



Valencia Heights Water Company

August 2023

Dear Shareholder,

We are writing to share some exciting news regarding the future of Valencia Heights Water Company (VHWC). After careful consideration and extensive negotiations, the VHWC Board of Directors has made the decision to proceed with a merger between VHWC and our wholesale water supplier, Covina Irrigating Company (CIC). The merger presents a remarkable opportunity for the company and its shareholders.

The Board of Directors has thoroughly reviewed the various aspects of this proposed merger and we are confident that it will serve the long-term best interests of VHWC and its shareholders. By joining forces with CIC, we will enjoy a host of benefits that will enhance our operations and create a more sustainable future for all.

One of the significant advantages of this merger is the increased financial resources it will bring to VHWC. This infusion of capital will enable us to strengthen our staffing, improve our service offerings, and enhance our ability to meet the growing needs of our community.

It is important to note that VHWC will continue to operate as a not-for-profit mutual water company. Additionally, our current management team will retain control of the new entity, Covina Valley Water Company, ensuring continuity and expertise in the management of our operations.

We have enclosed a fact sheet to provide you with more information about the proposed benefits of the merger.

As a VHWC Shareholder your voice and vote matter greatly in shaping the future of our Company. We encourage you to **vote "YES" on the proposed merger**, which will unite VHWC and CIC as Covina Valley Water Company. Please remember to return your ballot as soon as possible, but no later than August 31, 2023. For your convenience, we have enclosed a self-addressed, postage-paid ballot card. You can also download a ballot online at vhwc.org or vote at our main office. Voting will continue until VHWC has adequate votes from our shareholders. Shareholders will receive an electronic ballot via ElectionBuddy if we have your mobile number or email on file so that you can vote electronically.

Should you have any questions, please do not hesitate to contact our General Manager, Dave Michalko by email at dmichalko@vhwc.org or by telephone at (626) 332-8935.

Thank you for your timely attention to this matter. We deeply appreciate your continued support as a valued shareholder of the Valencia Heights Water Company.

Sincerely,

Valencia Heights Water Company Board of Directors

Fact Sheet Regarding Proposed Merger of Valencia Heights Water Company and Covina Irrigating Company as Covina Valley Water Company



Background of Proposed Merger: Over the past year, the respective management and boards of directors of Valencia Heights Water Company (VHWC) and Covina Irrigating Company (CIC) have discussed the potential of combining the two companies. Through those initial discussions, it became clear that such a merger would be mutually beneficial for both companies for the reasons stated below.



Current Status: VHWC and CIC are in the process of presenting the proposed merger to their respective shareholders for approval. Once shareholder approval is obtained, the companies will proceed with finalizing the merger agreement and other necessary legal documents, including filing the required documents with the State of California.



Expected Timing: The target date for completion of the merger is June 30, 2024.



Anticipated Benefits:

Merger of Two Mutual Water Companies

Continuity in Leadership and Management

VHWC's current management team will continue managing the new entity ensuring that shareholders' interests are represented. In addition, VHWC shareholders will also have permanent representation on the new company's Board of Directors, further ensuring opportunities to participate in the decision-making process.

Economies of Scale

The merger of VHWC and CIC will reduce duplicative costs, including overhead expenses and resource allocations, leading to improved operational efficiency and cost effectiveness.

New Water Rights

As a result of the merger, new tangible water rights will be allocated to current VHWC shareholders in Covina Valley Water Company, which may be leased or sold by the shareholder.

Protection of VHWC

Shareholders' Existing Water Rights

New shareholders will need to acquire their own water rights by purchasing new shares or paying replacement water costs in their rates. This will be different from how VHWC handles growth. Currently existing shares are diluted to allow for new shareholders, which reduces the water rights assigned to shares and can increase costs to existing shareholders.



Next Steps: The first step towards the merger is obtaining VHWC shareholder approval, as discussed in the attached letter. Please vote by completing the enclosed ballot and returning it to the Company by e-mail to dmichalko@vhwc.org or mailing it to the Company's office at 3009 East Virginia Avenue, West Covina, California 91791. Please do not hesitate to contact the Company at (626) 332-8935 with any questions.



**COVINA VALLEY
WATER COMPANY**

Greater Local Control

Combining VHWC and CIC will allow shareholders to retain and increase control over our water supply and quality.

Increased Capacity to Deal with Rising Regulatory Demands

The combined Company will be better equipped to navigate the increasingly complex landscape of water quality regulations by pooling resources and expertise.

Stability in Costs and Rates

While water rates will continue to increase, the merger is expected to lessen the extent of future rate increases. Note that VHWC water rate will likely increase starting in October, to address increasing operational costs.

Drought Preparation and Resilience

The new entity will be better equipped to respond to drought conditions, ensure access to local water resources, promote efficient water management practices and protect shareholders' water rights.

Reduced Dependence on Unreliable Water Supplies

The merger will enhance access to local water supply, and reduce dependence on increasingly unreliable and more expensive imported water, will bring peace-of-mind to shareholders while also fostering drought preparedness and resilience.