from operating and maintaining a separate utility or enterprise system as a separate, distinct and self-supporting entity apart from the Flood Control System.

COVENANTS OF THE DISTRICT

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

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Flood Control System or any part thereof essential to the proper operation of the Flood Control System or to the maintenance of the Flood Control Revenues, and will not enter into any agreement or lease which would impair the operation of the Flood Control System or any part thereof necessary to secure adequate Flood Control System Revenues for the payment of Parity Obligation Payments or Subordinate Obligation Payments, or which would otherwise impair the rights of the holders of Bonds or Certificates or other Parity Obligations with respect to the Flood Control System Revenues or the operation of the Flood Control 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 Flood Control System, or any material or equipment which has become worn out, may be sold if such sale, as evidenced by a Certificate of the District, will not reduce the Flood Control System Revenues below the amount necessary to meet the annual payment requirements on any Obligations then remaining outstanding.

Maintenance and Operation of the Flood Control System; Budgets. The District will maintain and preserve the Flood Control System in good repair and working order at all times and will operate the Flood Control System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable; provided, however, in so paying the Maintenance and Operation Costs, such payment will not cause the District to fix Flood Control Benefit Assessments in excess of the maximum amount allowed under the Benefit Assessment Act of 1982, as amended, for the applicable Fiscal Year.

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 Subordinate Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget will be made available to each Trustee.

No Superior Liens. The District will not create or allow any lien on or payment from the Flood Control System Revenues or any part thereof prior or superior to the obligation to make the Parity Obligation Payments as provided in the Master Resolution or which might impair the security of any Parity Obligations.

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

Accounting Records and Financial Statements.

(a) The District will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Flood Control System, which records will be available for inspection by each Trustee at reasonable hours and under reasonable conditions.

(b) The District will prepare and file with each Trustee annually within one hundred and twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal year ending June 30, 1994) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the independent certified public accountant who examined such financial statements stating that nothing came to his or her attention in connection with such

examination that caused him or her to believe that the District was not in compliance with any of the agreements or covenants contained in the Master Resolution.

(c) The District will prepare annually not more than one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1994) a summary report showing in reasonable detail the results of the operations of the District for such Fiscal Year and containing a general statement of the physical condition of the facilities, properties, structures or works of the District and the insurance therein being maintained in accordance with the Master Resolution. The District will furnish a copy of such summary report to each Trustee.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Flood Control System or any part thereof when the same will 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 Flood Control System or any part thereof, but the District will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith.

Collection of Flood Control Benefit Assessments and Charges. So long as any Obligations are outstanding, the District will at all times fix, prescribe and collect or cause to be collected the Flood Control Benefit Assessments based on estimated benefit for Flood Control Service in an amount sufficient, together with other Flood Control System Revenues, to meet Debt Service with respect to any Obligations then remaining outstanding; provided, however, the District may forgive such Flood Control Benefit Assessments levied which, in the District's determination, will be more costly to administer the collection of such than the amount to be collected. In lieu of Flood Control Benefit Assessments, the District may, if determined by the District to be necessary to meet Debt Service with respect to any Obligations then remaining outstanding, fix Fees for Flood Control Service to the extent permitted by law; provided, that, the District may, without charge, use the Flood Control Service.

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

1995 INSTALLMENT PURCHASE AGREEMENT, AS AMENDED

DEFINITIONS

Unless the context otherwise requires, capitalized terms used under the caption "1995 INSTALLMENT PURCHASE AGREEMENT, AS AMENDED" will have the meanings defined below. Unless the context otherwise requires, all capitalized terms used below and not defined below will have the meanings ascribed thereto in the Master Resolution and the Trust Agreement.

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 means each component of the 1995 Project as more particularly described in the Installment Purchase Agreement, including such components as may be added, deleted or substituted from time to time as provided in the Installment Purchase Agreement.

Corporation means the Santa Clara Valley Water District Public Facilities Financing Corporation.

Corporation Obligations means the execution and delivery of notes, bonds or other evidence of indebtedness, the proceeds of which will provide financing (i) to complete the remaining Components of the 1995 Project, (ii) to reimburse the District funds advanced by the District and used to pay the preliminary costs related to the planning of the 1995 Project, the acquisition costs of real property and rights-of-way and the construction costs incurred with respect to each such Component of the 1995 Project prior to such date that the Corporation Obligations are issued (such reimbursable amounts to District are referred to in the Installment Purchase Agreement collectively as the "Reimbursable Amounts"), and (iii) to pay the Costs of Issuance related to the issuance of the Corporation Obligations, and any certificates of participation delivered to refinance said Corporation Obligations.

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 Corporation Obligations and the execution and delivery of the Installment Purchase Agreement, including administrative fees, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the trustee (including legal fees), financing discounts, legal fees and charges, insurance premiums, fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for transportation and safekeeping of the Corporation Obligations and charges and fees in connection with the foregoing.

Event of Default means an event described in the Installment Purchase Agreement.

Flood Control System Master Resolution means Resolution No. 94-60 adopted on June 23, 1994, providing for the allocation of Flood Control System Revenues.

Installment Payment Date means ten calendar days prior to each February 1 and August 1 of each year, commencing ten calendar days prior to February 1 or August 1 as provided in the trust agreement related to the Corporation Obligations.

Installment Payments means the Installment Payments scheduled to be paid by the District under and pursuant to the Installment Purchase Agreement.

Installment Purchase Agreement means the Installment Purchase Agreement, dated as of June 27, 1995, 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 with the Installment Purchase Agreement.

Interest Payment Date means each February 1 and August 1, commencing on such date as provided in the trust agreement related to the Corporation Obligations.

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

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.

1995 Project means those certain public facilities, consisting of the Components described in the Installment Purchase Agreement, as may be added, deleted or substituted by the District as provided in the Installment Purchase Agreement, to be acquired and constructed by the District on behalf of the Corporation.

Purchase Price means the amount to be paid by the District to the Corporation for the purchase of the 1995 Project under the terms of the Installment Purchase Agreement.

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

ACQUISITION AND/OR CONSTRUCTION, SALE AND
CONVEYANCE OF THE 1995 PROJECT

Acquisition and/or Construction, Sale and Conveyance of the 1995 Project. (a) The Corporation has agreed to acquire and/or construct each and all Components of the 1995 Project, as applicable, for and to sell and convey each and all such Components of the 1995 Project to the District. In order to implement this provision, the Corporation appointed the District as its agent for the purpose of acquisition and construction of all Components of the 1995 Project and, subject to such construction, the District has agreed 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 1995 Project. The District has further agreed that it will cause the acquisition and construction of the 1995 Project to be diligently prosecuted with all practical dispatch and in an expeditious manner.

As an alternative procedure, the District may hold and expend District funds from any source to pay the costs of planning, acquisition and construction of any Component of the 1995 Project or any portion thereof which expenditures are designated as Reimbursable Amounts. On the Deliver Date of the Corporation Obligations, the District will file with the Corporation a certificate setting forth the purpose and amount of the Reimbursable Amounts advanced by the District for 1995 Project costs.

Commencing in the fiscal year 1995-1996 until such date as the Corporation Obligations are caused to be issued, the District will transfer and cause to be deposited with the Corporation such Flood Control System Revenues after payments of obligations in the order of priorities set forth in the Flood Control System Master Resolution in an account designated as "1995 Corporation Acquisition and Construction Fund" to be held and administered by the District. The Flood Control System Revenues to be deposited in the 1995 Corporation Acquisition and Construction Fund will be held by the District separate and apart from all funds of the District and will be held as amounts advanced by the District and designated as Reimbursable Amounts of the District to be reimbursed to the District upon the issuance of Corporation Obligations. From time to time, pursuant to a written requisition of an Authorized District Representative, the Corporation will authorize the transfer of such amount from the 1995 Corporation Acquisition and Construction Fund to the District to pay such costs of planning, acquisition and construction of such Component of the 1995 Project, in part or whole, as the District will specify in its requisition.

After the execution and delivery of the Corporation Obligations and the deposit of the proceeds of such Corporation Obligations with a trustee named in the trust agreement relating to the Corporation Obligations, the District will, as agent of Corporation, use its best efforts to cause the acquisition and construction of the 1995 Project to be completed as soon as possible, unforeseeable delays beyond the reasonable control of the District only excepted.

The District may add, delete or substitute other improvements for the flood control facilities listed as Components of the 1995 Project in the Installment Purchase Agreement, but only if the District first files with the Corporation (and at such time as Corporation Obligations are issued with the trustee named in the trust agreement relating to the Corporation Obligations) 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 flood control improvements are not less than such costs for the previously planned and/or the Corporation has sufficient funds advanced by the District or Corporation Obligations proceeds to construct and/or acquire the substituted or added flood control improvements; and (3) stating that such added, deleted or substituted flood control improvements will not reduce the Installment Payments payable under the Installment Purchase Agreement and adversely affect the payment of principal and interest evidenced by the Corporation Obligations.

Notwithstanding the above, it is expressly understood and agreed that the Corporation will 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 1995 Project and that all such costs and expenses will

be paid by the District, regardless of whether the funds deposited in the 1995 Corporation Acquisition and Construction Fund are sufficient to cover all such costs and expenses.

Purchase and Sale of 1995 Project. The District purchases from the Corporation, and the Corporation sells to the District, for the Purchase Price, the 1995 Project in accordance with the provisions of the Installment Purchase Agreement. All right, title and interest to each Component of the 1995 Project sold to the District by the Corporation will immediately vest in the District on completion of such Component without further action on the part of the District or the Corporation.

Corporation's Obligation to Issue Corporation Obligations. The Corporation agrees that it will cause the issuance and delivery of Corporation Obligations no later than June 30, 2000. Corporation Obligations will be paid from Installment Payments to be made under the Installment Purchase Agreement and the final maturity date of the Corporation Obligations will be such date, not exceeding 30 years from the delivery date of the Corporation Obligations, mutually determined at the time the Corporation Obligations are issued.

INSTALLMENT PAYMENTS

Purchase Price. The Purchase Price to be paid by the District to the Corporation from the proceeds of the Corporation Obligations under the Installment Purchase Agreement will be the total cost of the acquisition and construction of the 1995 Project (which will include the Reimbursable Amounts), plus all Costs of Issuance, including a reserve surety bond or a cash reserve fund, of any Corporation Obligations.

Notwithstanding any other provision in the Installment Purchase Agreement, the Installment Payments to be paid pursuant to the Installment Purchase Agreement will be designated Series 2000A Installment Payments and Series 2000B Installment Payments. Concurrently with the delivery of any Corporation Obligations, the Chief Financial Officer of the District will prepare schedules of Installment Payments consistent with the annual payment and interest payment due on the Corporation Obligations, evidencing Installment Payments that are Long-Term Parity Obligations (Series 2000A Installment Payments) and Subordinate Obligations (Series 2000B Installment Payments), respectively, issued with the approval of the District and the Corporation and will attach to the Installment Purchase Agreement said schedules. The Chief Financial Officer of the District will also attach to the Installment Purchase Agreement a schedule or schedules if recalculated as provided above.

Installment Payments.

(a) The District will, subject to any rights of prepayment provided in the Installment Purchase Agreement, pay to the Corporation, from available Flood Control System Revenues as provided in the Installment Purchase Agreement and in the Flood Control 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 Corporation Obligations. Upon execution and delivery of the Corporation Obligations, the Installment Payments are to be applied to the payment of the principal and interest evidenced and represented by the Corporation Obligations and Installment Payments will 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 Corporation Obligations. If and to the extent that, on any Installment Payment Date, there are amounts on deposit in a fund established under the trust agreement relating to the Corporation Obligations for the payment of principal and interest represented by the Corporation Obligations, which amounts are not being held for the payment of specific Corporation Obligations, said amounts will be credited against the Installment Payment due on such date. If all or a portion of the Corporation Obligations are no longer outstanding as a result of prepayment, early retirement through purchase by the District or the Corporation or defeasance of such Corporation Obligations, the schedule of Installment Payments to be determined upon execution and delivery of the Corporation Obligations will 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 Corporation Obligations. Upon any such prepayment, purchase or defeasance, the District will

recalculate Installment Payments and will provide the trustee to be named in the trust agreement relating to the Corporation Obligations with a modified schedule of Installment Payments.

(b) Each Installment Payment to be paid upon execution and delivery of the Corporation Obligations will be paid to the trustee to be named in the trust agreement relating to the Corporation Obligations, as assignee of the Corporation, on or before the tenth calendar 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 such trustee to be named in the trust agreement relating to the Corporation Obligations, 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 Corporation Obligations, 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 the Installment Purchase Agreement, such payment will continue as an obligation of the District until such amount will 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 Corporation Obligations, the obligation of the District to make the Installment Payments will become absolute and unconditional, and until such time as the Purchase Price will have been paid in full (or provision for the payment thereof will have been made pursuant to the Installment Purchase Agreement, the District will not discontinue or suspend any Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the 1995 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 will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

(d) Until such time as the Corporation Obligations are issued and the commencement of payment of Installment Payments under the Installment Purchase Agreement, the Installment Payments to be made under the Installment Purchase Agreement will be designated as such subordinated obligation to be paid from Flood Control System Revenues after the District's payment of obligations provided in the Flood Control System Master Resolution, subordinate to the installment payments to be made under the 1994 Installment Purchase Agreement. Concurrently with the issuance of the Corporation Obligations, the District and the Corporation may determine and qualify the Installment Payments payable under the Installment Purchase Agreement to be on a parity with the installment payments payable under the 1994 Installment Purchase Agreement.

FLOOD CONTROL SYSTEM REVENUES

Pledge. The Series 2000A Installment Payments, set forth in the Installment Purchase Agreement, due and payable under the Installment Purchase Agreement are Long-Term Parity Obligations and are due and payable on a parity with the Series 1994A Installment Payments to be made pursuant to the Series 1994A Installment Purchase Agreement. The Series 2000B Installment Payments, set forth in the Installment Purchase Agreement, due and payable under the Installment Purchase Agreement are Subordinate Obligations. All Flood Control System Revenues will be paid as provided in the Flood Control System Master Resolution and such Flood Control System Revenues will not be used for any other purpose while any of the Series 1994A Installment Payments due pursuant to the Series 1994A Installment Purchase Agreement and the Installment Payments due pursuant to the Installment Purchase Agreement remain unpaid. Such pledge will constitute a lien on the Flood Control System Revenues for the payment of Installment Payments at the time and with the priority of payment as set forth in the Installment Purchase Agreement and as provided in the Flood Control System Master Resolution.

Allocation. In order to carry out and effectuate the pledge contained in the Installment Purchase Agreement, the District has agreed and covenanted in the Flood Control System Master Resolution that all Flood Control System Revenues will be received by the District in trust and will be deposited when and as received in

the Flood Control System Revenue Fund. All moneys in the Flood Control System Revenue Fund will be so held in trust and applied and used solely as provided in the Flood Control System Master Resolution. Upon execution and delivery of the Corporation Obligations, the District will pay from the Flood Control System Revenues to the trustee named in the trust agreement related to the Corporation Obligations, as assignee of the Corporation, the Installment Payments as and when due under the Installment Purchase Agreement.

COVENANTS OF THE DISTRICT

Compliance with Installment Purchase Agreement. The District will punctually pay the Installment Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement 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 1995 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 in the Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Agreement 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 Installment Purchase Agreement required to be observed and performed by it, and it is expressly understood and agreed by and between the parties to the Installment Purchase Agreement that, subject to therein, each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the purchase of and payment for the 1995 Project by the District pursuant to, and in accordance with, and as authorized under, the Law.

The District will maintain or cause to be maintained reserve funds at the reserve requirements established by the trust agreement providing for the issuance of the Corporation Obligations. In the event the amount in a reserve fund falls below the reserve requirement of that reserve fund, the District will replenish said reserve fund up to the reserve requirement from the first available Flood Control System Revenues and any other legally available moneys of the District as provided in the Installment Purchase Agreement or as otherwise permitted under the trust agreement.

Use of Proceeds of Corporation Obligations. Upon execution and delivery of the Corporation Obligations, the District and the Corporation agree that the proceeds of the Corporation Obligations will be used by the District, as agent of the Corporation, to acquire and construct the 1995 Project and to pay the Costs of Issuance, all as to be further designated by the trust agreement relating to the Corporation Obligations.

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 1995 Project and will keep the 1995 Project free of any and all liens against any portion of the 1995 Project or the Corporation interest therein. In the event any such lien attaches to or is filed against any portion of the 1995 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 will be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment. 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 1995 Project or the Corporation interest therein.

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 Flood Control 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 will not be required to pay such claims if the validity thereof will be contested in good faith.

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 1995 Project and all other contracts affecting or involving the 1995 Project to the extent that the District is a party thereto.

Protection of Security and Rights of the Corporation. The District will preserve and protect the security under the Installment Purchase Agreement and the rights of the Corporation to the Installment Payments under the Installment Purchase Agreement and will warrant and defend such rights against all claims and demands of all persons.

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 the Installment Purchase Agreement.

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 under the Installment Purchase Agreement and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it in the Installment Purchase Agreement.

RIGHT TO PREPAY

Right to Prepay. On such date as to be specified in a trust agreement relating to the Corporation Obligations, the District will have the right to cause the Corporation Obligations to be prepaid in accordance with the related provisions of such trust agreement, by providing the trustee with funds sufficient for such purpose (which funds may be derived by the District from any source) and giving notice as provided in the Installment Purchase Agreement. Any such prepayment of Corporation Obligations will cause a recalculation of the schedule of Installment Payments, as provided in the Installment Purchase Agreement. The District and the Corporation acknowledge that the Corporation Obligations may be subject to mandatory sinking fund payment from the principal components of Installment Payments on the dates, at the terms and in the amounts to be provided in the trust agreement relating to such Corporation Obligations. The District may prepay the Installment Payments in whole or in part on any date, from and to the extent of any Net Proceeds or other moneys as to be provided in the trust agreement relating to such Corporation Obligations.

Notice. Before exercising its right to cause Corporation Obligations to be prepaid pursuant to the Installment Purchase Agreement, the District will give written notice to the trustee and of its intention to exercise such right, specifying the date on which such prepayment will be made, which date will be not less than forty-five (45) nor more than sixty (60) days from the date such notice is given, and specifying the amounts and maturities of Corporation Obligations to be prepaid.

EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

Events of Default. If one or more of the following Events of Default will happen, that is to say: (1) if default will be made in the due and punctual payment of the Installment Payments as the same will become due and payable; (2) if default will be made by the District in the performance of any of the agreements or covenants

required in the Installment Purchase Agreement to be performed by it (other than as specified in (1) above), and such default will have continued for a period of sixty (60) days after the District will have been given notice in writing of such default by the Corporation; provided, however, that in the event the failure stated in the notice cannot be corrected within such period, then no event of default will be deemed to have occurred under the Installment Purchase Agreement so long as the District has instituted corrective actions within such period and is diligently pursuing to correct such default; or (3) if the District will 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 will 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 will assume custody or control of the District or of the whole or any substantial part of its property.

Remedies of the Corporation. The Corporation will 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 in the Installment Purchase Agreement; (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.

Non-Waiver. Nothing in the Installment Purchase Agreement will 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 Flood Control System Revenues and the other amounts in the Installment Purchase Agreement committed for such payment, or will 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 in the Installment Purchase Agreement.

A waiver of any default or breach of duty or contract by the Corporation will 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 will impair any such right or remedy or will 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 the Installment Purchase Agreement may be enforced and exercised from time to time and as often as will 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 will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred in the Installment Purchase Agreement upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Installment Purchase Agreement or 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.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations. If the Corporation will pay or cause to be paid or there will otherwise be paid to the Owners of all outstanding Corporation Obligations the interest and principal evidenced and represented thereby and the prepayment premiums, if any, thereon or if all outstanding Corporation Obligations will be deemed to have been paid at the times and in the manner stipulated in the trust agreement relating to the

Corporation Obligations, then all agreements, covenants and other obligations of the District under the Installment Purchase Agreement will thereupon cease, terminate and become void and be discharged and satisfied.

MISCELLANEOUS

Liability of District Limited to Flood Control System Revenues. Notwithstanding anything contained in the Installment Purchase Agreement, the District will not be required to advance any moneys derived from any source of income other than the Flood Control System Revenues as provided in the Installment Purchase Agreement for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The District may, however, but in no event will 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 from such Flood Control System Revenues as provided under the Installment Purchase Agreement, 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.

Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained in the Installment Purchase Agreement, 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 to the Installment Purchase Agreement, and any agreement or covenant required in the Installment Purchase Agreement to be performed by or on behalf of the District or the Corporation will be for the sole and exclusive benefit of the other party.

Amendments. The Installment Purchase Agreement may be amended in writing as may be mutually agreed by the District and the Corporation, and upon execution and delivery of the Corporation Obligations, by the Owners of sixty percent or more (60%) in aggregate amount of Corporation Obligations outstanding; provided that upon execution and delivery of the Corporation Obligations, no such amendment will (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, or (b) reduce the percentage of Corporation Obligations the consent of the Owners of which is required for the execution of any amendment of the Installment Purchase Agreement.

The Installment Purchase Agreement and the rights and obligations of the District and the Corporation under the Installment Purchase Agreement may also be amended or supplemented at any time by an amendment or supplement to the Installment Purchase Agreement which will 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 the Installment Purchase Agreement and is not inconsistent with the Installment Purchase Agreement and does not adversely affect the exclusion of interest on the Corporation Obligations 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 the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Installment Purchase Agreement reserved to or conferred upon the Corporation or the District, and which will not materially adversely affect the interests of the Owners of the Corporation Obligations; (2) to cure, correct or supplement any ambiguous or defective provision contained in the Installment Purchase Agreement or in regard to questions arising under the Installment Purchase Agreement, as the Corporation or the District may deem necessary or desirable and which will not materially adversely affect the interests of the Owners of the Corporation Obligations; or (3) to make such other amendments or modifications which will not materially adversely affect the interests of the Owners of the Corporation Obligations.

Successor Is Deemed Included in all References to Predecessor. Whenever either the District or the Corporation is named or referred to in the Installment Purchase Agreement, such reference will 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 to be performed by or on behalf of the District or the Corporation will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability. No official, officer or employee of the District will be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Purchase Agreement will relieve any official, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement.

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

Assignment. The Installment Purchase Agreement and any rights under the Installment Purchase Agreement 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 the Installment Purchase Agreement to the trustee named in the trust agreement relating to the Corporation Obligations concurrently with the delivery of the Corporation Obligations will be done solely in its capacity as trustee under the Installment Purchase Agreement.

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

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms defined below for all purposes below will have the meanings defined below, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined below. Unless the context otherwise requires, all capitalized terms used below and not defined below will have the meanings ascribed thereto in the Installment Purchase Agreement.

Acquisition and Construction Fund means the fund referred to by that name established pursuant to the Trust Agreement.

Annual Debt Service means, for any Certificate Year, the sum of (1) the interest payable with respect to all Outstanding Certificates in such Certificate Year, assuming that all Outstanding serial Certificates are retired and term Certificates are prepaid as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any Certificates), and (2) the principal amount of all Outstanding Certificates due in such Certificate Year.

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

Average Annual Debt Service means the amount determined by dividing the sum of all Annual Debt Service amounts due in each of the Certificate Years following the date of such calculation by the number of such Certificate Years.

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 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 the Trust Agreement.

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.

Central Zone means that certain geographical zone of the District which includes portions of the communities of Santa Clara, San Jose, Campbell, Monte Sereno, and Los Gatos, and covers the tributaries of the Guadalupe River Watershed.

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 means an instrument in writing signed by the Chairman of the Board of Directors or the Chief Operating Officer for Watersheds of the District, or by any other official of the District duly authorized for that purpose.

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

Certificates means the Santa Clara Valley Water District Refunding and Improvement Certificates of Participation, Series 2007A.

Certificate Rebate Fund means the Certificate Rebate Fund established pursuant to the Trust Agreement.

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

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.

Computation Year means with respect to the Certificates the period beginning on the Delivery Date and ending on February 1, 2008 and thereafter each successive twelve month period commencing on February 2 and ending on the following February 1.

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.

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 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, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, 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.

Delivery Date means the date on which the Certificates are delivered to the original purchaser thereof.

Depository means the securities depository acting as Depository pursuant to the Trust Agreement.

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 means The Depository Trust Company, New York, New York and its successors.

East Zone means that certain geographical zone of the District which includes the City of Milpitas and portions of the cities of San Jose and Morgan Hill, and covers the tributaries of the Coyote Creek Watershed.

Escrow Agreement means that certain Escrow Agreement dated as of November 1, 2005, by and between the District and U.S. Bank National Association, as escrow agent thereunder.

Event of Default will have the meaning specified under the caption "EVENTS OF DEFAULT AND REMEDIES OF OWNERS – Events of Default".

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 thereafter selected and designated by the Board of Directors of the District as the Fiscal Year of the District prescribed by law for community services districts in the State of California.

Flood Control System Master Resolution means Resolution No. 94-60 adopted on June 23, 1994.

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 means a date on which interest is due with respect to the Certificates, being each February 1 and August 1, commencing August 1, 2007.

Interest Payment Period means the period from and including the Delivery Date to and including July 31, 2007 and each successive six-month period thereafter commencing August 1 to and including the next succeeding January 31 and commencing February 1 to and including the next succeeding July 31.

Late Payment Rate means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest with respect to the Certificates and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate will be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that JPMorgan Chase Bank ceases to announce its prime rate publicly, prime rate will be the publicly announced prime or base lending rate of such national bank as the Surety Bond Provider will specify.

Letter of Representations or Representation Letter means the letter of the Trustee and 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 means the maximum annual principal and interest payments under the Installment Purchase Agreement allocable to the Certificates for any Certificate Year.

Moody's or Moody's Investors Service means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation will for any reason no longer perform the functions of a securities rating agency, such terms will be deemed to refer to any other nationally recognized rating agency designated by the District.

Nominee means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

North Central Zone means that certain geographical zone of the District which includes the City of Saratoga and portions of the cities of Sunnyvale, Santa Clara, Campbell, Cupertino, Monte Sereno, San Jose, and Los Gatos, and covers the watersheds that flow into Guadalupe Slough, which include Sunnyvale East and West Outfalls, Calabazas Creek, and San Tomas Aquino Creek.

Northwest Zone means that certain geographical zone of the District which includes the cities of Palo Alto, Los Altos, Los Altos Hills, and Mountain View and portions of Cupertino and Sunnyvale, and covers the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek which are also referred to as the Lower Peninsula Watersheds.

Opinion of Counsel means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Corporation or the District.

Outstanding when used as of any particular time with reference to Certificates of each series, means (subject to the provisions of the Trust Agreement) all Certificates theretofore or thereupon executed by the Trustee pursuant to the Trust Agreement, 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 the Trust Agreement; and (3) Certificates in lieu of or in substitution for which other Certificates will have been executed by the Trustee and delivered pursuant to the Trust Agreement.

Owner means any person who will be the registered owner of any Outstanding Certificate, as shown on the registration books required to be maintained by the Trustee pursuant to the Trust Agreement.

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 means any of the following to the extent then permitted by law: (i) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee (Direct Obligations"); (ii) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of Freddie Mac ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of Fannie Mae ("FNMA's"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of Ginnie Mae ("GNMA's"); guaranteed participation certificates and

guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of Sallie Mae; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities; (iii) direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P; (iv) commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, "P-1" by Moody's and "A-1" or better by S&P; (v) Federal funds, unsecured certificates of deposit, deposit accounts, time deposits or bankers acceptances (in each case having maturities of not more than 365 days) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank, which, at the time of purchase, has a short-term "Bank Deposit" rating of "P-1" by Moody's and a "Short-Term CD" rating of "A-1" or better by S&P; (vi) deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation; (vii) investments in money-market funds rated "AAAm" or "AAAm-G" by S&P; (viii) repurchase agreements collateralized by Direct Obligations, GNMMAs, FNMMAs or FHLMMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million or (iii) the Trustee will have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%; (ix) investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P; and (x) the Local Agency Investment Fund of the State of California.

Prepayment Date means the date fixed for such prepayment.

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

Related Document means the Flood Control System Master Resolution and the Installment Purchase Agreement.

S&P or Standard & Poor's Ratings Services means Standard & Poor's Ratings Services, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation will for any reason no longer perform the functions of a securities rating agency, such terms will be deemed to refer to any other nationally recognized securities rating agency designated by the District.

Series 2005A Payment Fund means the Series 2005A Payment Fund established pursuant to the Trust Agreement.

Series 2005A Reserve Fund means the Series 2005A Reserve Fund established pursuant to the Trust Agreement.

Series 2005A Reserve Requirement means, initially, an amount equal to the least of (i) 10% of the proceeds of the Certificates, (ii) Maximum Annual Debt Service, or (iii) 125% of the Average Annual Debt Service and thereafter on any date of calculation, Maximum Annual Debt Service.

Securities Depositories will mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax 516/227-4039 or 4190 or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories as the Corporation or the District may designate in a Certificate of the Corporation or a Certificate of the District, as the case may be, to the Trustee.

Securities Exchange Act means the Securities Exchange Act of 1934, as amended.

State means the State of California.

Surety Bond means the debt service surety bond issued by the Surety Bond Provider guaranteeing the payment of principal of and interest with respect to the Certificates.

Surety Bond Costs means the repayment of draws on the Surety Bond and payment of expenses and accrued interest thereon, at the Late Payment Rate.

Surety Bond Provider means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

Tax Certificate means the Tax Certificate delivered by the District on the Delivery Date, as the same may be amended or supplemented in accordance with its terms.

Trust Agreement means the Trust Agreement, dated as of November 1, 2005, 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 of the Trust Agreement.

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 the Trust Agreement.

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 means an instrument in writing signed by the Chairman of the Board of Directors or the Chief Operating Officer for Watersheds of the District, or by any other official of the District duly authorized for that purpose.

Written Request of the Chief Operating Officer for Watersheds means an instrument in writing signed by the Chief Operating Officer for Watersheds of the District (or his or her designee), or by any other official of the District duly authorized for that purpose.

CONDITIONS AND TERMS OF CERTIFICATES

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 the Trust Agreement 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 will be surrendered for transfer, the Trustee will execute and deliver a new Certificate or Certificates of authorized denominations of the same Certificate Payment Date evidencing and representing the same aggregate principal amount. The Trustee will 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 will be overdue or not, and the Trustee will 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 will be made only to such Owner, which payments will be valid and effectual to satisfy and discharge liability on such Certificate to the extent of the sum or sums so paid.

The Trustee will 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.

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. The Trustee will 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 will 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.

Registration Books. The Trustee will keep at its office sufficient books for the registration of the ownership, transfer and exchange of the Certificates which will 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 will, under such reasonable regulations as it may prescribe, register the Ownerships or transfer and exchange of the Certificates in such books as provided in the Trust Agreement.

Mutilated, Destroyed, Stolen or Lost Certificates. If any Certificate becomes mutilated, the Trustee, at the expense of the Owner thereof, will thereupon execute and deliver a new Certificate of like 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 will be cancelled by the Trustee.

If any Certificate is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee will be given, the Trustee, at the expense of the Owner, will thereupon execute and deliver a new Certificate of like 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 the Trust Agreement 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 the Trust Agreement in lieu of any Certificate alleged to be lost, destroyed or stolen will be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates executed and delivered under the Trust Agreement. Neither the District, the Corporation nor the Trustee will 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 under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate will be treated as one and the same.

PREPAYMENT OF CERTIFICATES

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, the Trustee will select the Certificates of such maturity date to be prepaid in any manner that it deems appropriate and fair and will promptly notify the District in writing of the numbers of the Certificates so selected for prepayment. For purposes of such selection, Certificates will 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.

INSTALLMENT PAYMENTS

Pledge of Installment Payments. All Installment Payments will be paid directly by the District to the Trustee and if received by the Corporation at any time will be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Installment Payments received by the Trustee will be held in trust by the Trustee under the terms of the Trust Agreement. The Installment Payments will be deposited by the Trustee as and when received in the Series 2005A Payment Fund, which fund the Trustee has established and maintains so long as any Certificates are Outstanding. All money in the Series 2005A Payment Fund will be held in trust by the Trustee for the benefit of the Owners of the Certificates. The District and the Corporation pledged and granted a lien on the Series 2005A Payment Fund to the Trustee for the benefit of the Owners of the Certificates.

Receipt and Deposit of Installment Payments in the Series 2005A Payment Fund; Use of Money in the Series 2005A Payment Fund. In order to carry out and effectuate the pledge contained in the Trust Agreement, subject to the provisions of the Trust Agreement, the Trustee will deposit the Installment Payments when and as received in trust in the Series 2005A Payment Fund for the benefit of the Owners of the Certificates. All Installment Payments will be accounted for through and held in trust. All Installment Payments deposited with the Trustee as provided in the Trust Agreement will nevertheless be allocated, applied and disbursed solely to the purposes and uses in the Trust Agreement set forth, and will be accounted for separately and apart from all other accounts, funds, money or other resources of the Trustee.

Money in the Series 2005A Payment Fund will be used and withdrawn by the Trustee for the purpose of paying (i) the interest evidenced and represented by the Certificates as it will become due and payable (including accrued interest evidenced and represented by the Certificates purchased or prepaid prior to maturity), and (ii) the principal evidenced and represented by the Certificates as it will become due and payable.

Any moneys which, pursuant to the Installment Purchase Agreement, are to be used to prepay the Certificates pursuant to the Trust Agreement will be deposited by the Trustee in the Series 2005A Payment Fund. The Trustee will, on the scheduled prepayment date, withdraw from the Series 2005A Payment Fund and pay to the Owners entitled thereto an amount equal to the prepayment price of the Certificates to be prepaid on such date plus interest evidenced and represented by the Certificates to the Prepayment Date.

The Series 2005A Reserve Fund. There is created with the Trustee the "Series 2005A Reserve Fund" under the Trust Agreement which the Trustee will maintain and hold in trust separate and apart from other funds held by it. The District will deposit the Surety Bond in the Series 2005A Reserve Fund and will apply the Surety Bond in accordance with the Trust Agreement.

As long as the Surety Bond will be in effect and the Surety Bond Provider will not have defaulted in its payment obligations thereunder, the District and Trustee agree to comply with the following provisions:

(a) If prior to any Interest Payment Date the money in the Series 2005A Payment Fund is insufficient to make the payments with respect to the Certificates required by the Trust Agreement on such Interest Payment Date, the Trustee will provide notice to the Surety Bond Provider under the terms of the Surety Bond at least five business days prior to such Interest Payment Date. The Surety Bond Provider will make payment under the Surety Bond to the Trustee on the Interest Payment Date or the business day next following the business day on which the Surety Bond Provider will have received notice.

(b) The District will repay any draws under the Surety Bond and pay all related reasonable expenses incurred by the Surety Bond Provider payable from Flood Control Benefit Assessments subordinate to payments made with respect to Bonds and Contracts. Interest will accrue and be payable on such draws and expenses from the date of payment by the Surety Bond Provider at the Late Payment Rate. Repayment of Surety Bond Costs will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12 of the aggregate of Surety Bond Costs related to such draw.

Amounts in respect of Surety Bond Costs paid to the Surety Bond Provider will be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Surety Bond Provider on account of principal due, the coverage under the Surety Bond will be increased by a like amount, subject to the terms of the Surety Bond.

All cash and investments in the Series 2005A Reserve Fund will be transferred to the Series 2005A Payment Fund for payment of debt service or principal with respect to the Certificates before any drawing may be made on the Surety Bond or any other credit facility credited to the Series 2005A Reserve Fund in lieu of cash. Payment of any Surety Bond Costs will be made prior to replenishment of any such cash amounts. Draws on all credit facilities (including the Surety Bond) on which there is available coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Series 2005A Reserve Fund. Payment of Surety Bond Costs and reimbursement of amounts with respect to other credit facilities will be made on a pro-rata basis prior to replenishment of any cash drawn from the Series 2005A Reserve Fund.

(c) If the District will fail to pay any Surety Bond Costs in accordance with the requirements of the Trust Agreement, the Surety Bond Provider will be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Trust Agreement other than (i) acceleration of the maturity of the Certificates or (ii) remedies which would adversely affect Owners of the Certificates.

The Surety Bond will expire on the earlier of the date the Certificates are no longer outstanding and the final maturity date of the Certificates.

Investment of Moneys in Funds. Moneys in the funds established under the Trust Agreement will, in accordance with a Written Request of the Chief Operating Officer for Watersheds 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 Chief Operating Officer for Watersheds of the District to invest in investments that such investments are Permitted Investments. In the absence of a Written Request of the Chief Operating Officer for Watersheds of the District, the Trustee will invest moneys in interest or clause (vii) of the definition of Permitted Investments. The obligations in which moneys in the said funds are invested will mature on or prior to the date on which such moneys are estimated to be required to be paid out under the Trust Agreement. The obligations in

which moneys in the Reserve Fund are so invested will be invested in obligations maturing no later than ten years after the date of investment; provided no such investment will mature later than the final Certificate Payment Date of the Certificates; provided further, if such investments may be redeemed at par so as to be available on each Interest Payment Date, any amount of the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final Certificate Payment Date of the Certificates. The Trustee will 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 the Trust Agreement. Notwithstanding anything in the Trust Agreement to the contrary, the Trustee will not be responsible for any loss from investments, sales or transfers undertaken in accordance with the Trust Agreement. Any interest, income or profits from the deposits or investments of money in the Series 2005A Reserve Fund (except to the extent required by the Trust Agreement) will be deposited in the Series 2005A Payment Fund. For purposes of determining the amount of deposit in any fund held under the Trust Agreement, all Permitted Investments credited to such fund will be valued at the market value thereof. Except as otherwise provided in the Trust Agreement, Permitted Investments representing an investment of moneys attributable to any fund and all investment profits or losses thereon will be deemed at all times to be a part of said fund. To the extent that Permitted Investments are registerable securities, such Permitted Investments will 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 authorized under the Trust Agreement, in making or disposing of any investment permitted by the Trust Agreement, 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 under the Trust Agreement.

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

Application of the 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 Certificates will not be adversely affected, the District will cause to be deposited in the Certificate Rebate Fund such amounts as are required to be deposited therein pursuant to the Trust Agreement and the Tax Certificate. Within the Certificate Rebate Fund, there will 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 will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Certificate Rebate Fund will be governed by the Trust Agreement 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 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 Certificate Rebate Fund:

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

exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the 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 will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Trust Agreement; (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 will 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 will equal the amount of Rebatable Arbitrage so calculated in accordance with (i) of paragraph (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 will withdraw the excess from the Rebate Account and then credit the excess to the Series 2005A Payment Fund; and (iii) Payment to the Treasury. The Trustee will 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 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 will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to paragraph (b)(1) will be made to the Internal Revenue Service Center on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038 T, or will 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 will 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 will 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 will 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 paragraph (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 paragraph (b)(2)(iii) below, the Trustee, at the written direction of a representative of the District, will withdraw the excess from the Alternative Penalty Account and credit the excess to the Series 2005A Payment Fund; and (iii) Payment to the Treasury. The Trustee will 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 will 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 paragraph (b)(2) will be made to the Internal Revenue Service on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038 T or will be made in such other manner as provided under the Code.

(c) Disposition of Unexpended Funds. Any funds remaining in the Certificate Rebate Fund after prepayment and payment of the principal and interest evidenced and represented by the Certificates, the payments described in paragraph (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 the Trust Agreement to the contrary, the obligation to comply with the requirements of the Trust Agreement will survive the defeasance of the Certificates.

(e) Duty of Trustee. The Trustee will be fully protected and will be deemed to have complied with the provisions of the Trust Agreement if it complies with the written directions of the District delivered pursuant to the Trust Agreement and the Trustee will have no responsibility to enforce compliance by the District with the Tax Certificate.

COVENANTS

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 of the Trust Agreement; and neither the Corporation nor the District will suffer or permit any default by them to occur under the Trust Agreement, but each will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement 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 thereafter 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 thereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges will be maintained and preserved and will not be abandoned, forfeited or in any manner impaired.

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 Certificates is includable in gross income of the recipient under federal income tax laws. Notwithstanding any other provision of the Trust Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest evidenced and represented by the 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 Certificates or of any other moneys or property which would cause the 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 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 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 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 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 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 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 Certificates and will comply with the covenants and requirements stated therein and incorporated by reference in the Trust Agreement.

Accounting Records and Statements. The Trustee will keep proper books of record and account in accordance with industry standards in which complete and correct entries will 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 will specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and will 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 will 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, 2006, 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 under the Trust Agreement for the preceding fiscal year. In addition, the Trustee will provide the District with a monthly accounting of the funds and accounts held under the Trust Agreement; provided, that the Trustee will 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.

Installment Purchase Agreement and Other Documents. 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 under the Installment Purchase Agreement.

Other Liens. The District will keep the Series 1995 Project free from judgments, mechanics, and materialmen's liens (except those arising from the acquisition, construction and installation of the Series 1995 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 in the Trust Agreement 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 Series 1995 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 will not be obligated to) defend against any and all actions or proceedings in which the validity of the Trust Agreement 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 will 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 in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity of the Trust Agreement and the pledge of the Installment Payments made in the Trust Agreement and to perform such agreements and covenants.

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 Series 1995 Project, whether now existing or thereafter developing, and will prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and will 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 under the Trust Agreement; provided that the Trustee at its election may appear in and defend any such suit, action or proceeding.

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 under the Trust Agreement.

Acquisition of the Series 1995 Project and Sale of the Series 1995 Project. The Corporation will acquire the Series 1995 Project, or cause the Series 1995 Project to be acquired, with the proceeds of the Certificates and will sell the Series 1995 Project to the District pursuant to the Installment Purchase Agreement.

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 2005A Payment Fund under the Trust Agreement 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 Owners and the rights of the Trustee under the Trust Agreement (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 described in the Trust Agreement.

THE TRUSTEE

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

Prior to any resignation by the Trustee pursuant to the Trust Agreement, the Trustee will faithfully observe and perform all lawful and valid obligations or regulations now or thereafter 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 thereafter acquired by it, including its right to exist and carry on its business, to the end that such franchises, rights and privileges will be maintained and preserved and will not be abandoned, forfeited or in any manner impaired.

Whenever provision is made in the Trust Agreement for the cancellation by the Trustee of any Certificates, the Trustee will destroy such Certificates and deliver a certificate of such destruction to the District.

Duties, Immunities and Liabilities of Trustee. The Trustee will, 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 the Trust Agreement and no implied duties or obligations will be read into the Trust Agreement against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the 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.

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 will 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 will cease to be eligible in accordance with paragraph (e) below or will become incapable of acting, or will commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property will be appointed, or any public officer will 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 will appoint a successor Trustee by an instrument in writing.

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 will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee is appointed and has accepted appointment within thirty (30) 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 the Trust Agreement will signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will 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 in the Trust Agreement; but, nevertheless, at the written request of the District or of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Trust Agreement. Upon request of the successor Trustee, the District will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, such successor Trustee will mail a notice of the succession of such Trustee to the trusts under the Trust Agreement by first class mail, postage prepaid, to the Owners at their addresses listed in the bond register.

Any Trustee appointed under the provisions of the Trust Agreement will 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 paragraph the combined capital and surplus of such bank or trust company will 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 will cease to be eligible in accordance with the provisions of the Trust Agreement, the Trustee will resign immediately in the manner and with the effect specified in the Trust Agreement.

No provision in the Trust Agreement will require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement.

The Trustee will 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 under the Trust Agreement or under the Installment Purchase Agreement.

The Trustee will 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 the Trust Agreement. The Trustee may employ attorneys, agents or receivers in the performance of any of its duties under the Trust Agreement and will not be answerable for the misconduct of any such attorney, agent or receiver selected by it with reasonable care.

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 will 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 will be eligible under the Trust Agreement, will succeed to the rights and obligations of such Trustee without the execution or filing of any paper or any further act, anything in the Trust Agreement to the contrary notwithstanding.

Compensation and Indemnification. The District will pay the Trustee, or cause the Trustee to be paid, reasonable compensation for its services rendered under the Trust Agreement and will reimburse the Trustee for reasonable expenses (including reasonable fees and expenses of its attorneys) incurred by the Trustee in the performance of its obligations under the Trust Agreement.

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 the Trust Agreement, including performance of their duties under the Trust Agreement, 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 under the Trust Agreement. Such indemnity will survive the termination or discharge of the Trust Agreement and resignation or removal of the Trustee.

Liability of Trustee. The recitals of facts in the Trust Agreement and in the Certificates contained will 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 the Trust Agreement, the Installment Purchase Agreement or of the Certificates, and will incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Certificates assigned to or imposed upon it. The Trustee will, however be responsible for its representations contained in its certificate of execution on the Certificates. The Trustee will not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct. The Trustee may become the Owner of Certificates with the same rights it would have if it were not Trustee or and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee will represent the Owners of a majority in aggregate amount of Certificates then Outstanding. The Trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless the Trustee will have been negligent in ascertaining the pertinent facts. The Trustee will 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 the Trust Agreement. The Trustee will 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 the 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 under the Trust Agreement will not be construed as a mandatory duty. The Trustee will not be deemed to have knowledge of any Event of Default under the Trust Agreement unless and until it will have actual knowledge thereof, or will have received written notice thereof at the Corporate Trust Office of the Trustee. Except as otherwise expressly provided in the Trust Agreement, and subject to the Trust Agreement, the Trustee will not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Trust Agreement or of any of the documents executed in connection with the Certificates, or as to the existence of an Event of Default under the Trust Agreement. The Trustee will not be responsible for the validity or effectiveness of any collateral given to or held by it. The Trustee makes no representations with respect to any information, statement, or recital in, and will have no liability with respect to, any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates. The immunities extended to the Trustee also extend to its directors, officers, employees and agents. The permissive right of the Trustee to do things enumerated in the Trust Agreement will not be construed as a duty.

Right to Rely on Documents. The Trustee will 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 will be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance with the Trust Agreement.

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

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Trust Agreement will be retained in its possession and will 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.

AMENDMENT OF THE TRUST AGREEMENT

Amendment of the Trust Agreement. The Trust Agreement and the rights and obligations of the District, the Corporation and of the Owners may be amended at any time by a supplemental trust agreement which will become binding with the written consent of the Owners of at least sixty percent (60%) in aggregate amount of Certificates then outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement. Any rating agency then rating the Certificates will receive a notice of each amendment of the Trust Agreement and will receive a copy thereof at least 15 days in advance of the execution or adoption of such amendment. No such amendment will (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the District to pay the interest or principal or prepayment premium, if any, evidenced and represented by the Certificates at the time and place and at the rate and in the currency provided in the Trust Agreement without the express written consent of the Owner of such Certificates, or (2) permit the creation by the District of any pledge of the Installment Payments as provided in the Trust Agreement superior to or on a parity with the pledge created by the Trust Agreement for the benefit of the Certificates except as provided in the Installment Purchase Agreement, or (3) modify any rights or obligations of the Trustee without its prior written assent thereto.

The Trust Agreement and the rights and obligations of the District and of the Owners may also be amended at any time by a supplemental trust agreement which will become binding upon adoption without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving opinion of Special Counsel and only for any one or more of the following purposes: (a) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the District may deem desirable or necessary and not inconsistent with the Trust Agreement and which will not materially adversely affect the interests of the Owners; or (b) to make any other change or addition thereto which will not materially adversely affect the interests of the Owners, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the District.

Disqualified Certificates. Certificates owned or held by or for the account of the Corporation or the District will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement, and will not be entitled to consent to or take any other action provided in the Trust Agreement.

Endorsement or Replacement of Certificates After Amendment. After the effective date of any action taken as described above 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 will be made on such Certificate. If the Corporation or the District will so determine, new Certificates so modified as, in the opinion of the Corporation or the District, will be necessary to conform to such action will be prepared and executed, and in that case upon demand of the Owner of any Outstanding Certificate such new Certificates will 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.

Amendment by Mutual Consent. The provisions of the Trust Agreement will 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.

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Events of Default. The following provisions relate to the Certificates. If one or more of the following events (referred to as "Events of Default" in the Trust Agreement) will happen: (a) if default will be made in the District's payment of the Installment Payments when and as the same will become due and payable as specified in the Installment Purchase Agreement or will have failed to make any other payment required to be paid under the Installment Purchase Agreement at the time specified in the Installment Purchase Agreement; or (b) if default will be made by the District in the performance of any of the other agreements or covenants required in the Trust Agreement or in the Installment Purchase Agreement to be performed by the District, and such default will have continued for a period of sixty (60) days after the District will have been given notice in writing of such default by the Trustee; provided, however, that if the failure stated in the notice cannot be corrected within such period, then no event of default will be deemed to have occurred under the Trust Agreement so long as the District has instituted corrective actions within such period and is diligently pursuing to correct such default.

Proceedings by Trustee. Upon the happening and continuance of any Event of Default the Trustee will immediately at the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Certificate Obligation Outstanding (but only to the extent indemnified to its satisfaction from fees and expenses, including attorneys' fees), 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 in the Trust Agreement 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 under the Trust Agreement 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.

Non-Waiver. A waiver of any default under the Trust Agreement or breach of any obligation by the Trustee under the Trust Agreement or by the Corporation or the District under the Installment Purchase Agreement will not affect any subsequent default under the Trust Agreement or any subsequent breach of an obligation by the Trustee under the Trust Agreement or impair any rights or remedies on any such subsequent default under the Trust Agreement or on any such subsequent breach of an obligation by the Trustee under the Trust Agreement. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default under the Trust Agreement will impair any such right or remedy or will be construed to be a waiver of any such default under the Trust Agreement or an acquiescence under the Trust Agreement, and every right or remedy conferred upon the Trustee by applicable law or by the Trust Agreement may be enforced and exercised from time to time and as often as will 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 will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Application of Funds. All moneys on deposit in the funds and accounts held under the Trust Agreement (other than the Certificate Rebate Fund) and all moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or the Installment Purchase Agreement will be deposited in a segregated account in the Series 2005A Payment Fund, and will 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 will 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 will 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 will 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.

Remedies Not Exclusive. No remedy conferred in the Trust Agreement upon or reserved in the Trust Agreement to the Trustee is intended to be exclusive and all remedies will be cumulative and each remedy will be in addition to every other remedy given under the Trust Agreement or now or thereafter 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.

No Liability by the Corporation to the Owners. Except as expressly provided in the Trust Agreement, the Corporation will 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 in the Trust Agreement required to be observed or performed by it, or with respect to the performance by the Trustee of any obligation contained in the Trust Agreement required to be performed by it.

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 in the Trust Agreement required to be observed or performed by it, the District will not have any obligation or liability to the Owners with respect to the Trust Agreement 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 in the Trust Agreement required to be performed by it.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee will 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 in the Trust Agreement required to be observed and performed by the District. The recitals of facts, covenants and agreements contained in the Trust Agreement and in the Certificates will 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 will incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Certificates assigned to or imposed upon the Trustee.

Actions by the Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner will have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated, and the Trustee has been appointed (and the successive respective Owners, by taking and holding the same, will 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 will have been first provided with indemnity adequate to it.

Power of the Trustee to Control Proceedings. In the event that the Trustee, upon the occurrence of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement whether upon its own discretion or upon the request of the Owners of the Certificates, of at least ten percent (10%) in aggregate principal amount of the Certificates then outstanding, it will 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; provided, that the Trustee will not, unless there no longer continues an Event of Default under the Trust Agreement, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with the Trustee a written request signed by the Owners of the Certificates of at least a majority in aggregate principal amount of the Certificates then outstanding, together with indemnification satisfactory to the Trustee, opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

DEFEASANCE

Discharge of Certificates and Trust Agreement.

(a) If the Trustee will pay or cause to be paid or there will 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 in the Trust Agreement and therein, then such Owners evidenced and represented thereby will cease to be entitled to the pledge of and lien on the moneys in the Series 2005A Payment Fund and the Series 2005A Reserve Fund as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District to said Owners under the Trust Agreement will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will 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 will pay over or deliver to the District all money or securities held by it pursuant to the Trust Agreement 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 will 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 paragraph (a) above if there will 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.

(c) Any Outstanding Certificates will 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 paragraph (a) above if (1) in case any of such Certificates are to be prepaid on any date prior to their respective Certificate Payment Date, the District will have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificates on said prepayment date, said notice to be given in accordance with the Trust Agreement, (2) there will have been irrevocably deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination thereof) 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, will, 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 will have given the Trustee in form satisfactory to it irrevocable instructions to mail 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 the Trust Agreement 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, (4) an Opinion of Counsel is filed with the Trustee or such other fiduciary to the effect that the action taken pursuant to paragraph (c) will not cause the interest paid with respect to the Certificates to be includable in gross income for federal income tax purposes and (5) in the case of Book-Entry Certificates, the Trustee will 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.

(d) In connection with the discharge of a portion of the Certificates in accordance with the Trust Agreement, the District may deliver a Written Request to the Trustee to determine the excess to be on deposit in the Series 2005A Reserve Fund upon such discharge and the Trustee will make such determination and will transfer such excess in accordance with such Written Direction of the District.

Notwithstanding anything in the Trust Agreement to the contrary, the Trust Agreement will not be discharged until all amounts due to the Surety Bond Provider have been paid in full. The Trust Agreement will not be discharged until all Surety Bond Costs owing to the Surety Bond Provider will have been paid in full. The District's obligation to pay such amounts will expressly survive payment in full of the Certificates.

Unclaimed Money. Anything contained in the Trust Agreement to the contrary notwithstanding, the Trustee will 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 will at the Written Request of the District repay such money to

the District as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of such Certificates.

MISCELLANEOUS

Benefits of the Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended or will 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 of the Trust Agreement. Any agreement or covenant required in the Trust Agreement to be performed by or on behalf of the Corporation, the District or any member, officer or employee thereof will be for the sole and exclusive benefit of the Trustee and the Owners.

Successor is Deemed Included in All References to Predecessor. Whenever either the Corporation, the District or any member, officer or employee thereof is named or referred to, such reference will be deemed to include the respective successor to the powers, duties and functions with respect to the administration, control and management of the Series 1995 Project that are presently vested in the Corporation, the District or such member, officer or employee, and all agreements and covenants required under the Trust Agreement to be performed by or on behalf of the Corporation, the District or any member, officer or employee thereof will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement 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 will 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.

Waiver of Personal Liability. No member, officer or employee of the District will 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 in the Trust Agreement will relieve any member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or under the Trust Agreement.

Acquisition of Certificates by District. All Certificates acquired by the District, whether by purchase or gift or otherwise, will be surrendered to the Trustee for cancellation.

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 of the Trust Agreement, Trustee will destroy such Certificates and furnish to the District a certificate of such destruction.

Funds. Any fund required in the Trust Agreement 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 will 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 under the Trust Agreement as it deems necessary or appropriate to perform its obligations under the Trust Agreement.

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

APPENDIX C

BOOK-ENTRY SYSTEM

The Depository Trust Company, New York, NY (“DTC”) will act as securities depository for the 2007A Certificates. The 2007A Certificates will be issued as fully-registered securities without coupons 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 2007A Certificate will be issued for each annual maturity of the 2007A Certificates, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world’s largest 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 2.2 million issues of U.S. and non-U.S. equity, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 has Standard & Poor’s highest rating: AAA. 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 and www.dtcc.org.

Purchases of the 2007A Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007A Certificates on DTC’s records. The ownership interest of each actual purchaser of each 2007A Certificate (“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, but 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 2007A Certificates are to be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owner(s). Beneficial Owner(s) will not receive certificates representing their ownership interests in the 2007A Certificate, except in the event that use of the book entry system for the 2007A Certificates is discontinued.

To facilitate subsequent transfers, all 2007A Certificates 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 2007A Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007A Certificates; DTC’s records reflect only identity of the Direct Participants to whose accounts such 2007A Certificates 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.

Prepayment notices shall be sent to Cede & Co. if less than all of the 2007A Certificates within a maturity are being prepaid. DTC's practice is to determine, by lot, the amount of the interest of each Direct Participant in such maturity to be prepaid.

Neither DTC or Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2007A Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its procedures, DTC mails an Omnibus Proxy to the issuer 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 the 2007A Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and dividend payments with respect to the 2007A Certificates 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 nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment 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.

A Beneficial Owner shall give notice to elect to have its 2007A Certificates purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2007A Certificates by causing the Direct Participant to transfer the Participant's interest in the 2007A Certificates, on DTC's records, to the Trustee. The requirement for physical delivery of 2007A Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2007A Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2007A Certificates to the Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the 2007A Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities 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 transfers through DTC (or a successor securities depository). In that event, physical 2007A Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE CERTIFICATES, WILL SEND ANY NOTICE OF PREPAYMENT 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 PREPAYMENT OF THE CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

On the date of execution and delivery of the 2007A Certificates, Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, proposes to issue its approving opinion in substantially the following form:

February __, 2007

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

*Re: § _____ Santa Clara Valley Water District,
 Refunding and Improvement Certificates of Participation, Series 2007A*

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Santa Clara Valley Water District (the "District") in connection with the authorization, execution and delivery by the District of that certain Installment Purchase Agreement dated as of June 27, 1995, by and between the District and the Santa Clara Valley Water District Public Facilities Financing Corporation (the "Corporation"), as amended by Amendment No. 1 to the Installment Purchase Agreement, dated as of February 15, 2000, and further amended by Amendment No. 2 to the Installment Purchase Agreement, dated as of November 1, 2005, by and between the District and the Corporation (collectively, the "1995 Installment Purchase Agreement"). We have also reviewed that certain Trust Agreement, dated as of November 1, 2005 (the "Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "Trustee"), the District and the Corporation, and such other information and documents as we consider necessary to render this opinion.

Pursuant to the Trust Agreement, the Trustee has agreed to execute and deliver certificates of participation hereinbefore described (the "Certificates") evidencing direct and proportionate interests of the registered owners of the Certificates in Series 2007A Installment Payments (as defined in the Trust Agreement) to be made by the District pursuant to the 1995 Installment Purchase Agreement.

In connection with our representation we have examined a certified copy of the proceedings relating to the Certificates. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings show lawful authority for the execution and delivery by the District of the Trust Agreement under the laws of the State of California now in force, and the Trust Agreement has been duly authorized, executed and delivered by the District. Assuming due authorization, execution and delivery by the

Trustee and the Corporation, as appropriate, the 1995 Installment Purchase Agreement and the Trust Agreement 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 Flood Control System Revenues (as such terms are defined in the 1995 Installment Purchase Agreement) is an enforceable obligation of the District and does not constitute a debt of the District or of the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

4. The obligation of the District to pay the Installment Payments under the 1995 Installment Purchase Agreement from Flood Control System Revenues is on a parity with the District's obligation to pay the installment payments allocable to the Certificates of Participation, Parity Obligations, Series 2003A and Series 2004A under the Installment Purchase Agreement, dated as of June 15, 1994, by and between the District and the Corporation (the "1994 Installment Purchase Agreement").

5. Under existing statutes, regulations, rulings and judicial decisions, the portion of each Series 2007A Installment Payment constituting interest paid by the District and received by the Owners of the 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; however, it should be noted that, with respect to corporations, the portion of each Series 2007A Installment Payment constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect such corporation's alternative minimum tax liability of corporations.

6. The portion of each Series 2007A Installment Payment constituting interest is exempt from California personal income tax.

7. The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. Original issue discount that accrues for the 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 (5) above) and is exempt from State of California personal income tax.

8. The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable Certificate (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 Certificate Owner's basis in the applicable 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 bond premium may result in a Certificate owner realizing a taxable gain when a 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.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings and judicial decisions. Such opinions 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 opinion expressed in paragraphs (5) and (7) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Certificates 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 execution and delivery of the Certificates to assure that such interest (and original issue discount) 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 Series 2007A Installment Payment constituting interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (5), (6), (7) and (8) above, we express no opinion as to any tax consequences related to the Certificates.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement and the Tax Certificate executed by the District and other documents related to the Certificates may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Series 2007A Installment Payment constituting interest (and original issue discount) if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

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 Trust Agreement, the 1994 Installment Purchase Agreement, the 1995 Installment Purchase 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.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT dated as of November 1, 2005 (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 Refunding and Improvement Certificates of Participation, Series 2007A (the "Certificates"). The Certificates are being executed and delivered pursuant to that certain Trust Agreement, dated as of November 1, 2005 by and among the District, U.S. Bank National Association, as Trustee, and the Santa Clara Valley Water District Public Facilities Corporation (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 the Dissemination Agent, for the benefit of the Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, 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.

"Disclosure Representative" shall mean the Chief Administrative Officer of the District or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule. The current National Repositories approved by the Securities and Exchange Commission are included in a list which is maintained on the internet at: <http://www.sec.info/municipal/nrmsir.htm>.

"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 each National Repository and each State Repository.

"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 Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

“Tax-exempt” shall mean that interest on the Certificates is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than each April 1, commencing April 1, 2007, provide to each 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 include by 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 and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The District’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The District will promptly notify each Repository or the Municipal Securities Rulemaking Board and, in either case, the Trustee and the Dissemination Agent of a change in the fiscal year dates.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by fifteen (15) Business Days prior to such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to determine if the District is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

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

(ii) file a report with the District and (if the Dissemination Agent is not the Trustee) the Trustee 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. The Dissemination Agent's duties under this clause (ii) shall exist only if the District provides the Annual Report to the Dissemination Agent for filing.

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

(a) Annual Reports. The District's Annual Report shall contain or incorporate by reference (i) the audited financial statements of the District for the most recent fiscal year of the District then ended (or, if not available at the time of filing, the unaudited financial statements) and (ii) if not included in the Annual Report, the financial information and operating data with respect to the District, for the most recent fiscal year of the District then ended, described in the following tables under the caption entitled "THE DISTRICT" in the Official Statement:

(i) "Schedule of Long-Term Indebtedness" on page __;

(ii) "Flood Control Benefit Assessment Rates and Minimum Flood Control Benefit Assessments Applicable to Defined Land Use Categories" on page __;

(iii) "Benefit Assessment Billings and Collections" on page __;

(iv) "Flood Control Benefit Assessment Revenue By Flood Control Zone" on page __; and

(v) "Flood Control System Historical Operating Results Combined Statement of Revenues and Debt Service Coverage" on page ____.

Audited financial statements, if any, of the District shall be audited by such auditor as shall then be required or permitted by State law. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to each Repository, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) All Reports. 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, if material:

- (i) principal and interest payment delinquencies.
- (ii) non-payment related defaults.
- (iii) unscheduled draws on the Reserve Fund reflecting financial difficulties.
- (iv) unscheduled draws on any credit enhancements reflecting financial difficulties.
- (v) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Certificates, or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy.
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates.
- (vii) modifications to rights of Certificate Owners.
- (viii) Certificate prepayment.
- (ix) defeasances.
- (x) any release, substitution, or sale of property securing repayment of the Certificates.
- (xi) rating changes.

(b) The Trustee shall, promptly upon the obtaining actual knowledge of the occurrence of any of the Listed Events, contact the District, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) the National Repository, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Certificates pursuant to the Trust Agreement. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) The District hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the District and that the Trustee or the Dissemination Agent shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

Section 6. Termination of Reporting Obligation. The obligation of the District, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption 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 notice of such termination in the same manner as for a Listed Event under Section 5.

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 the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The Dissemination Agent may resign at any time by providing at least 30 days' written notice to the District. The initial Dissemination Agent shall be U.S. Bank National Association.

Section 8. Amendment.

(a) This Disclosure Amendment may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the District or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the District shall have delivered to the Trustee an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District and the Trustee, to the same effect as set forth in clause (2) above, (4) the District shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the District shall have delivered copies of such opinion and amendment to each Repository.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners at least a majority in aggregate principal amount of the outstanding Certificates.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 9. Use of Central Post Office. The District may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

Section 10. 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 Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The District acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the District, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the District under such laws.

Section 11. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall, but only to the extent indemnified to its satisfaction from any liability or expense, including fees of its attorneys), or any Owner 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 comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and

the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article V of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as 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. No person shall have any right to commence any action against the Trustee, as Dissemination Agent, seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement. The Dissemination Agent and the Trustee shall not be responsible in any manner for the format or content of any notice or Annual Report prepared by the District pursuant to this Disclosure Agreement.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter and Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 14. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative:	Chief Administrative Officer Santa Clara Valley Water District 5750 Almaden Expressway San Jose, California 95118-3686
Dissemination Agent:	U.S. Bank National Association One California Street, Suite 2100 San Francisco, California 94111
Trustee:	U.S. Bank National Association One California Street, Suite 2100 San Francisco, California 94111

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Its: Chief Executive Officer

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent and Trustee

By: _____
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Santa Clara Valley Water District
Name of Issue: Santa Clara Valley Water District Refunding and Improvement
Certificates of Participation, Series 2007A
Date of Execution and Delivery: February __, 2007

NOTICE IS HEREBY GIVEN that the Santa Clara Valley Water District (the "District") has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Agreement, dated as of November 1, 2005, by and between the District and U.S. Bank National Association, as trustee and dissemination agent. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent

cc: District

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APPENDIX F

ECONOMY OF SANTA CLARA COUNTY

General

Santa Clara County is one of nine counties that comprise the San Francisco Bay Area. It is located at the southern end of San Francisco Bay and is bounded by San Mateo and Alameda Counties to the north, San Benito County to the south, Santa Cruz County to the west, and Stanislaus and Merced Counties to the east. The County ranks second among Bay Area counties in land area, with 1,330 square miles. The District is coterminous with the County.

The City of San Jose is the County seat. The County comprises the San Jose Metropolitan Statistical Area.

The County's geography consists of a central valley, running northwest to southeast, flanked by ranges of hills to the east and west. The Santa Clara Valley extends from San Francisco Bay on the north to the San Benito County line. The surrounding hills and mountains provide a mild climate, with mean temperatures of 69 degrees in July and 50 degrees in January. Precipitation averages 14 inches per year.

Historically, Santa Clara County has ranked first among all nine Bay Area counties in:

- Population
- Construction
- Retail sales
- Total effective buying income
- County employment
- Manufacturing employment

Population

The 1950s saw an average annual increase of 8.5 percent in the County's population, as it grew at an average rate of more than 36,000 per year. Rapid growth continued between 1960 and 1970, with new residents averaging 40,000 per year. The County's growth rate has slowed, in both population increase and percentage increase, as it has changed from a rural region to a largely urban area. Growth rates since 1985 reflect a recent trend of slower but steady growth. Growth has been particularly strong in the electronics and Computer products industry, nurtured by the presence of Stanford University and other nearby institutions.

The following table compares County and statewide population growth. The estimated January 1, 2006 County population was 1,773,258.

**Santa Clara County and State of California
Population, 1960-2006**

<i>Year</i>	<i>State of California</i>	<i>Percent Change</i>	<i>Santa Clara County</i>	<i>Percent Change</i>
1960	15,717,000	--	658,000	--
1970	19,971,000	27.07%	1,072,600	63.01%
1980	23,668,000	18.51	1,295,071	20.74
1990	29,558,000	24.89	1,493,800	15.35
2000 ⁽¹⁾	33,873,086	14.60	1,682,585	12.64
2005	36,728,196	8.43	1,752,653	4.16
2006	37,172,015	1.21	1,773,258	1.18

⁽¹⁾ As of April 1, 2000.

Source: State of California, Department of Finance, Demographic Research Unit.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other than labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, nontax payments fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the County and the State for the period 2000 through 2005.

**Santa Clara County
and
State of California
Estimated Annual Effective Buying Income⁽¹⁾**

<i>Year</i>	<i>Area</i>	<i>Total Effective Buying Income⁽²⁾</i>	<i>Median Household Effective Buying Income</i>
2000	Santa Clara County	\$ 47,115,360	\$72,124
	California	652,190,282	44,464
	United States	5,230,824,904	39,129
2001	Santa Clara County	\$ 47,134,074	\$67,504
	California	650,521,407	43,532
	United States	5,303,481,498	38,365
2002	Santa Clara County	\$ 46,138,910	\$62,725
	California	647,879,427	42,484
	United States	5,340,682,818	38,035
2003	Santa Clara County	\$ 46,787,053	\$62,584
	California	674,721,020	42,924
	United States	5,466,880,008	38,201
2004	Santa Clara County	\$ 47,476,338	\$62,614
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	Santa Clara County	\$ 46,910,278	\$63,293
	California	720,798,122	44,681
	United States	5,894,664,154	40,529

⁽¹⁾ Not comparable with prior years. Effective Buying Income is based on money income (which does not take into account sale of property, taxes and social security paid, receipt of food stamps, etc.) versus personal income.

⁽²⁾ Dollars in thousands.

Source: "Survey of Buying Power," Sales & Marketing Management Magazine, dated 2001, 2002, 2003, 2004 and 2005; Demographics USA 2006 County Edition.

Employment

During the period from 2001 to 2005, jobs in San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (consisting of Santa Clara County and San Benito County) (the "MSA") decreased by 150,500 or 14.7% of total workforce. As of 2005, the unemployment rate in the MSA was 5.5%, compared to a rate of 4.6% in San Francisco County and 5.4% for California as a whole.

San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (San Benito, Santa Clara Counties) Annual Average Labor Force And Industry Employment 2001-2005

<i>Title</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Civilian Labor Force	967,100	918,000	877,100	854,300	848,700
Civilian Employment	917,200	839,900	802,200	797,000	801,700
Civilian Unemployment	49,900	78,100	74,900	57,300	47,000
Civilian Unemployment Rate	5.2%	8.5%	8.5%	6.7%	5.5%
Farm	7,000	6,900	6,600	6,700	6,400
Natural Resources and Mining	200	200	200	100	200
Construction	49,900	44,400	41,600	43,000	44,300
Manufacturing	247,600	208,500	182,800	174,200	171,100
Trade, Transportation & Utilities	148,800	137,400	132,000	130,900	132,200
Information	42,000	34,300	31,400	32,600	34,700
Financial Activities	35,700	35,600	35,100	35,400	36,200
Professional and Business Services	204,500	167,300	160,300	158,600	159,600
Education and Health Services	90,400	91,700	93,500	95,000	96,500
Leisure and Hospitality	73,300	68,800	69,000	70,900	72,300
Other Services	26,700	26,400	25,300	25,000	25,100
Government	98,800	102,500	99,200	96,300	96,000
Total All Industries	1,024,900	924,100	876,900	868,700	874,400

March 2005 benchmark.

Source: State of California, Employment Development Department.

Industry

The County ranks second in California and fifth in the nation in manufacturing as measured by the value of shipments. The high technology boom has spawned the term "Silicon Valley," by which this area is known worldwide. The silicon-based semiconductor industry, however, is only a part of the industrial picture with rapid increases occurring in information systems, personal computers, peripherals, instruments and a wide array of defense-oriented electronics.

Major Employers

The tables below lists the major private-sector and public-sector employers in the San Jose and Silicon Valley Area, as ranked by number of employees, for the calendar year 2005.

San Jose And Silicon Valley Area ⁽¹⁾ Ten Largest Private-Sector Employers 2005

<u>Name</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Cisco Systems Inc.	Computer network equipment manufacturer	13,000
Stanford University	Higher education, hospital, medical research	12,000
Hewlett-Packard Co.	Technology solutions provider	8,000
Lockheed Martin Missiles & Space	Aerospace systems	7,400
IBM	Computer hardware, software and business solutions	7,000
Intel Corp.	Microprocessors manufacturer	6,136
New United Motor Manufacturing Inc.	Automotive manufacturer	5,800
Applied Materials Inc.	Semiconductor equipment manufacturer	4,130
Google Inc.	Web search engine and advertiser	3,021
Agilent Technologies Inc.	Communications & electronics, solutions & services	2,632

⁽¹⁾ Silicon Valley includes: Santa Clara County, Scotts Valley in Santa Cruz County; Fremont, Newark and Union City in Alameda County; and Atherton, Belmont, East Palo Alto, Foster City, Menlo Park, Redwood City, Redwood Shores, San Carlos and San Mateo in San Mateo County.

Source: The San Jose Business Journal "Book of Lists", published July 29, 2005.

San Jose And Silicon Valley Area ⁽¹⁾ Ten Largest Public-Sector Employers 2005

<u>Name</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Santa Clara County	County government	15,316
City of San Jose	Municipal government	7,325
State of California	State government	3,163
San Jose Unified School District	Public education	3,027
San Jose State University	Higher education	2,439
Valley Transportation Authority	Public transportation & congestion management	2,148
Foothill-De Anza Community College Dist.	Community college district	1,742
Santa Clara Unified School District	School district	1,329
Santa Clara County Office of Education	Resource for school districts, children & community	1,100
City of Palo Alto	Municipal government	1,091

⁽¹⁾ Silicon Valley includes: Santa Clara County, Scotts Valley in Santa Cruz County; Fremont, Newark and Union City in Alameda County; and Atherton, Belmont, East Palo Alto, Foster City, Menlo Park, Redwood City, Redwood Shores, San Carlos and San Mateo in San Mateo County.

Source: The San Jose Business Journal "Book of Lists", published July 29, 2005.

Retail Trade

The following table shows taxable sales in both the County and the City of San Jose from 2000 through 2005.

Santa Clara County and City of San Jose Total Taxable Sales (in thousands)

<i>Year</i>	<i>City of San Jose</i>	<i>Percent Change</i>	<i>Santa Clara County</i>	<i>Percent Change</i>
2000	\$13,610,769	20.27%	\$37,303,662	22.92%
2001	12,354,790	(9.23)	32,133,247	(13.86)
2002	10,686,971	(13.50)	27,453,942	(14.56)
2003	10,831,197	1.35	27,062,663	(1.43)
2004	11,137,232	2.83	28,491,576	5.28
2005	11,706,693	5.11	30,193,802	5.97

Source: California State Board of Equalization.

Construction Activity

Provided below are the building permits and valuations for the County for calendar years 2001 through 2005.

County of Santa Clara Building Permits and Valuations For Years 2001 through 2005 (dollars in thousands)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Permits:					
Residential	\$1,041,260	\$1,092,582	\$1,464,664	\$1,406,316	\$1,537,326
Non-Residential	<u>2,255,886</u>	<u>1,331,276</u>	<u>974,150</u>	<u>916,302</u>	<u>1,287,793</u>
Total	\$3,297,146	\$2,423,858	\$2,438,814	\$2,322,618	\$2,825,119
Units:					
Single Family	1,614	2,054	2,401	2,689	2,545
Multi-Family	<u>4,211</u>	<u>2,472</u>	<u>5,091</u>	<u>2,816</u>	<u>3,228</u>
Total	5,825	4,526	7,492	5,505	5,773

Source: Construction Industry Research Board.

Income

The following table summarizes total personal income in the County from 1995 to 2004. Total personal income in the County increased by 62.73% between 1995 and 2004, representing an average annual compound growth rate of 7.19%.

Personal Income 1995 - 2004 (in thousands)		
<i>Year</i>	<i>County of Santa Clara</i>	<i>Percent Change</i>
1995	\$50,166,669	9.8% ⁽¹⁾
2000	91,386,181	82.17 ⁽²⁾
2001	83,838,707	(8.3)
2002	77,548,912	(7.5)
2003	77,680,349	0.2
2004	82,638,917	6.4

⁽¹⁾ Compared to 1994.

⁽²⁾ Compared to 1995.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following table summarizes per capita income from 1995 to 2004. Per capita incomes in the County grew by 55.77% between 1995 to 2004, representing an average annual compound growth rate of 6.09%. Per capita income in the County in 2004 exceeded that in California by 39.50% and in the United States by 48.66%.

Per Capita Personal Income 1995 - 2004			
<i>Year</i>	<i>County of Santa Clara</i>	<i>California</i>	<i>United States</i>
1995	\$31,746	\$24,161	\$23,076
2000	54,195	32,463	29,845
2001	49,615	32,882	30,574
2002	46,305	32,803	30,810
2003	46,363	33,400	31,484
2004	49,132	35,219	33,050

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Education

San Jose State University. San Jose University was founded in 1857 and is the oldest institution in the California State University System. It is located on 150 acres close to downtown San Jose.

The university is a major employer in the County, with a faculty of 1,600 and a total staff of approximately 2,900. Student enrollment currently totals about 22,482 undergraduate and 7,122 graduate students. With a total of 29,604 students, it ranks fifth in enrollment among the 23 campuses of the state university system.

Stanford University. Stanford University is located in the City of Palo Alto and was established in 1885 by Senator and Mrs. Leland Stanford as a memorial to their son, Leland Jr. The university is one of the County's largest landowners. The original grant decrees that the land then totaling 8,847 acres shall never be sold. About 670 acres have been condemned by governmental bodies for public uses such as highways, schools, and hospitals. A major regional shopping center and industrial park are located on land owned by the university.

Student enrollment currently totals about 14,881, consisting of about 6,705 undergraduate and 8,176 graduate students. This high proportion of graduate students is consistent with the university emphasis. In a nationwide survey of graduate and professional school deans, the American Council of Education ranked the university's schools and programs in law, medicine, business education and engineering among the top ten.

Santa Clara University. Santa Clara University was founded in 1851 on the site of the Mission Santa Clara de Asis, and was California's first college. It became a university in 1912. It is located on 100 acres in the City of Santa Clara. The Santa Clara mission remains the center of the university and serves the campus community as a parish church.

Current enrollment totals 4,938 undergraduate and approximately 3,500 graduate students. Graduate schools include engineering, business, law, education, and arts and sciences. The university has a faculty of 560 and additional staff of 600, for a total employment of 1,160.

Primary and Secondary Education. The County has approximately 228 public elementary schools, 56 public middle schools, and public 41 high schools, with total enrollment of approximately 253,065. Three community college districts operate seven campuses in the County.

Community Facilities

Transportation. U.S. Highway 101 and Interstate Highway 280 serve Santa Clara County from the north, providing a link with San Francisco. Interstate 680 and Interstate 880 connect the County with the East Bay. All four of these principal highways intersect in downtown San Jose, forming a freeway grid serving the entire County.

San Jose International Airport is one of three major commercial airports in the San Francisco Bay Area. It serves the Southern California/Bay Area air corridor as well as connecting Santa Clara County with major nationwide. Over ten million passengers use the terminal annually.

Two major railroads, the highway system, and the airport have contributed to the industrial, commercial, and residential expansion of Santa Clara County. Southern Pacific, Union Pacific, and CalTrain provide main line rail service to the area. Daily commuter service is provided north to San Francisco.

Culture and Recreation. The San Jose Center for the Performing Arts seats 2,700 people. Flint Center, located on the campus of DeAnza College at Cupertino, seats 2,500 people. Both host concerts by leading orchestras. San Jose Convention Center, located near the Performing Arts Center in the downtown area, seats a total of 7,600.

The San Jose Symphony traces its roots back over a century. The San Jose Civic Light Opera stages productions at the Performing Arts Center. Among the many museums in the County are the Egyptian Museum, the Hoover Institution of War and Peace, and the San Jose Museum of Art.

County facilities include the Villa Montalvo Arboretum in Saratoga, Palo Yacht Harbor, Alviso Marina, the Santa Clara County Fairgrounds in San Jose, and two state and eight regional parks. Other attractions in Santa Clara County include the Winchester Mystery House and Planetarium in San Jose, and the 65-acre Great America, a family amusement center, in Santa Clara. Administrative offices and practice fields

for the San Francisco Forty-Niners National Football League team, as well as the San Jose Arena, home of the San Jose Sharks National Hockey League team, are located in the County.

Utilities. Electric and gas service throughout the County is provided by Pacific Gas & Electric Company. Pacific Bell Provides telephone service to most of the County. Verizon and Western California Telephone Company serve communities in the southwestern part of the County.

Agriculture. Despite increasing urbanization, agriculture remains an important contributor to the County's economy. In 2005, the value of agricultural production totaled \$252,281,650, a 2.4% decrease from 2004 and a 12.5% decrease from 2001. Nursery products, vegetable crops, and livestock, poultry and dairy products posted increases, while a decline in cherry crop production pulled down output in the fruits and nuts sector.

Roughly 49.8% of agricultural production consists of vegetable crops, 38.6% is comprised of nursery crops, which the remainder including fruit, nut, and berry crops, livestock, and field crops. The following table summarizes the County's agricultural activity from 2001 through 2005.

**Santa Clara County
Agricultural Production
2000-2005**

	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Fruit, Nut & Berry Crops	\$22,601,000	\$13,685,000	\$12,773,440	\$13,838,000	\$14,188,200
Vegetable Crops	98,862,000	103,656,000	98,295,000	124,592,000	125,607,800
Livestock, Poultry & Dairy Products	10,272,900	9,691,500	11,354,900	11,521,300	11,073,700
Field Crops & Apiary	5,023,000	4,718,500	4,346,000	3,433,350	3,940,100
Nursery Stock, Cut Flowers, Seed & Forest Products	151,405,000	123,923,400	114,344,500	104,975,200	97,471,850

Source: County of Santa Clara Agricultural Department.

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