



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 30, 2020

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Authorization To Execute A Water Supply Agreement With The Montecito Water District

RECOMMENDATION: That Council:

- A. Introduce and subsequently adopt, by reading of title only, an Ordinance of the Council of the City of Santa Barbara Approving a Water Supply Agreement for the Long Term Wholesale Supply to the Montecito Water District of Water Made Available from the Operation of the Charles E. Meyer Desalination Facility;
- B. Authorize an increase in appropriations and estimated revenue in the Water Capital Fund in the amount of \$18,860,047 million, funded by a settlement of claims against Southern California Edison for losses sustained by the water utility from the 2018 Thomas Fire and debris flow events;
- C. Approve the Conveyance Pipeline Project as described in the Water Supply Agreement and Authorize the Public Works Director to procure and award contracts for construction of the Conveyance Pipeline Project and ancillary improvements and facilities necessary to implement the Water Supply Agreement; and
- D. Consider the environmental review documents discussed in the Council Agenda Report, determine that no further environmental review is required for the reasons stated therein, and direct the Public Works Director to cause a Notice of Determination to be filed pursuant to the California Environmental Quality Act.

EXECUTIVE SUMMARY:

In June 2015, the City entered into a contract to reactivate the Charles E. Meyer Desalination Plant (Desal Plant). Around the same time, the Montecito Water District (MWD) approached the City with an interest in partnering in the reactivation of the Desal Plant to improve the reliability of MWD's water supply. Extensive negotiations with MWD occurred over a period of several years. In January 2019, both City Council and the Montecito Water District Board of Directors approved a Term Sheet for a Water Supply Agreement. The Term Sheet laid out the governing principles for a 50-year Water Supply Agreement, whereby the City will make available 1,430 acre feet of water annually to the MWD. The Water Supply Agreement

(WSA), as drafted and presented for approval, is consistent with the approved Term Sheet. Approval of the WSA was considered by the MWD Board on June 25, 2020, and is now before the City Council for authorization to execute. The MWD prepared an Addendum to the City's Desalination Environmental Impact Reports (EIRS) (1991, 1994) for this project.

DISCUSSION:

Background

The Desal Plant was constructed by the City as an emergency facility to supply water to the City, MWD, and the Goleta Water District (GWD) during the 1987-1997 drought. The Desal Plant was designed and permitted to provide a maximum capacity of 10,000 acre feet per year (AFY); however, only 7,500 AFY of water treatment membrane capacity was constructed at that time. Abundant rainfall in March 1992 ended the drought, and the Desal Plant was placed in standby mode. At that time, GWD and MWD indicated that they did not wish to continue to use the Desal Plant as an emergency water supply. Following the departure of the GWD and MWD, the City chose to continue efforts to make the Desal Plant a permanent part of its water supply infrastructure and by 1997, all permits had been updated to establish it as a permanent facility. Operation of the Plant as required by the WSA is consistent with existing permits.

In June 2015, the City entered into a design/build/operate contract with IDE Americas, Inc., to reconstruct the Desal Plant. On June 16, 2015, MWD sent a letter to the City requesting that the Desal Plant operate as a regional water supply. On September 15, 2015, Council directed staff to initiate formal discussions with MWD regarding a potential WSA involving the Desal Plant as a regional water supply. The parties began negotiations by entering into a Memorandum of Understanding (MOU), which set the parameters within which the parties agreed to negotiate. The MOU anticipated that negotiations would be concluded by January 1, 2016; however, negotiations resulted in no significant progress toward an agreement.

Recognizing the significant technical and legal costs associated with negotiating a complex agreement, the City and MWD entered into a Funding Agreement. The Funding Agreement provided shared costs for technical and legal services, and the costs for preliminary design of a Conveyance Pipeline that is necessary to deliver water to MWD.

The Term Sheet was negotiated from August 2016 through December 2019, and it was approved by the MWD Board and City Council in January 2020. City and MWD staff have negotiated a WSA based on the Term Sheet. The negotiated WSA was made publicly available on May 23, 2020, as part of the MWD board agenda packet. Attachment No. 1 is the final draft of the WSA and below is a summary of the major terms of the agreement.

WSA Terms Summary

The WSA is a 50-year agreement providing the MWD 1,430 AFY (Contract Water) of water from the City. Currently, the Desal Plant has a production capacity of 3,125 AFY.

This amount of water is anticipated to be needed for the City's own purposes over the life of the agreement. In order to provide sufficient surplus supplies to MWD over the life of the agreement, the treatment production capacity of the Desal Plant is expected to increase within the permitted capacity. To accomplish this, the City plans to administer incremental increases in treatment production capacity based on forecasted needs consistent with our water supply plan and three year supply look-ahead.

To ensure delivery of water under this agreement, a Conveyance Pipeline Project will be constructed to allow water to be pumped from the Desal Plant to the Cater Water Treatment Plant (CWTP) finished water reservoir, known as the Cater Clearwell, for delivery to the MWD. The Conveyance Pipeline Project consists of several construction contracts, which will each be brought to Council for approval. The Conveyance Pipeline Project consists of the construction of a new 24-inch diameter pipeline from the Desal Plant up towards the Santa Barbara Mission. Near the Santa Barbara Mission, the new pipeline will intersect an existing 24-inch diameter City transmission main installed in the 1960's. The project includes repairs to the existing pipeline to ensure continued reliability as the pipeline will be reconfigured so flows are reversed to move water up towards the CWTP. Attachment No. 2 depicts the route and segments of the new and existing infrastructure that will be utilized to move desalinated water.

The cost of the Conveyance Pipeline Project has been allocated equitably between the City and the District based on a cost avoidance model that took into account cost estimates for the construction of a pipeline capable of conveying 10,000 AFY of water, and cost estimates for construction of a smaller pipeline capable of conveying only 1,430 AFY of water to the CWTP. Based on the costs of building a dedicated pipeline for the MWD, the City negotiated that MWD will pay 64.6 percent of the capital costs associated with the Conveyance Pipeline Project, which has been sized for the full permitted capacity of 10,000 AFY. This Conveyance Pipeline Project has significant value to the City by improved water quality and reliability in the form of being able to move water to all parts of the City's service area from the Desal Plant.

Consistent with the approved Term Sheet the WSA includes the following key provisions:

- MWD is purchasing a wholesale supply of water made available by the City. In exchange for a reliable water supply, MWD will pay the full annual contract amount, even if hydrological conditions make the water surplus of MWD's needs (commonly referred to as a "take or pay" commitment). The price is based on the Desal Plant's fixed and variable costs, as well as additional payments in consideration of the City's investments and risks. In addition, MWD will participate in Desal Plant costs that may result from future capital modifications and operating cost increases required in response to uncontrollable circumstances.
- The City is committing to provide MWD with a reliable water supply. Thus, the City will manage its water supplies, including the Desal Plant, such that the annual amount of water committed to MWD is surplus to the quantity of water needed to provide service to customers of the City's water system. The City's obligation to

provide water to MWD will be subject to specified uncontrollable events and a shortage sharing provision.

The City will own and operate the Desal Plant and the Conveyance Pipeline. The WSA does not grant any ownership interest in either the Desal Plant or the Conveyance Pipeline to MWD.

- The WSA recognizes the City's unique contribution as owner of the Desal Plant, including City expenditures and risks, such as the permitting and maintenance costs of the Plant dating back as early as 1995.
- Expansion of the Desal Plant and construction of the Conveyance Pipeline Project will be necessary to ensure the City can reliably meet its supply obligations to MWD over the term of the agreement. The City shall have the right to supply MWD water from the City potable water supply system as a whole.

The price for the Contract Water generally includes costs associated with the production and conveyance of Contract Water, including a portion of the Desal Plant fixed and variable costs and additional payments in consideration of the City's investments and risks. The WSA recognizes the City's unique contribution as owner of the Desal Plant, including its site, intake and outfall facilities, physical assets, environmental review, permitting, construction, maintenance, operation, and administration costs dating from the mid-1990s to the present. Therefore, the District's payments under the WSA include an amount to reasonably compensate the City for these activities. In addition, the District will pay a ratable portion of potential increases in Desal Plant costs that may result from future capital modifications or operating cost increases generally, including those resulting from uncontrollable circumstances.

The water price will be calculated by allocating costs in proportion to the 1,430 AFY and the Desal Plant capacity (3,125 AFY), or in the case of variable operating costs, in proportion to actual water produced. MWD will participate at a proportionate level in the administrative costs associated with managing the operations of the Desal Plant, including the WSA and the contract for operations of the Plant. For the term of the agreement, an index-linked Water Supply Development Fee of \$237,500 will be paid by MWD annually to recognize the City's unique contribution as owner of the Desal Plant. MWD will also be responsible for contributing to a debt service coverage deposit and reserve account as well.

Water non-delivery events and excuses from performance have been a key focus of the negotiations, especially since MWD has requested a 50-year term for the WSA. The WSA describes uncontrollable circumstances in which the City's obligation to deliver water may be excused and MWD's obligation to make payments is reduced. It also contains a provision for shortage sharing in the event that the Desal Plant is fully operational at a production capacity of 7,500 AFY, but there is a water shortage emergency resulting from a catastrophic event or extended drought that causes a reduction of the City's other water supplies such that water for basic health and safety is needed. Under the Term Sheet, a

water shortage emergency would allow the City to reduce deliveries if the Desal Plant has a production capacity of 7,500 AFY, and the City's other water supplies are reduced to the point that the City has insufficient water to meet minimum customer service needs. In this extreme scenario, the City would be excused from performance to the extent that a portion of the 1,430 AFY is required, along with available supplies, to meet the City's basic needs for human consumption, sanitation, and other critical services such as fire protection, hospitals, clinical care, schools, or industry needs for employment of workers within the City, as determined by Council. If there is a regional drought or other water shortage emergency affecting both the City and MWD (as declared by the governing bodies of the City and MWD, or by the Governor), an assessment of available water necessary to meet basic needs for human consumption, sanitation, and other critical services will be conducted for both agencies. Available water will be distributed between both agencies in such a way that the respective residential customers of each agency receive the same health and basic safety needs based on gallons per capita per day; other critical service needs will be apportioned equitably. In such shared allocation circumstance, the amount of water provided to MWD may be less than 1,430 AFY.

BUDGET/FINANCIAL INFORMATION:

The WSA has a direct benefit to City customers in that it will help reduce the costs and mitigate risks associated with operating the Desal Plant, which will take pressure off of future water rate increases to City customers. The City's water supplies are currently in a state where water can be provided to MWD without increasing the treatment capacity of the Desal Plant or having to purchase supplemental water over the next three years. Initially, the City will fund the construction of the Conveyance Pipeline Project from the settlement with Southern California Edison for damages to Gibraltar Reservoir as a result of the Thomas Fire. Ultimately, the District will be responsible for 64.6 percent of Conveyance Pipeline Project capital costs and 45.7 percent of the Desal Plant capital costs (at the current capacity of 3,125 AFY). Funding to build the conveyance pipeline project will be fronted by the City and repaid by the District in the future. Staff have successfully secured a \$1 million grant from the Department of Water Resources to be used for the construction of the conveyance pipeline. In addition to ensuring the City's ability to meet the WSA obligations, the pipeline will also significantly improve the reliability and water quality in the City's water system, enabling the pumping of Desal water anywhere in the City's service area.

If the WSA is approved, water deliveries will commence on January 1, 2022, and the City will receive approximately \$4.5 million in revenue annually for the delivery of 1,430 AFY to the MWD. Staff believe that the WSA is both an example of good regional cooperation and a fair deal for City water customers that fully reimburses the City for the costs of providing MWD with water.

WATER COMMISSION RECOMMENDATION:

This item was brought to the Water Commission on May 21, 2020 and again on June 18th, 2020 for a recommendation. The Water Commission voted 4-0, in support of staff's recommendations.

ENVIRONMENTAL REVIEW:

Two Environmental Impact Reports (EIR's) were previously prepared for the Desal Plant. The first was prepared in 1991, and analyzed the construction and operation of the plant as a temporary five-year project. Since the life-cycle of the Desal Plant was approximately 25 years, the City decided to convert the approvals for the Desal Plant to a permanent status. The environmental effects of the permanent operation were analyzed and certified in 1994, as part of the Long Term Water Supply Plan (LTWSP) EIR. The 1994 LTWSP and EIR project description and objectives included 5,000 AFY of additional desalination capacity for potential regional use, and provided the basis for review of potential regional participation in the City's desalination plant, including service specifically to Goleta and Montecito.

The LTWSP was updated in 2011, and addressed plant reactivation and provided estimates for energy use, capital, and operational costs. As part of the adoption of the 2011 LTWSP, the City issued a CEQA Notice of Exemption which concluded that the reactivation of the Desal Plant would not result in substantial changes in environmental effects beyond those previously analyzed. In addition, the City's 2011 General Plan EIR included substantial discussion and specific details regarding the reactivation of the Desal Plant as a permanent part of the City's water supply. In 2015, the City prepared a CEQA Addendum for the project to review the environmental impacts of the reactivation project and found that the reactivation of the Desal Plant would not result in substantial changes in environmental effects beyond those that were experienced during operation of the plant in the 1990's and as constructed. The facility is now operating on a permanent basis as a component of the City's overall water resource portfolio under Coastal Development Permits approved by the City (Resolutions 017-91 and 069-95) and the California Coastal Commission (CDP 4-96-119). The current approvals allow the Desal Plant to be operated in a manner required by the WSA.

In April 2020, MWD prepared an addendum to the City's 1991 and 1994 Desalination and LTWSP EIR's for the WSA. The 2020 EIR addendum analyzed the impacts of the WSA purchase, which provides that MWD would purchase and receive 1,430 acre-feet of potable water from the City annually. The analysis concluded that the WSA is in accordance with the State CEQA Guidelines Sections 15162 and 15164. No subsequent negative declaration or EIR is required for the Project because there are no impacts. No Project changes require any major or minor revisions to the previous EIR's and there are no significant or potentially significant impacts that require mitigation. Moreover, there are no increases to the severity of any identified significant impacts discussed in either the 1991 or the 1994 EIR.

City staff prepared an additional EIR addendum to the 1991 Desalination and 1994 LTWSP EIR's to include the construction of the conveyance main, which was completed on April 21, 2020 (SCH 9010859, SCH 9010859). The addendum project description includes the underground installation of approximately 11,800 linear feet of 24-inch Polyvinylchloride (PVC) potable water pipe in and under existing City streets from the Desalination Plant (located at 525 E. Yanonali St.) to the intersection at Mission Street and Garden Street. The analysis concluded that the construction of the conveyance main would result in no substantial changes to the project, circumstances, or prior information that would introduce a new significant environmental effect or substantial increase in the severity of a previously identified significant effect to Biological Resources.

Both EIR Addenda are available for review by contacting Arielle Zamora, Public Works Department Executive Assistant, at AZamora@SantaBarbaraCA.gov to request copies. The EIR Addenda were made available for review by the City Council members through electronic transmission.

City of Santa Barbara Public Works Water Resources has also prepared and submitted a Substantial Conformance Determination Request to the Community Development Department for a substantial conformity determination of the small portion of the conveyance main in the City's Appealable jurisdiction of the Coastal Zone to City Resolutions 017-91 and 069-95.

ATTACHMENTS: 1. Water Supply Agreement
 2. Conveyance Pipeline Project

PREPARED BY: Joshua Haggmark, Water Resources Manager/MBH/rb

SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office

Final Draft
June 10, 2020

WATER SUPPLY AGREEMENT

between

THE CITY OF SANTA BARBARA

and

THE MONTECITO WATER DISTRICT

Dated

[_____], 2020

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STATEMENT OF AGREEMENT

In consideration of the mutual covenants herein and intending to be legally bound, the City of Santa Barbara and the Montecito Water District agree as stated in the following Articles 1 through 15 of, and Appendices 1 through 8 to, this Water Supply Agreement.

IN WITNESS WHEREOF, the Parties have caused this Water Supply Agreement to be executed by their duly authorized representatives as of [____], 2020.

CITY OF SANTA BARBARA

MONTECITO WATER DISTRICT

By: _____
Signature

By: _____
Signature

Name: _____
Printed

Name: _____
Printed

Title: _____

Title: _____

ATTEST:

ATTEST:

[City Clerk]

[District Clerk]

APPROVED AS TO FORM:

APPROVED AS TO FORM:

City Attorney

District General Counsel

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2. Schedules Supporting Article 9 (Special Payments)
3. Schedules Supporting Computation of the City's Annual Capital Charge Amount
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7. Illustrative Allocations of Costs Between the Core Plant and the Additional Plant
8. Description of the Conveyance Pipeline
 - Attachment A – Conveyance Pipeline Map
 - Attachment B – Conveyance Pipeline Schematic

REFERENCE DOCUMENTS

1. Estimated Financial Impact of Water Supply Agreement on City of Santa Barbara
2. Design/Build/Operate Contract for the Charles Meyer Desalination Plant between City of Santa Barbara, California and IDE Americas, Inc.
3. State Revolving Fund Requirements

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ARTICLE 1

DEFINITIONS AND INTERPRETATION

SECTION 1.1. DEFINITIONS.

As used in this Water Supply Agreement, the following capitalized terms have the meanings set forth below. Certain words and expressions are defined within the Appendices hereto, and such definitions will apply, unless the context otherwise requires, in all other parts of this Water Supply Agreement whether or not this Article contains a cross-reference to such definitions.

“Acre-Foot” means 43,560 cubic feet of water, which is equal to 325,851 U.S. gallons.

“Additional Plant” means, only in the event the Plant Capacity has been increased beyond 5,000 AFY, that portion of the Plant constituting the assets creating Plant Capacity in excess of 5,000 AFY.

“Administrative Charge Component” is defined in Section 8.9 (Administrative Charge Component).

“Adverse Plant Event” means (a) an Uncontrollable Circumstance affecting the production of Plant Water (regardless of whether the Plant is being operated under Contract Operations or Self-Performed Operations), and (b) if the Plant is being operated under Contract Operations, a failure for any reason by the Operating Services Provider to produce water in accordance with the applicable Operating Services Agreement. An Adverse Plant Event also includes damage to the Conveyance Pipeline caused by a Force Majeure Event.

“Adverse Water System Event” means (a) the physical failure or breakage of or damage to any asset (other than the Plant or the Conveyance Pipeline) required for the supply of Contract Water to the District, (b) contamination of any of the City’s Non-Plant Core Water Supplies, or (c) the occurrence of a Severe Drought.

“AFY” means acre-feet per year.

“Allocated Grant Amount” means, with respect to each grant accepted by the City for the Core Plant and the Conveyance Pipeline (or any component thereof), an amount equal to (a) the amount of such grant, multiplied by (b) 28.6%. As of the Contract Date, contemplated grants include \$10,000,000 awarded to the City by the California Department of Water Resources for the Original Plant, and an additional grant of \$1,000,000 awarded to the City from the Integrated Regional Water Management Program for Santa Barbara County for Conveyance Pipeline Phase 1. No grants have been awarded for Conveyance Pipeline Phase 2 as of the Contract Date.

“Annual Contract Water Supply Charge” is defined in Section 8.1 (Annual Contract Water Supply Charge Defined).

“Annual Contract Water Volume” means, with respect to any Contract Year, 1,430 AFY of Contract Water.

“Annual Conveyance Loss” means an amount equal to 1.5% (0.015) of the Annual Contract Water Volume.

“Annual Plant Maintenance, Repair and Replacement Plan” is defined in subsection 9.4(C) (Annual Plant Maintenance, Repair and Replacement Plan).

“Annual Settlement Statement” is defined in Section 10.3 (Annual Settlement).

“Appendix” means any of the Appendices and, as applicable, any attachments thereto, that are appended to this Water Supply Agreement, and identified as such in the Table of Contents.

“Applicable Law” means, to the extent that it affects or applies to this Water Supply Agreement, the performance of obligations of the Parties under this Water Supply Agreement, or the Regional Water Supply System: any federal, State, or local law, code, regulation, or court decision or order; any formally adopted and generally applicable rule, requirement, determination, standard, policy, implementation schedule or order of any Governmental Body having appropriate jurisdiction; any established interpretation of law or regulation utilized by a Governmental Body having appropriate jurisdiction if such interpretation is documented by such Governmental Body and generally applicable; and any permit or approval by a Governmental Body having appropriate jurisdiction.

“Bankruptcy Code” means the United States Bankruptcy Code, 11 U.S.C. 101 et seq., as amended from time to time and any successor statute thereto. “Bankruptcy Code” will also include any similar state law relating to bankruptcy, insolvency, the rights and remedies of creditors, the appointment of receivers or the liquidation of companies and estates that are unable to pay their debts when due.

“Base Contract Year” means, with respect to any amount to be Index-Linked, the Contract Year from which the Index-Linking of such amount will commence, as identified in the particular Section of this Water Supply Agreement providing for the amount to be Index-Linked.

“Base Operating Mode” means circumstances in which the Plant is being operated to produce water at an annualized rate of 1,430 AFY or greater.

“Basic Public Health, Safety and Sanitation Needs” means the minimum amount of water, generally expressed in gallons per capita per day, required to meet the basic needs of a Party for human consumption and sanitation, and for other critical services (such as fire protection, hospitals, clinical care, schools, or industry needs for employment of workers) as reasonably determined by the governing body of such Party after a public hearing, 30 days’ notice of which is provided to the other Party.

“Billing Period” means each calendar month, except that (1) the first Billing Period will begin on the Contract Water Delivery Commencement Date and will continue to the last day of the month in which that occurs, and (2) the last Billing Period will end on the last day of the Term. Any computation made on the basis of a Billing Period will be adjusted on a pro rata basis to take into account any Billing Period of less than the actual number of days in the month to which such Billing Period relates.

“Board of Directors” means the Board of Directors of the District.

“Business Day” means a day other than a Saturday, Sunday or an official holiday recognized by either the City or the District.

“Cachuma Project” means the federal water project constructed and operated by the United States for diversion, storage, carriage, and distribution of waters of the Santa Ynez River for irrigation, municipal, domestic, and industrial uses, referred to in U.S. Department of

Interior, Bureau of Reclamation Contract No. I75r-1802R, or any successor contract. The Cachuma Project includes the South Coast Conduit.

“Capital Charge Allocation Percentage” is defined in Section 8.4 (Capital Charge Allocation Percentage Defined)

“Capital Modification” means a material change, alteration, expansion, improvement or other modification to the physical assets constituting the Plant made after the Contract Date. Capital Modifications exclude ordinary and major maintenance, repairs and replacements.

“Cater Clearwell” means the five million gallon reservoir connected to the Cater Water Treatment Plant that provides contact time for the disinfection and temporary storage capacity for water treated by the Cater Water Treatment Plant.

“Cater Pipeline Extension” is defined in Appendix 8 (Description of the Conveyance Pipeline).

“Cater Water Treatment Plant” means the City’s William B. Cater Water Treatment Plant, located at 1150 San Roque Road, Santa Barbara, CA 93105.

“City” means the City of Santa Barbara, California.

“City Council” means the City Council of the City of Santa Barbara, California.

“City Event of Default” is defined in subsection 14.4(A) (Events of Default by the City).

“City Relief Event” means circumstances in which the City is excused from its Contract Water Supply Obligation due to the occurrence of an Adverse Water System Event or Adverse Plant Event as provided in Section 11.2 (Adverse Water System Events) and Section 11.3 (Adverse Plant Events).

“City SRF Loan” means the City’s borrowing pursuant to the Installment Sale Agreement between the City and the Division of Drinking Water of the State Water Resources Control Board (SWRCB) in connection with the Desalination Plant Reactivation Project, SWCRB Project No. 4210010-005C, dated July 21, 2015, as amended.

“City’s Annual Administrative Costs” is defined in subsection 8.9(B) (City’s Annual Administrative Costs).

“City’s Annual Capital Charge Amount” is defined in Section 8.3 (City’s Annual Capital Charge Amount Defined).

“City’s Annual Fixed O&M Costs” is defined in Section 8.6 (City’s Annual Fixed O&M Costs Defined).

“City’s Annual Variable O&M Costs” is defined in subsection 8.8(B) (Plant Water Production at a Level Equal to or Greater than the Annual Contract Water Volume).

“City’s Costs of Conveyance Pipeline Construction” means (a) the City’s direct costs of design and construction of the Conveyance Pipeline (or any component thereof) as determined under City contracts, plus (b) the City’s direct costs of administering the construction.

“City’s Non-Plant Core Water Supplies” means all of the City’s Potable Water supplies other than Potable Water produced by the Plant.

“City’s Water Supply System” means the facilities, pipelines, equipment, structures, and assets owned by the City for Potable Water production, storage, treatment, transmission, or distribution during the Term.

“COMB” means the California joint powers agency existing and operating pursuant to the “1996 Amended and Restated Agreement for the Establishment of a Board of Control to Operate and Maintain the Cachuma Project – Cachuma Operation and Maintenance Board,” as amended.

“Contract Administration Memorandum” is defined in subsection 15.3(B) (Contract Administration Memoranda).

“Contract Compensation” means the Annual Contract Water Supply Charge and the Special Payments.

“Contract Date” means the date this Water Supply Agreement is executed by the Parties hereto.

“Contract Operations” means operation of the Plant by an Operating Services Provider under an Operating Services Agreement.

“Contract Representative” is defined in Section 15.5 (Contract Representatives).

“Contract Water” means Potable Water, from any source determined by the City, to be sold by the City and purchased by the District according to the terms and conditions of this Water Supply Agreement.

“Contract Water Delivery Commencement Date” means January 1, 2022.

“Contract Water Supply Obligation” means the obligation of the City to supply water to the District under Section 5.1 (City’s Obligation to Sell and Deliver Contract Water).

“Contract Year” means the period that commences July 1 in any year and ends on June 30 of the following year, except that the first Contract Year will be the Contract Year in which the Contract Water Delivery Commencement Date occurs and end on June 30 immediately preceding the next Contract Year. Any computation made on the basis of a Contract Year will be adjusted on a pro rata basis to take into account any Contract Year of less than 365 or 366 days, whichever is applicable. The first “full Contract Year” will be the Contract Year following the Contract Year in which the Contract Water Delivery Commencement Date occurs, assuming the Contract Year in which the Contract Water Delivery Commencement Date occurs is a Contract Year of less than 365 days (which Contract Year will be a “partial Contract Year”).

“Conveyance Pipeline” means the planned City pipeline and related improvements, equipment, systems and facilities that will be constructed as part of the Conveyance Pipeline Phase 1 and Conveyance Pipeline Phase 2 work described in Appendix 8 (Description of the Conveyance Pipeline).

“Conveyance Pipeline Phase 1” means those portions of the Conveyance Pipeline described under the heading “Conveyance Pipeline Phase 1” in Appendix 8 (Description of the Conveyance Pipeline), consisting of the New Conveyance Pipeline component and the Repurposing Project component.

“Conveyance Pipeline Phase 1 Payment” is defined in subsection 9.1(A) (Conveyance Pipeline Phase 1 Payment Defined).

“Conveyance Pipeline Phase 1 Substantial Completion Date” means the date on which both components of Conveyance Pipeline Phase 1 are Substantially Complete.

“Conveyance Pipeline Phase 2” means those portions of the Conveyance Pipeline described under the heading “Conveyance Pipeline Phase 2” in Appendix 8 (Description of the Conveyance Pipeline), consisting of the Relining/Replacement Project component and the Cater Pipeline Extension component.

“Conveyance Pipeline Phase 2 Payment” is defined in subsection 9.1(C) (Conveyance Pipeline Phase 2 Payment Defined).

“Conveyance Pipeline Phase 2 Substantial Completion Date” means the date on which all components of Conveyance Pipeline Phase 2 are Substantially Complete.

“Core Plant” means the Original Plant and the Original Plant as it may be modified from time to time to establish a Plant Capacity at any level up to and including 5,000 AFY.

“Cost Substantiation” means the process of providing evidence of actual costs in accordance with Section 15.7 (Cost Substantiation).

“Curtailment Operating Mode” means circumstances in which either (1) the Plant is being operated to produce water at an annualized rate of less than 1,430 AFY, or (2) the City is not operating the Plant to produce any Plant Water.

“Daily Contract Water Volume” means the Monthly Contract Water Volume, divided by the number of days in a given month during which a Relief Event occurs. For example, the Daily Contract Water Volume for any particular day in June would equal 3.913 AF, calculated as 117.379 AF divided by 30. “Daily Contract Water Volume” is a term used only during a Relief Event or portion of a Relief Event that has a duration less than one month.

“DBO Contract” means the Design/Build/Operate Contract for the Plant, dated as of August 31, 2015, between the DBO Contractor and the City, as the same may be amended or modified from time to time.

“DBO Contractor” means IDE Americas, Inc., a Delaware corporation organized and existing under the laws of the State of Delaware.

“Debt Service Coverage Deposit” is defined in Section 9.2 (Debt Service Coverage Deposit).

“Debt Service Reserve Deposit” is defined in Section 9.3 (Debt Service Reserve Deposits).

“Debt Service Reserve Target Amount” is defined in subsection 9.3(A) (City’s Debt Service Reserve Target Amount).

“Deductions” is defined in Section 8.11 (Deductions).

“Delivery Point” means the Cater Clearwell.

“District” means the Montecito Water District, a water district organized and existing pursuant to Section 30000, et seq. of the California Water Code.

“District Banked Water” is defined in subsection 12.1(C) (Use of Undelivered Water; District Banked Water).

“District Event of Default” is defined in subsection 14.4(B) (Events of Default by the District).

“District Relief Event” means an act, event or circumstance that causes the District to be physically unable to accept Contract Water from the City at the Delivery Point for any reason, including a Force Majeure Event affecting the District’s water distribution system or the portion of the South Coast Conduit after the Delivery Point. “District Relief Event” does not include a voluntary decision by the District to not accept Contract Water.

“District’s Portion of the Debt Service Reserve Target Amount” is defined in subsection 9.3(B) (District’s Portion of the Debt Service Reserve Target Amount).

“Event of Default” means, with respect to the City, those items specified in subsection 14.4(A) (Events of Default by the City) and, with respect to the District, those items specified in subsection 14.4(B) (Events of Default by the District).

“Fixed O&M Charge Allocation Percentage” is defined in Section 8.7 (Fixed O&M Charge Allocation Percentage Defined).

“Fixed O&M Charge Component” is defined in Section 8.5 (Fixed O&M Charge Component).

“Force Majeure Event” means any act, event or condition that is beyond the reasonable control of a Party and materially interferes with the performance of such Party’s obligations under this Water Supply Agreement to the extent that such act, event or condition is not the result of the willful or negligent act, error or omission, failure to exercise reasonable diligence, or breach of this Water Supply Agreement on the part of such Party. Subject to the foregoing, Force Majeure Events will include the following:

- (1) naturally-occurring events such as landslides, underground movement, earthquakes, fires, tornadoes, hurricanes, floods, lightning, epidemics and other acts of God;
- (2) explosion, terrorism, sabotage or similar occurrence, acts of a declared public enemy, extortion, war, blockade or insurrection, riot or civil disturbance;
- (3) unanticipated failure of equipment or systems, interruption in electrical power supplied by a public utility.

It is specifically understood that, without limitation, none of the following acts, events or circumstances will constitute Force Majeure Events:

- (1) any act, event or circumstance that would not have occurred but for the affected Party’s failure to comply with its obligations hereunder;
- (2) weather conditions normal for the vicinity of the City and District.

“Full Production” means circumstances in which the Plant is being operated utilizing the full production capacity of the Plant at its then-current Plant Capacity at the time a particular determination is to be made.

“Good Industry Practice” means the methods, techniques, standards and practices which, at the time they are to be employed and in light of the circumstances known or reasonably believed to exist at such time, are generally recognized and accepted as good operation, maintenance, repair, replacement and management practices in the municipal water treatment industry as observed in central California.

“Governmental Approvals” means all orders of approval, permits, licenses, authorizations, consents, certifications, exemptions, rulings, entitlements and approvals issued by a Governmental Body of whatever kind and however described which are required under Applicable Law to be obtained or maintained by any person with respect to the Water Supply Services.

“Governmental Body” means the United States, the State, the City or any federal or state agency having regulatory or adjudicatory power and jurisdiction over: the Parties, the Regional Water Supply System; or the appropriation, production, distribution, treatment, or supply of water, including approval, conditional approval, or denial of permits to operate, maintain, or construct.

“Index-Linked” means, with respect to an amount at any time, that such amount is adjusted as of July 1 of the Payment Contract Year by:

- (1) Multiplying it by the most current Inflation Index available on the immediately preceding April 1, and
- (2) Dividing it by the Inflation Index for the corresponding month of the Base Contract Year.

“Inflation Index” means the All Items Consumer Price Index for All Urban Consumers (CPI-U) in the Los Angeles – Long Beach – Anaheim, California Consolidated Metropolitan Statistical Area, not seasonally adjusted, as published by the Bureau of Labor Statistics using a reference year of 1982-1984 that equals 100.0 or, if such index in its present form becomes unavailable, such similar index as may be agreed by the parties, acting reasonably.

“Legal Proceeding” means every action, suit, litigation, arbitration, administrative proceeding, and other legal or equitable proceeding having a material bearing upon this Water Supply Agreement or the performances of the Parties hereunder, and all appeals therefrom.

“Mediator” means any person serving as a third-party mediator of disputes hereunder pursuant to Section 14.11 (Dispute Resolution Procedures).

“Monthly Contract Water Volume” means 117.379 AF per month (calculated as the Annual Contract Water Volume, less the Annual Conveyance Loss, all divided by 12).

“Monthly Water Supply Payments” is defined in subsection 10.1(A) (Monthly Water Supply Payments).

“New Conveyance Pipeline” is defined in Appendix 8 (Description of the Conveyance Pipeline).

“Non-Binding Mediation” means the voluntary system of dispute resolution through third-party mediation established by Section 14.11 (Dispute Resolution Procedures) for the resolution of any dispute arising under this Water Supply Agreement.

“Operating Services Agreement” means the DBO Contract and any Successor Operating Services Agreement providing for the operation of the Plant, as the same may be amended or modified from time to time.

“Operating Services Provider” means the DBO Contractor and any Successor Operating Services Provider.

“Original Plant” means the Plant existing on the Contract Date having a Plant Capacity of 3,125 AFY.

“Overdue Rate” means the highest interest then currently earned by the City or the District, whichever Party to which the debt is owed, on its lawfully invested funds during the applicable period for which interest is owed, or the Prime Rate, whichever is lower.

“Party” means either the City or the District.

“Payment Contract Year” means the Contract Year in which an Index-Linked payment is to be made under a particular Section of this Water Supply Agreement.

“Plant” means the City’s Charles E. Meyer Desalination Facility and all related intake, outfall, pretreatment, and pumping facilities.

“Plant Capacity” means the design capacity of the Plant to produce desalinated Potable Water on an annual basis meeting all legal and regulatory requirements, expressed in AFY. The Plant Capacity as of the Contract Date is 3,125 AFY.

“Plant Capital Charge Component” is defined in Section 8.2 (Plant Capital Charge Component).

“Plant Capital Maintenance Costs” is defined in Section 9.4 (Plant Capital Maintenance Costs).

“Plant Change in Law” means any of the following acts, events or circumstances to the extent that compliance with the change materially expands the scope, interferences with, delays or increases the cost of the City to perform its obligations related to the Plant: (1) the adoption, amendment, promulgation, issuance, modification, repeal or written change in administrative or judicial interpretation of any Applicable Law on or after the Contract Date; (2) the order or judgment of any Governmental Body issued on or after the Contract Date enforcing any Plant Change in Law described in item (1) of this definition; and (3) the denial of an application for, a delay in the review, issuance or renewal of, or the suspension, termination or interruption of any Governmental Approvals. A Plant Change in Law includes changes in Applicable Law pertaining to drinking water standards for public water supply, to waste discharge, and to water rights that meet the criteria set forth in this definition.

“Plant Operating Mode” means either Base Operating Mode or Curtailment Operating Mode.

“Plant Water” means Potable Water produced by the Plant.

“Potable Water” means treated water that meets all federal and state primary water quality requirements for human consumption.

“Prime Rate” means the prime rate as published in The Wall Street Journal, or a mutually agreeable alternative source of the prime rate if it is no longer published in The Wall Street Journal or the method of computation thereof is substantially modified.

“Project” means the Plant and the Conveyance Pipeline, and the water supply, receiving and payment obligations of the Parties hereunder.

“Pump Station Improvements” means the City’s planned upgrade to the pump station at the Plant, including the replacement of existing pump station equipment, piping and instrumentation, required to increase the pumping pressure and capacity of the pump station to the level necessary to convey Plant Water from the Plant to the Cater Clearwell based on the Plant’s 10,000 AFY permitted capacity. The “Pump Station Improvements” include two new water pumps. Any third or additional pumps subsequently constructed are Plant Capital Modifications.

“Reference Contract Year” is defined in Section 8.8(C) (Plant Water Production at a Level Less than Annual Contract Water Volume).

“Reference Contract Year Variable Unit Price” is defined in subsection 8.8(C) (Plant Water Production at a Level Less than Annual Contract Water Volume).

“Reference Contract Year Variable Unit Price, Index-Linked” is defined in subsection 8.8(C) (Plant Water Production at a Level Less than Annual Contract Water Volume).

“Reference Documents” means those documents listed as Reference Documents in the Table of Contents.

“Regional Water Supply System” means the Cachuma Project, the facilities operated by COMB and that portion of the City’s Water Supply System used to treat imported water.

“Relief Event” means a City Relief Event or a District Relief Event.

“Relining/Replacement Project” is defined in Appendix 8 (Description of the Conveyance Pipeline).

“Repurposing Project” is defined in Appendix 8 (Description of the Conveyance Pipeline).

“Self-Performed Operations” means the operation of the Plant by City forces.

“Severe Drought” means drought resulting in a water shortage emergency declared pursuant to California Water Code Sections 350 et seq. or the California Emergency Services Act (California Government Code Sections 8550 et seq.) or equivalent law.

“South Coast Conduit” means the existing pipeline and appurtenant facilities owned and operated by the United States Bureau of Reclamation that conveys water from the Cachuma Project to the City, the District, Goleta Water District, and Carpinteria Valley Water District.

“Special Payments” means the amounts payable by the District under Article 9 (Special Payments).

“State” means the State of California.

“State Revolving Fund” or “SRF” means California’s Drinking Water State Revolving Fund, a program administered by the California State Water Resources Control Board that assists public water systems in financing the cost of drinking water infrastructure projects needed to achieve or maintain compliance with Safe Drinking Water Act requirements.

“State Water Project” means the water storage and delivery system of reservoirs, aqueducts, power plants and pumping plants operated by the California Department of Water Resources pursuant to the California Water Resources Development Bond Act (Cal. Wat. Code §§ 19930 et seq.) or other statutes.

“Substantial Completion” or “Substantially Complete”, when used with respect to the construction of an improvement, means that construction is substantially complete under conventional public works construction standards, and the improvement is ready for beneficial use.

“Successor Operating Services Agreement” means any Operating Services Agreement entered into by the City with a Successor Operating Services Provider.

“Successor Operating Services Provider” means any Operating Services Provider succeeding the DBO Contractor.

“Term” is defined in Section 4.1 (Effective Date and Term).

“Termination Date” means the last day of the Term resulting from either a termination under Article 14 (Breach, Default, Remedies and Termination) or expiration under Article 4 (Term).

“Uncontrollable Circumstance” means any act, event or condition that is beyond the reasonable control of the Party relying on it as a justification for not performing an obligation or complying with any condition required of such Party under this Water Supply Agreement, including a Plant Change in Law and a Force Majeure Event.

“Variable O&M Charge Allocation Percentage” is defined in subsection 8.8(B) (Plant Water Production at a Level Equal to or Greater than the Annual Contract Water Volume).

“Variable O&M Charge Component” is defined in Section 8.8 (Variable O&M Charge Component).

“Water Supply Agreement” means this Water Supply Agreement between the City and the District, including the Appendices, as the same may be amended or modified from time to time by a Water Supply Agreement Amendment.

“Water Supply Agreement Amendment” is defined in Section 15.4 (Water Supply Agreement Amendments).

“Water Supply Development Fee Component” is defined in Section 8.10 (Water Supply Development Fee Component).

“Water Supply Services” means the City’s Contract Water Supply Obligation, and all other obligations of the City hereunder relating thereto.

SECTION 1.2. INTERPRETATION.

The following rules of interpretation apply to this Water Supply Agreement, except to the extent the context or the express provisions of this Water Supply Agreement otherwise require.

(A) Plurality. Words importing the singular number mean and include the plural number and vice versa.

(B) Persons. Words importing persons include individuals, legal personal representatives, firms, companies, associations, joint ventures, general partnerships, limited partnerships, limited liability partnerships, limited liability companies, trusts, business trusts, corporations, governmental bodies, and other legal entities

(C) Headings. The table of contents and any headings preceding the text of the Articles, Sections and subsections of this Water Supply Agreement will be solely for convenience of reference and will not affect its meaning, construction or effect.

(D) References Hereto. The terms “hereby”, “hereof”, “herein”, “hereunder” and any similar terms refer to this Water Supply Agreement.

(E) References to Days and Time of Day. All references to days herein are references to calendar days, unless otherwise indicated, such as by reference to Business Days. Each reference to time of day is a reference to Pacific Standard Time or Pacific Daylight Saving time, as the case may be.

(F) References to Including. The words “include”, “includes” and “including” are to be construed as meaning “include without limitation”, “includes without limitation” and “including without limitation”, respectively.

(G) References to Statutes. Each reference to a statute or statutory provision includes any statute or statutory provision which amends, extends, consolidates or replaces the statute or statutory provision or which has been amended, extended, consolidated or replaced by the statute or statutory provision and includes any orders, regulations, by-laws, ordinances, codes of practice or instruments made under the relevant statute.

(H) References to Governmental Bodies. Each reference to a Governmental Body is deemed to include a reference to any successor to such Governmental Body or any organization or entity or organizations or entities which has or have taken over the functions or responsibilities of such Governmental Body.

(I) References to Business Days. If the time for doing an act falls or expires on a day that is not a Business Day, the time for doing such act is extended to the next Business Day. References to Business Days exclude Saturdays, Sundays, and holidays listed in the California Government Code Sections 6700 and 6701 and designated as holidays by either the City or the District.

(J) References to Documents and Standards. Each reference to an agreement, document, standard, principle or other instrument includes a reference to that agreement, document, standard, principle or instrument as amended, supplemented, substituted, novated or assigned.

(K) References to All Reasonable Efforts. The expression “all reasonable efforts” and expressions of like import, when used in connection with an obligation of either Party, means taking in good faith and with due diligence all reasonable steps to achieve the

objective and to perform the obligation, including doing all that can reasonably be done in the circumstances taking into account each Party's obligations hereunder to mitigate delays and additional costs to the other Party, and in any event taking no less steps and efforts than those that would be taken by a reasonable and prudent person in comparable circumstances but where the whole of the benefit of the obligation and where all the results of taking such steps and efforts accrued solely to that person's own benefit.

(L) Entire Water Supply Agreement. This Water Supply Agreement contains the entire agreement between the Parties hereto with respect to the transactions contemplated by this Water Supply Agreement. Without limiting the generality of the foregoing, this Water Supply Agreement completely and fully supersedes all other understandings and agreements among the Parties with respect to such transactions.

(M) Counterparts. This Water Supply Agreement may be executed in any number of original counterparts. All such counterparts will constitute but one and the same Water Supply Agreement.

(N) Governing Law. This Water Supply Agreement will be governed by and construed in accordance with the applicable laws of the State.

(O) Severability. Each provision of this Water Supply Agreement is valid and enforceable to the fullest extent permitted by law. If any provision of this Water Supply Agreement is held to be invalid, unenforceable or illegal to any extent, that provision may be severed and the invalidity, unenforceability or illegality will not prejudice or affect the validity, enforceability and legality of the remaining provisions of this Water Supply Agreement. If a provision of this Water Supply Agreement is held to be invalid, unenforceable or illegal, the Parties will promptly endeavor in good faith to negotiate new provisions to eliminate such invalidity, unenforceability or illegality and to restore this Water Supply Agreement as nearly as possible to its original intent and effect.

(P) Drafting Responsibility. The Parties waive the application of any rule of law that otherwise would be applicable in connection with the construction of this Water Supply Agreement to the effect that ambiguous or conflicting terms or provisions should be construed against the Party who (or whose counsel) prepared the executed agreement or any earlier draft of the same.

(Q) Interpolation. If any calculation hereunder is to be made by reference to a chart or table of values, and the reference calculation falls between two stated values, the calculation will be made on the basis of linear interpolation.

(R) Accounting and Financial Terms. All accounting and financial terms used herein will be interpreted and applied in accordance with generally accepted accounting principles (GAAP).

(S) Third-Party Rights. This Water Supply Agreement is exclusively for the benefit of the District and the City. There are no third party beneficiaries to this Water Supply Agreement. This Water Supply Agreement does not provide any other person or entity, other than the District and the City, with any remedy, claim, liability, reimbursement, cause of action or other rights.

(T) Discretion. When a Party has "discretion", it means that Party has the sole, absolute and unfettered power to make a decision, take an action, or fail to take an action, with no requirement to act reasonably or provide reasons unless specifically required under the provisions of this Water Supply Agreement.

(U) Party Bearing Cost of Performance. All obligations undertaken by each Party hereto will be performed at the cost of the Party undertaking the obligation or responsibility, unless the other Party has explicitly agreed herein to bear all or a portion of the cost either directly, by reimbursement to the other Party or through an adjustment to the Annual Contract Water Supply Charge.

(V) Writings. When a communication is required to be provided in writing or as a written document, it may be delivered as a paper document or in an electronic format, including transmission by electronic mail, Internet dropbox, facsimile, or similar other standard interchange format capable of reproduction and storage; provided, however, that oral communication or voice recording will not be considered to be in writing or written.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES

SECTION 2.1. REPRESENTATIONS AND WARRANTIES OF THE CITY.

In addition to any other representations and warranties made by the City in this Water Supply Agreement, the City represents and warrants that:

(A) Existence and Powers. The City is a municipal corporation, validly existing and in good standing under the laws of the State, and has the authority to do business in this State and in any other state in which it conducts its activities, with the full legal right, power and authority to enter into and perform its obligations under this Water Supply Agreement.

(B) Due Authorization and Binding Obligation. This Water Supply Agreement has been duly executed on behalf of the City, pursuant to authority granted by Ordinance No. [____], adopted by the City Council at its meeting on [____], 2020, and effective on [____], 2020, and constitutes a legal, valid and binding obligation of the City, enforceable against the City in accordance with its terms, except to the extent that its enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights from time to time in effect and equitable principles of general application.

(C) No Conflict. To the best of its knowledge, neither the execution nor delivery by the City of this Water Supply Agreement nor the performance by the City of its obligations in connection with the transactions contemplated hereby or the fulfillment by the City of the terms or conditions hereof conflicts with, violates or results in a breach of:

(1) Any constitution, law, governmental regulation, by-laws or certificates of incorporation applicable to the City; or

(2) Any order, judgment or decree, or any contract, agreement or instrument to which the City is a party or by which the City or any of its properties or assets are bound, or constitutes a default under any of the foregoing.

(D) No Approvals Required. No approval, authorization, order or consent of, or declaration, registration or filing with, any Governmental Body is required for the valid execution of this Water Supply Agreement by the City or the performance by the City of its supply or other obligations hereunder, except such as have been duly obtained or made.

(E) No Litigation. Except as disclosed to the District, to the best of its knowledge, there is no Legal Proceeding before or by any Governmental Body pending or overtly threatened or publicly announced against the City, in which an unfavorable decision, ruling or finding could reasonably be expected to have a material and adverse effect on the execution of this Water Supply Agreement by the City or the validity, legality or enforceability of this Water Supply Agreement against the City, or on the ability of the City to perform its obligations hereunder.

SECTION 2.2. REPRESENTATIONS AND WARRANTIES OF THE DISTRICT.

In addition to any other representations and warranties made by the District in this Water Supply Agreement, the District represents and warrants that:

(A) Existence and Powers. The District is county water district formed pursuant to Section 30000, et seq. of the California Water Code, with full legal right, power and authority to enter into and to perform its obligations under this Water Supply Agreement.

(B) Due Authorization. This Water Supply Agreement has been duly executed on behalf of the District pursuant to authority granted by action of the Board of Directors taken at its meeting on [_____], 2020, and constitutes a legal, valid and binding obligation of the District, enforceable against the District in accordance with its terms, except to the extent that its enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights from time to time in effect and equitable principles of general application.

(C) No Conflict. To the best of its knowledge, neither the execution by the District of this Water Supply Agreement nor the performance by the District of its obligations in connection with the transactions contemplated hereby or the fulfillment by the District of the terms or conditions hereof conflicts with, violates or results in a breach of:

(1) Any constitution, law or governmental regulation applicable to the District;
or

(2) Any term or condition of any order, judgment or decree, or any contract, agreement or instrument, to which the District is a party or by which the District or any of its properties or assets are bound, or constitutes a material default under any of the foregoing.

(D) No Approvals Required. No approval, authorization, order or consent of, or declaration, registration or filing with, any Governmental Body or referendum of voters is required for the valid execution by the District of this Water Supply Agreement or the performance by the District of its payment or other obligations hereunder, except such as have been duly obtained or made.

(E) No Litigation. Except as disclosed to the City, to the best of its knowledge, there is no Legal Proceeding before or by any Governmental Body pending or overtly threatened or publicly announced against the District, in which an unfavorable decision, ruling or finding could reasonably be expected to have a material and adverse effect on the execution of this Water Supply Agreement by the District or the validity, legality or enforceability of this Water Supply Agreement against the District, or on the ability of the District to perform its obligations hereunder.

ARTICLE 3

OVERVIEW AND DECLARATIONS

SECTION 3.1. GENERAL PURPOSE.

The general purpose of this Water Supply Agreement is to further the public health, safety, and welfare and provide local and regional benefits through the sale by the City and the purchase by the District, at wholesale, of supplemental water that is made available from production capacity of the Plant.

SECTION 3.2. OVERVIEW.

(A) Contract Water. The water that is the subject of this Water Supply Agreement is referred to as Contract Water. The annual amount of Contract Water that the City agrees to supply to the District under this Water Supply Agreement constitutes the Annual Contract Water Volume. The Annual Contract Water Volume is 1,430 AFY. The District is purchasing a wholesale supply of water made available by the City. In exchange for a reliable water supply and in consideration of the City's commitment to sell and deliver the Annual Contract Water Volume, the District agrees to purchase the Annual Contract Water Volume or to pay for it even if hydrological or other conditions make some or all of the Annual Contract Water Volume surplus to the District's needs. In consideration of the District's commitment to take or pay for water, the City agrees to sell and deliver the Annual Contract Water Volume and to reasonably manage its Potable Water supplies, including the Plant and the City's Non-Plant Core Water Supplies, such that the Contract Water is available to meet the City's delivery obligations. These commitments are subject to relief to the extent provided in Article 11 (City Relief Events) and Article 12 (District Relief Events). Because the Contract Water is made available by production capacity at the Plant, the City will operate and maintain the Plant as an integral component of its Potable Water system and will promptly resume water production following a Plant shutdown made for the convenience of the City in compliance with Section 6.1 (Plant Availability). Water deliveries will be determined using the established administrative and operating system maintained by COMB for all water delivered through the Cachuma Project that enters the Cachuma Project at the Cater Clearwell.

(B) Plant Capacity. The Plant is a seawater desalination facility that is fully permitted for operation at a Plant Capacity of up to 7,500 AFY under a variety of operating scenarios, including operation to meet regional water supply needs. As of the Contract Date, the Plant Capacity is 3,125 AFY. This Water Supply Agreement is premised on a planned initial upgrade in Plant Capacity of up to 5,000 AFY and subsequent upgrade to 7,500 AFY. The timing of the upgrades is at the discretion of the City. This Water Supply Agreement also provides the City with the opportunity for a replacement water production facility of comparable cost and reliability under certain conditions.

(C) Conveyance Pipeline Delivery. Contract Water deliveries require construction of the Conveyance Pipeline as described in Appendix 8 (Description of the Conveyance Pipeline). The City is responsible for constructing the Conveyance Pipeline and making other improvements necessary to deliver the Contract Water to the Delivery Point. The District will pay a portion of the Conveyance Pipeline costs as provided in this Water Supply Agreement. The cost of the Conveyance Pipeline has been allocated equitably between the City and the District based on a cost avoidance model that took into account cost estimates for the construction of a pipeline capable of conveying 10,000 AFY of Plant Water, and cost estimates for construction of a smaller pipeline capable of conveying only 1,430 AFY of Plant Water to the Cater Water Treatment Plant.

SECTION 3.3. PRICING GENERALLY.

The price for the Annual Contract Water Volume includes costs associated with the production and conveyance of Contract Water as if the Contract Water is Plant Water in all instances, including a portion of the Plant's fixed and variable costs and additional payments in consideration of the City's investments and risks. The District recognizes the City's unique contribution as owner of the Plant, including its site, intake and outfall facilities, physical assets, environmental review, permitting, construction, maintenance, operation, and administration costs dating from the mid-1990s to the present. Therefore, the Contract Compensation payable by the District hereunder includes an amount to reasonably compensate the City for these activities. In addition, the District will pay a ratable portion of potential increases in Plant costs that may result from future Capital Modifications or operating cost increases generally, including those resulting from Uncontrollable Circumstances.

SECTION 3.4. DECLARATION REGARDING SERVICE RELATIONSHIP.

This Water Supply Agreement does not establish a customer service relationship between the City and any person, entity, or property within the District. This Water Supply Agreement does not establish water service for which consent of the District or any other Governmental Body or entity is required by Article XI, Section 9 of the California Constitution or other statute. This Water Supply Agreement does not convey to or vest in the District any property interest in the Plant, the Conveyance Pipeline, the Contract Water, or portion of the City's Water Supply System. Nothing in this Water Supply Agreement will be construed to make the District a third party beneficiary of any Operating Services Agreement or any other contract for the construction, reconstruction, repair, operation or maintenance of the City's Water Supply System.

SECTION 3.5. DECLARATION REGARDING PAYMENTS.

This Water Supply Agreement is the result of voluntary negotiations between the City and the District. Neither the City nor the District believe the payments made pursuant to this Water Supply Agreement are subject to the requirements of Article XIII C or Article XIII D of the California Constitution. The District specifically agrees that the payments by the District under this Water Supply Agreement do not exceed the reasonable costs to the City of providing the Contract Water and bear a fair and reasonable relationship to the District's burdens on and benefits received from the City pursuant to this Water Supply Agreement.

SECTION 3.6. DECLARATION OF GOOD FAITH AND FAIR DEALING.

The Parties agree to reasonably cooperate with each other to effectuate the purposes of this Water Supply Agreement and that the implied covenant of good faith and fair dealing is expressly made a part of this Water Supply Agreement.

ARTICLE 4

TERM

SECTION 4.1. EFFECTIVE DATE AND TERM.

This Water Supply Agreement is effective as of the Contract Date, and has a term that begins on the Contract Water Delivery Commencement Date and ends on June 30 of the 50th Contract Year following the Contract Water Delivery Commencement Date (the “**Term**”). The Term is subject to earlier termination under the provisions of Article 14 (Breach, Default, Remedies and Termination). All rights, obligations and liabilities of the Parties hereto commence on the Contract Date and end upon termination of the Term, except as provided in Section 4.3 (Survival of Certain Provisions Upon Termination).

SECTION 4.2. RENEWAL.

This Water Supply Agreement may be renewed and extended by mutual agreement of the City and the District. The Parties agree to meet and negotiate a potential extension of the Term during the 45th Contract Year; provided, however, that neither Party is obliged to agree to an extension.

SECTION 4.3. SURVIVAL OF CERTAIN PROVISIONS UPON TERMINATION.

Notwithstanding any other provision of this Water Supply Agreement, the following provisions hereof will survive the expiration or earlier termination of this Water Supply Agreement:

- (1) Section 6.5 (Asset and Financial Records);
- (2) Section 14.11 (Dispute Resolution Procedures);
- (3) Article 14 (Breach, Default, Remedies and Termination), as applicable to the obligations of the Parties following the Termination Date; and
- (4) All other provisions of this Water Supply Agreement that are expressly stated in the provision as surviving termination of this Water Supply Agreement;

together with any provision necessary to give effect to the above provisions. Termination of this Water Supply Agreement neither limits nor affects the respective rights and obligations of the Parties accrued prior to the date of termination nor precludes either Party from impleading the other Party in any Legal Proceeding originated by a third-party as to any matter occurring during the Term.

ARTICLE 5

WATER SUPPLY

SECTION 5.1. CITY'S OBLIGATION TO SELL AND DELIVER CONTRACT WATER.

(A) Delivery Obligation. The City, commencing on the Contract Water Delivery Commencement Date, will sell and deliver Contract Water in an amount equal to the Annual Contract Water Volume in each Contract Year, according to the delivery schedule established pursuant to Section 5.3 (Delivery Schedule and Measurement), except as and to the extent provided in Article 11 (City Relief Events). Contract Water will be delivered to the Delivery Point.

(B) No City Obligation to Deliver Make-Up Water. Nothing in this Water Supply Agreement will be construed to obligate the City to supply "make-up" water in the event that the City fails for any reason to deliver the Annual Contract Water Volume.

SECTION 5.2. DISTRICT'S OBLIGATION TO PURCHASE AND TAKE DELIVERY OF CONTRACT WATER.

The District, commencing on the Contract Water Delivery Commencement Date, will purchase and take delivery of Contract Water in an amount equal to the Annual Contract Water Volume in each Contract Year, according to the delivery schedule established pursuant to Section 5.3 (Delivery Schedule and Measurement), except as and to the extent provided in Article 12 (District Relief Events).

SECTION 5.3. DELIVERY SCHEDULE AND MEASUREMENT.

(A) Commencement of Deliveries. The City will commence delivery of the Contract Water to the District on the Contract Water Delivery Commencement Date.

(B) Delivery of Annual Contract Water Volume. The City will deliver Contract Water to the District each Contract Year in an amount equal to the Annual Contract Water Volume, except as and to the extent relieved as provided in Article 11 (City Relief Events).

(C) Monthly Deliveries. The Annual Contract Water Volume will be delivered on a monthly basis in amounts equal to the Monthly Contract Water Volume. In the event that the City is relieved of its Contract Water Supply Obligation under Article 11 (City Relief Events), or the District is relieved of its obligation to accept the City's delivery of Contract Water under Article 12 (District Relief Events), the extent of relief will be determined in accordance with each respective Article. Scheduled and unscheduled maintenance, repair and replacement work on the Plant, except for unscheduled work in response to an Adverse Plant Event as provided in Section 11.3 (Adverse Plant Events), will not serve to reduce the Monthly Contract Water Volume or Annual Contract Water Volume.

(D) Convention for Measuring Contract Water Deliveries. The Parties acknowledge that water deliveries under this Water Supply Agreement cannot be directly measured due to the manner in which the metering system at the Delivery Point functions. The Parties also acknowledge that losses from the condition of the South Coast Conduit after the Delivery Point are the District's responsibility. The City and the District thus agree to coordinate with each other and with COMB to deliver, measure and account for water delivered under this Water Supply Agreement in a manner that is consistent with the established procedures for delivering, measuring and accounting for water that is delivered from the Cachuma Project to the public agencies participating in the Cachuma Project. For purposes of administering this Water Supply Agreement, water delivered to the District will be attributed first to deliveries of the

Monthly Contract Water Volume, and then to deliveries of the District's water from the Cachuma Project and the State Water Project under existing water delivery agreements with COMB.

(E) Instructions to COMB. For each month during the Term, the City will be responsible for providing COMB with the instructions necessary for COMB to account for the Contract Water.

(F) Deemed Deliveries. The City will be deemed to have met its Contract Water Supply Obligation for any Billing Period during which the quantity of water attributed as delivered to the District at or after the Delivery Point under any water delivery agreement, including this Water Supply Agreement, is equal to the Monthly Contract Water Volume and an equivalent amount of water has either been produced by the Plant, or been designated by the City as transferred from the City to the account of the District within the COMB system for accounting of water stored in and delivered from Lake Cachuma.

(G) Reports. Within 20 days following the last day of a Billing Period, the City will provide the District a report of the Monthly Contract Water Volume delivered for that Billing Period. The City's report will be reconciled with monthly reports furnished by COMB with respect to Cachuma Project water deliveries generally. Within 45 days following the last day of the last Billing Period in a Contract Year, the City will provide a report of the Annual Contract Water Volume for the Contract Year, together with a similar reconciliation.

ARTICLE 6

PLANT OPERATING MODES, PLANT OPERATIONS AND MAINTENANCE AND CONVEYANCE
PIPELINESECTION 6.1. PLANT OPERATING MODES.

(A) Plant Operating Modes Generally. At all times during the Term, the Plant will either be in Base Operating Mode or in Curtailment Operating Mode. Except as provided in subsection (B) of this Section, the City has the right and the obligation in its discretion to determine the Plant Operating Mode. On the Contract Water Delivery Commencement Date, the City will advise the District as to whether the Plant is in Base Operating Mode or Curtailment Operating Mode. The City will provide written notice to the District of any change in Plant Operating Mode from Base Operating Mode to Curtailment Operating Mode, or from Curtailment Operating Mode to Base Operating Mode, concurrently with the effective date of the change.

(B) Adverse Water System Events. Upon and during the occurrence of an Adverse Water System Event, the City will place the Plant in Base Operating Mode if the Plant is then in Curtailment Operating Mode, and will operate the Plant at Full Production.

(C) Election of Curtailment Operating Mode. The City acknowledges that by electing to place the Plant in Curtailment Operating Mode, the City will need to supply Contract Water in whole or in part from the City's Non-Plant Core Water Supplies to meet its obligations under Section 5.1 (City's Obligation to Sell and Deliver Contract Water).

SECTION 6.2. PLANT AVAILABILITY.

During the Term, except as provided in Section 6.3 (Plant Replacement), the City will keep and maintain the Plant in a condition which will allow the Plant to produce the Annual Contract Water Volume. The City may place the Plant in Curtailment Operating Mode by shutting down the Plant at any time, so long as the City maintains the Plant in a condition such that the Plant is capable of being restarted and Plant Water production at the Annual Contract Water Volume level being resumed in 10 Business Days.

SECTION 6.3. PLANT REPLACEMENT.

(A) Right to Replace. At any time following the 25th anniversary of the Contract Water Delivery Commencement Date, the City may replace the Plant with another water production facility or source that has a water production reliability greater than or equal to the Plant and at a cost to the District that is less than or equal to the Contract Compensation as if the Plant continued to operate for the remainder of the Term. The replacement facility or source will be a new facility or source that excludes the City's Non-Plant Core Water Supplies.

(B) Terms of Replacement. If the City intends to exercise its right to replace the Plant under subsection (A) of this Section, it will give two years' prior written notice to the District, together with a detailed written proposal and report as to the proposed Plant replacement (including the size, capacity, feasibility, history, reliability, cost and risks associated with the replacement facility or source). Upon delivery of the notice, proposal and report, the City and District will negotiate in good faith for amendments to this Water Supply Agreement that provide equivalent financial and water supply terms with respect to the new facility or source as are provided with respect to the Plant. If the City and District are not able to reach agreement on amendments to this Water Supply Agreement and the City nonetheless elects to proceed to construct the replacement facility, either the City or the District may, each in its discretion, terminate this Water Supply Agreement effective as of the date the replacement facility is Substantially Complete or otherwise enters commercial operation.

SECTION 6.4. PLANT OPERATIONS.

(A) Contract Operations and Self-Performed Operations. The City may operate the Plant using its own forces or by contracting with an Operating Services Provider for Plant operations.

(B) Water Supply Services Contractors. As of the Contract Date, the Plant is being operated by the DBO Contractor. The City has the right, in its discretion, to extend, amend and terminate the DBO Contract, and to contract with a Successor Operating Services Provider, after providing a reasonable opportunity for review and comment by the District as to the selection of the Operating Services Provider and the terms of the Operating Services Agreement.

(C) Plant Operations Generally. In operating the Plant, whether through Contract Operations or Self-Performed Operations, the City will:

(1) Maintenance, Repair, Replacement and Operation. Cause the Plant to be maintained, repaired, replaced and operated in accordance with Good Industry Practice and Applicable Law. Maintenance, repair, replacement and operation work may be performed by City forces, Operating Services Providers, other contractors or by any combination thereof;

(2) Material Information. Make available to the District, upon request, copies of all non-confidential information relating to the Plant and to the City's Non-Plant Core Water Supplies which is in the possession of the City and material to the City's performance hereunder;

(3) Access. Grant and assure the District, upon request, reasonable access to the Plant;

(4) Service Coordination. Designate a City employee who is responsible for the coordination of service with the District under this Water Supply Agreement, and provide relevant contact information. The service coordinator may be the City Contract Representative; and

(5) Plant Staffing. Cause the Plant to be staffed with qualified, appropriately licensed personnel.

SECTION 6.5. ASSET AND FINANCIAL RECORDS.

(A) Project Records. The City will establish and maintain, or cause to be established, a computerized information system with respect to the Project for operations and maintenance data and process control, including the information necessary to verify calculations made pursuant to this Water Supply Agreement and demonstrate compliance with the terms and conditions of this Water Supply Agreement. The City will promptly provide the District, upon reasonable request, with copies of all operations and maintenance data and other information kept by the City in its performance of the Water Supply Services.

(B) Financial Records. The City will prepare and maintain proper, accurate, complete and current financial books, records and accounts, in accordance with GAAP, with respect to all aspects of the Project and Water Supply Services, including direct and indirect personnel expenses, subcontractor costs, the costs of material, equipment and supplies, maintenance, repair and replacement items, operating expenses and overhead. These financial records will be in the form and substance sufficient to support all financial reporting, including Cost Substantiation, required hereunder.

(C) Inspection and Audit. The District will have the right to perform or commission an inspection or independent audit of the financial and Project information required to be kept under this Section.

SECTION 6.6. PERIODIC REPORTS.

(A) Annual Operations and Maintenance Reports. The City will furnish to the District an annual operations and maintenance report within 60 days after the end of each Contract Year containing the following information:

(1) a summary of the information contained in the monthly operations reports, including a report by the City as to the performance of operation and ordinary maintenance services at the Plant; and

(2) a summary of all Plant maintenance, repair and Capital Modifications undertaken and performed.

(B) Material Contract Default Reports. The City will provide to the District, promptly after the receipt thereof, copies of any written notice of a material default, breach or non-compliance received or sent under or in connection with any material contract entered into by the City in connection with the Water Supply Services, including any Operating Services Agreement and any contract entered into with respect to water supplies from the State Water Project.

SECTION 6.7. CONVEYANCE PIPELINE.

(A) Generally. The Conveyance Pipeline consists of a single set of planned pipeline improvements that will be constructed in two separate phases, Conveyance Pipeline Phase 1 and Conveyance Pipeline Phase 2. The first phase is expected to be implemented concurrently in two component parts. The second phase may be implemented in several component parts over an extended period, under multiple contracts or under City self-perform arrangements.

(B) Conveyance Pipeline Phase 1 Construction and Costs. The City intends to execute contracts for the construction of the two component parts of Conveyance Pipeline Phase 1 following the Contract Date, and expects that Conveyance Pipeline Phase 1 will be Substantially Complete by January 1, 2022. The District will pay the City the District's negotiated share of the Conveyance Pipeline Phase 1 costs as part of the Conveyance Pipeline Phase 1 Payment as provided in Section 9.1 (Conveyance Pipeline Payments).

(C) Conveyance Pipeline Phase 2 Construction and Costs. The City will contract or arrange for the construction of the components of Conveyance Pipeline Phase 2 at a subsequent date when the City determines in its discretion that it is appropriate to do so. The District agrees to pay the City the District's negotiated share of the Conveyance Pipeline Phase 2 costs as provided in Section 9.1 (Conveyance Pipeline Payments).

(D) Conveyance Pipeline Operation and Maintenance Costs. The District will pay the operation and ordinary maintenance costs incurred by the City with respect to the Conveyance Pipeline based on a fraction, the numerator of which is the Annual Contract Water Volume and the denominator of which is the Plant Capacity in the Contract Year in which such payment is to be made.

(E) Major Maintenance, Repairs and Replacements to the Conveyance Pipeline. Using the Capital Charge Allocation Percentage, the City and the District will share the cost of major maintenance, repairs and replacements required to be made to the Conveyance

Pipeline for any reason, including major maintenance, repairs and replacements required for capital asset preservation purposes in accordance with Good Industry Practice or to repair damage caused by a Force Majeure Event. In the event that any such major maintenance, repair or replacement is made in the last 20 Contract Years of the Term, the principles limiting the District's payment obligations set forth in subsection 7.1(B) (Later Term Capital Modifications) will apply to such item of major maintenance, repair or replacement.

(F) No Other District Payment Obligations with Respect to the Conveyance Pipeline. Except for the payment obligations of the District expressly provided for in this Section, the District will not have any other payment obligation with respect to the Conveyance Pipeline, including with respect to changes, alterations, expansions, improvements or modifications to the Conveyance Pipeline that do not constitute maintenance, repair or replacement work.

ARTICLE 7

PLANT CAPITAL MODIFICATIONS

SECTION 7.1. PLANT CAPITAL MODIFICATIONS.

(A) Capital Modifications to the Plant. The City may from time to time undertake Capital Modifications to the Plant. The City may be required to initiate Capital Modifications to the Plant in response to an Uncontrollable Circumstance. The City may also initiate Capital Modifications if it reasonably determines that a Capital Modification will benefit the Plant or better serve the community. Except as provided in subsection (B) of this Section, the District will share the cost of Capital Modifications incurred by the City as provided in Section 8.3 (City's Annual Capital Charge Amount Defined) and Section 8.4 (Capital Charge Allocation Percentage Defined).

(B) Later Term Capital Modifications to the Plant. If the City undertakes a Capital Modification in the last 20 Contract Years of the Term of this Water Supply Agreement for which the District would be responsible for cost-sharing pursuant to Article 8 (Annual Contract Water Supply Charge) and the Capital Modification has a longer useful life than the remaining Term, then the District will be required to share the cost of the Capital Modification only with respect to the ratable portion of the cost that falls within the remaining Term. For example, if the City undertakes a major Capital Modification in Contract Year 40 that has an expected economic life of 30 years and the City finances such capital improvement with bonds maturing in 20 years, then the District's payment obligation with respect to such capital improvement would be determined as follows:

(1) The Parties would disregard the 20-year financing, and instead determine the annual debt service that would accrue on a hypothetical 30-year financing the final maturity of which is coterminous with the expected economic life of the Capital Modification;

(2) For the remainder of the Term, the Parties would allocate to the District the annual debt service so determined (i.e., the first 10 years of a 30-year level debt-service repayment) in the manner set forth in Article 8 (Annual Contract Water Supply Charge).

(C) Notice of Plant Capacity Upgrade Capital Modifications. The City has the right to make Capital Modifications to upgrade the Plant Capacity to any degree and at any time. The City will keep the District apprised from time to time of any plans to undertake a Capital Modification to upgrade the Plant Capacity, and of any procurement and contracting process undertaken relating thereto.

ARTICLE 8

ANNUAL CONTRACT WATER SUPPLY CHARGE

SECTION 8.1. ANNUAL CONTRACT WATER SUPPLY CHARGE DEFINED.

(A) Annual Contract Water Supply Charge. The “**Annual Contract Water Supply Charge**” for each Contract Year will be the sum of the following components:

- (1) The Plant Capital Charge Component;
- (2) The Fixed O&M Charge Component;
- (3) The Variable O&M Charge Component;
- (4) The Administrative Charge Component; and
- (5) The Water Supply Development Fee Component.

The Annual Contract Water Supply Charge shall be reduced by any Deductions payable pursuant to Section 8.11 (Deductions) with respect to the Contract Year.

SECTION 8.2. PLANT CAPITAL CHARGE COMPONENT.

(A) Plant Capital Charge Component Defined. The “**Plant Capital Charge Component**” for each Contract Year means (1) the City’s Annual Capital Charge Amount for the Contract Year, multiplied by (2) the Capital Charge Allocation Percentage for the Contract Year. In the event that the City’s Annual Capital Charge Amount or the Capital Charge Allocation Percentage changes during any Contract Year, the Plant Capital Charge Component for such Contract Year will be determined through pro-ration on a 30/360 basis.

(B) Illustrative Calculations of the Plant Capital Charge Component. Table [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification) shows an illustrative projection of the Plant Capital Charge Component, based on the assumption that no adjustments are made to the City’s Annual Capital Charge Amount or to the Capital Charge Allocation Percentage. Table [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification) shows an illustrative projection of the Plant Capital Charge Component, based on the assumption that a Capital Modification upgrading the Plant Capacity to 5,000 AFY occurs on the first day of the Contract Year ending June 30, 2027, and further based on the other assumptions shown in Tables [] through [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification). These sample schedules and assumptions are non-binding on the Parties and are provided for illustrative purposes only.

SECTION 8.3. CITY’S ANNUAL CAPITAL CHARGE AMOUNT DEFINED.

(A) City’s Annual Capital Charge Amount. The “**City’s Annual Capital Charge Amount**” means the sum of:

- (1) Annual debt service due on the City SRF Loan with respect to the Original Plant (shown for convenience in Table 2 of Appendix 3 (Schedules Supporting Computation of the City’s Annual Capital Charge Amount));
- (2) Annual amortization of the amount of interest during construction of the Original Plant that was paid by the City on the City SRF Loan through January 12, 2018, calculated to reflect 20-year amortization at the City SRF Loan interest rate (shown for

convenience in Table 3 of Appendix 3 (Schedules Supporting Computation of the City's Annual Capital Charge Amount));

(3) Annual amortization of the amount of principal with respect to the Original Plant paid by the City on the City SRF Loan prior to the Contract Water Delivery Commencement Date, calculated to reflect 20-year amortization at the City SRF Loan interest rate (shown for convenience in Table 4 of Appendix 3 (Schedules Supporting Computation of the City's Annual Capital Charge Amount));

(4) Annual amortization of an amount equal to the sum of (a) \$734,852, representing certain capital costs of the Plant self-financed by the City, and (b) the design and construction costs of the Pump Station Improvements, with the annual amortization of such sum calculated to reflect 20-year amortization at the City SRF Loan interest rate (shown for convenience in Table 5 of Appendix 3 (Schedules Supporting Computation of the City's Annual Capital Charge Amount)); and

(5) Adjustments authorized by subsection (B) of this Section.

The City's Annual Capital Charge Amount for each Contract Year, reflecting such calculations, is shown in Table 1 of Appendix 1 (Schedules Supporting Article 8 (Annual Contract Water Supply Charge)), subject to adjustments as described in subsection (B) of this Section. Except for such adjustments, no other capital costs incurred by the City with respect to the Plant are eligible for recovery under this Water Supply Agreement. The City's Annual Capital Charge Amount is also shown for convenience in Table 1 of Appendix 3 (Schedules Supporting Computation of the City's Annual Capital Charge Amount).

(B) Adjustments to the City's Annual Capital Charge Amount. The City's Annual Capital Charge Amount shown in Table 1 of Appendix 1 (Schedules Supporting Article 8 (Annual Contract Water Supply Charge)) will be adjusted only in the following circumstances:

(1) Plant Capacity Upgrade Capital Modifications. The City's Annual Capital Charge Amount will be increased to reflect the City's design, construction, and financing costs of Capital Modifications to upgrade the Plant Capacity to 5,000 AFY. The increase will be effective as of the first day of the month following the date these Capital Modifications are Substantially Complete. Illustrative calculations of such an adjustment are shown in Tables [] through [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification). The City's Annual Capital Charge Amount will not be adjusted on account of any Capital Modification that increases Plant Capacity above 5,000 AFY, as such Capital Modifications will constitute part of the Additional Plant.

(2) Capital Modifications that do not Upgrade Plant Capacity. The City's Annual Capital Charge Amount will be increased to reflect the City's design, construction, and financing costs of Capital Modifications to or for the benefit of the Core Plant. The City's Annual Capital Charge Amount will not be adjusted on account of any Capital Modification to or for the benefit of the Additional Plant, as such Additional Plant exists at the time of the Capital Modification, or a potential Additional Plant that may ultimately be constructed at a later date. An illustrative allocation of costs between the Core Plant and the Additional Plant are shown in Appendix 7 (Illustrative Allocations of Costs Between the Core Plant and the Additional Plant).

(C) Contract Administration Memorandum. Adjustments to the City's Annual Capital Charge Amount will be implemented through a Contract Administration Memorandum containing an amended Table 1 of Appendix 1 (Schedules Supporting Article 8 (Annual Contract Water Supply Charge)). The Contract Administration Memorandum will also specify the effective

date of the adjustment. Adjustments will be effective as of the commencement of a Contract Year or the first day of a Billing Period within a Contract Year.

SECTION 8.4. CAPITAL CHARGE ALLOCATION PERCENTAGE DEFINED.

(A) Capital Charge Allocation Percentage. The “**Capital Charge Allocation Percentage**” means a fraction with the Annual Contract Water Volume as the numerator and the Plant Capacity of the Core Plant as the denominator. The Capital Charge Allocation Percentage as of the Contract Date is 45.76% as shown in Table 1 of Appendix 1 (Schedules Supporting Article 8 (Annual Contract Water Supply Charge)).

(B) Adjustments to the Capital Charge Allocation Percentage Based Upon a Capital Modification to Increase Plant Capacity to a Level up to and Including 5,000 AFY. The Capital Charge Allocation Percentage will be adjusted to reflect the increase in Plant Capacity to a level up to and including 5,000 AFY. For example, if the Plant Capacity is 5,000 AFY, the Capital Charge Allocation Percentage would be adjusted to 28.6% as shown in Table [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification). An adjustment will be effective on the first day of the month following the date the Capital Modification is Substantially Complete. Illustrative calculations showing an example of such adjustment are shown in Table [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification).

(C) Contract Administration Memorandum. Adjustments to the Capital Charge Allocation Percentage will be implemented through a Contract Administration Memorandum containing an amended Table 1 of Appendix 1 (Schedules Supporting Article 8 (Annual Contract Water Supply Charge)). The Contract Administration Memorandum will also specify the effective date of the adjustment. Adjustments will be effective as of the commencement of a Contract Year or the first day of a Billing Period within a Contract Year.

(D) Exclusion of Additional Plant Capacity from Capital Charge Allocation Percentage Calculation. The capacity of any Additional Plant will not be included in the calculation of the Capital Charge Allocation Percentage.

SECTION 8.5. FIXED O&M CHARGE COMPONENT.

The “**Fixed O&M Charge Component**” for each Contract Year is the amount equal to (1) the City’s Annual Fixed O&M Costs for that Contract Year, multiplied by (2) the Fixed O&M Charge Allocation Percentage. In the event that the Fixed O&M Charge Allocation Percentage changes during any Contract Year, the Fixed O&M Charge Component for such Contract Year will be determined through pro-ratio on a 30/360 basis. Adjustments will be effective as of the commencement of a Contract Year or the first day of a Billing Period within a Contract Year.

SECTION 8.6. CITY’S ANNUAL FIXED O&M COSTS DEFINED.

(A) City’s Annual Fixed O&M Costs. The “**City’s Annual Fixed O&M Costs**” for each Contract Year means the actual operating and maintenance costs incurred by the City reasonably attributable to the operation and maintenance of the Core Plant and Additional Plant in a condition necessary to resume Plant Water production in compliance with Section 6.1 (Plant Availability) regardless of Plant Operating Mode. The City’s Annual Fixed O&M Costs exclude the City’s Annual Variable O&M Costs and Plant Capital Maintenance Costs.

(B) Costs While the DBO Contract is in Effect. Appendix 5 (Itemization of Fixed O&M and Variable O&M Cost Elements) to this Water Supply Agreement shows the detailed itemization and allocation of the total cost of operating and maintaining the Plant between the City’s Annual Fixed O&M Costs and the City’s Annual Variable O&M Costs for purposes of this

Water Supply Agreement. Appendix 5 (Itemization of Fixed O&M and Variable O&M Cost Elements) is based upon the operation of the Plant pursuant to the DBO Contract with the DBO Contractor as of the Contract Date.

(C) Costs Following Expiration or Termination of the DBO Contract. The Parties understand that the DBO Contract may expire or be amended during the Term. Upon any such expiration or material amendment of the DBO Contract, or upon any other material change to the contracts or arrangements through which the Plant is operated and maintained (including the execution of a Successor Operating Services Agreement), the City will prepare and the District will approve a revised Appendix 5 (Itemization of Fixed O&M and Variable O&M Cost Elements) showing a detailed itemization and allocation of the City's Annual Fixed O&M Costs and the City's Annual Variable O&M Costs. The revision of Appendix 5 will be implemented by a Contract Administration Memorandum. The Contract Administration Memorandum will also specify the effective date of the adjustment. Adjustments will be effective as of the commencement of a Contract Year or the first day of a Billing Period within a Contract Year. This subsection will also apply if the City performs Plant operation and maintenance with its own forces rather than through an Operating Services Provider.

SECTION 8.7. FIXED O&M CHARGE ALLOCATION PERCENTAGE DEFINED.

(A) Fixed O&M Charge Allocation Percentage. The "**Fixed O&M Charge Allocation Percentage**" means a fraction with the Annual Contract Water Volume as the numerator and the Plant Capacity as the denominator. The Fixed O&M Charge Allocation Percentage as of the Contract Date is 45.76% as shown in Table 2 of Appendix 1 (Schedules Supporting Article 8 (Annual Contract Water Supply Charge)).

(B) Adjustments to the Fixed O&M Charge Allocation Percentage. The Fixed O&M Charge Allocation Percentage will be adjusted to reflect changes in the Plant Capacity due to Capital Modifications to the Plant, including the Core Plant and any Additional Plant. An adjustment will be effective on the first day of the month following the date the Capital Modification resulting in the increase in Plant Capacity is Substantially Complete. Illustrative calculations showing an example of such adjustment are shown in Table [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification).

(C) Contract Administration Memorandum. Adjustments to the Fixed O&M Charge Allocation Percentage will be implemented through a Contract Administration Memorandum containing an amended Table 2 of Appendix 1 (Schedules Supporting Article 8 (Annual Contract Water Supply Charge)). The Contract Administration Memorandum will also specify the effective date of the adjustment. Adjustments will be effective as of the commencement of a Contract Year or the first day of a Billing Period within a Contract Year.

SECTION 8.8. VARIABLE O&M CHARGE COMPONENT.

(A) Generally. The Variable O&M Charge Component will be determined for each Contract Year according to either subsection (B) or subsection (C) of this Section.

(B) Plant Water Production Equal to or Greater than the Annual Contract Water Volume. For each Contract Year in which the Plant produces a volume of water at least equal to the Annual Contract Water Volume, the "**Variable O&M Charge Component**" means the amount equal to (1) the City's Annual Variable O&M Costs for that Contract Year, multiplied by (2) the Variable O&M Charge Allocation Percentage, where:

(1) "**City's Annual Variable O&M Costs**" means an amount equal to the City's actual costs of operating and performing ordinary maintenance on the Plant in the

Contract Year, excluding the City's Annual Fixed O&M Costs and Plant Capital Maintenance Costs for the Contract Year; and

(2) **"Variable O&M Charge Allocation Percentage"** means a fraction with the Annual Contract Water Volume as the numerator and the total volume of water actually produced by the Plant in the Contract Year as the denominator (irrespective of Plant Capacity).

(C) Plant Water Production Less than Annual Contract Water Volume. For each Contract Year in which the Plant produces less than the Annual Contract Water Volume (irrespective of Plant Capacity), the Variable O&M Charge Component will not be determined with regard to the Plant operating and ordinary maintenance costs actually incurred by the City with respect to that Contract Year, but instead will be determined on a hypothetical basis as an amount equal to (a) the Annual Contract Water Volume, multiplied by (b) the Reference Contract Year Variable Unit Price, Index-Linked, where:

(1) **"Reference Contract Year"** means the most recent Contract Year in which the Plant, regardless of the Plant Capacity in such Contract Year, was operated at Full Production for the entire Contract Year;

(2) **"Reference Contract Year Variable Unit Price"** means an amount equal to (a) the Variable O&M Charge Component paid by the District for the Reference Contract Year, divided by (b) the Annual Contract Water Volume; and

(3) **"Reference Contract Year Variable Unit Price, Index-Linked"** means that the Reference Contract Year Variable Unit Price is Index-Linked, using as the Base Contract Year the Reference Contract Year, and further using as the Payment Contract Year the Contract Year with respect to which the Variable O&M Charge Component is payable.

(D) Factors Disregarded in Determining the Variable O&M Charge Component. In determining the Variable O&M Charge Component, the following factors will be disregarded:

(1) The amount of any Billing Period variations in costs or water deliveries (it being the intent of this Section that the Variable O&M Charge Component will be determined based on aggregate annual costs and annual water deliveries for a Contract Year);

(2) Whether the Plant at any time during the Contract Year was in Base Operating Mode or Curtailment Operating Mode;

(3) The occurrence during the Contract Year of City Relief Events, District Relief Events, or Uncontrollable Circumstances; and

(4) Whether the Plant at any time during the Contract Year was being operated under the DBO Contract, a Successor Operating Services Agreement or Self-Performed Operations.

SECTION 8.9. ADMINISTRATIVE CHARGE COMPONENT.

(A) Administrative Charge Component Defined. The **"Administrative Charge Component"** for each Contract Year means the amount equal to (1) the City's Annual Administrative Costs for such Contract Year, multiplied by (2) the Capital Charge Allocation Percentage for such Contract Year. In the event that the Capital Charge Allocation Percentage

changes during any Contract Year, the Administrative Charge Component for such Contract Year will be determined through pro-ration on a 30/360 basis.

(B) City's Annual Administrative Costs. The “**City's Annual Administrative Costs**” for each Contract Year means the City's actual costs of administration, management and oversight that are reasonably allocable to the performance of the Water Supply Services.

(C) Cost Itemization. Appendix 6 (Itemization of City's Administrative Cost Elements) to this Water Supply Agreement provides an illustrative itemization of the cost elements that will be included in the Cost Substantiation of the City's Annual Administrative Costs for purposes of this Water Supply Agreement. This illustrative itemization will support the City's annual determination of the City's Annual Administrative Costs. In the event of a material change in the list of line items shown in Appendix 6 (Itemization of City's Administrative Cost Elements), the City will prepare and the District will approve a revised Appendix 6 (Itemization of City's Administrative Cost Elements). The City will provide the District with a draft version of the revised Appendix 6 (Itemization of City's Administrative Cost Elements) for the District's review and comment.

SECTION 8.10. WATER SUPPLY DEVELOPMENT FEE COMPONENT.

For each Contract Year through and including the Contract Year in which the 20th anniversary of the Contract Water Delivery Commencement Date occurs, the “**Water Supply Development Fee Component**” will be \$237,500 (such amount representing an equitable allocation of the City's historical project development costs between the City and the District), escalated annually at 3% per Contract Year from the Contract Year in which the Contract Water Delivery Commencement Date occurs. Thereafter, for the remainder of Term, the Water Supply Development Fee Component will be Index-Linked using the Contract Year in which the 20th anniversary of the Contract Water Delivery Commencement Date occurs as the Base Contract Year.

SECTION 8.11. DEDUCTIONS.

(A) Determination of Deductions. The following amounts constitute “**Deductions**” to be applied against the Annual Contract Water Supply Charge as provided in this Article 8 (Annual Contract Water Supply Charge):

(1) Unexcused Non-Delivery of Contract Water. For each Acre-Foot of Contract Water the City fails to deliver without relief under Section 11.2 (Adverse Water System Events) or Section 11.3 (Adverse Plant Events), there will be a Deduction applied in the amount of the Annual Contract Water Supply Charge for that Contract Year divided by the Annual Contract Water Volume.

(2) Adverse Water System Events. For each Acre-Foot of Contract Water the City is excused from delivering due to an Adverse Water System Event under Section 11.2 (Adverse Water System Events), there will be a Deduction in the amount of the Annual Contract Water Supply Charge for that Contract Year divided by the Annual Contract Water Volume.

Deductions shall be imposed on a Contract Year basis, and not on a Billing Period basis.

(B) Other Remedies Not Precluded. The application of Deductions as provided in this Section does not preclude other remedies available under Article 14 (Breach, Default, Remedies and Termination), including specific performance and injunction.

SECTION 8.12. SHARING OF DAMAGES RECOVERED FROM AN
OPERATING SERVICES PROVIDER FOR FAILURE TO PERFORM.

In the event of a failure by an Operating Services Provider to produce Plant Water in accordance with the applicable Operating Services Agreement, the City may be entitled to receive damages from the Operating Services Provider. The City will have the sole discretion to determine whether and how to pursue collection of damages in such event. If the City is excused from delivery of Contract Water due to an Operating Services Provider failure and the City determines to pursue a claim, the City and the District will share the costs of pursuing any claims and share any amounts actually received from the Operating Services Provider (as well as the benefits of any business interruption insurance), in proportion to the ratio of the Annual Contract Water Volume and the Plant Capacity as of the date of the failure of the Operating Services Provider to deliver Plant Water. Amounts recovered under this Section will be distributed separately and not as an offset to payments by the District to the City.

ARTICLE 9

SPECIAL PAYMENTS

SECTION 9.1. CONVEYANCE PIPELINE PAYMENTS.

(A) Conveyance Pipeline Phase 1 Payment Defined. The District will pay the City the “**Conveyance Pipeline Phase 1 Payment**” when due, in a lump sum equal to the District’s negotiated share of Conveyance Pipeline Phase 1 costs, calculated as follows:

(1) An amount equal to (a) the City’s Costs of Conveyance Pipeline Construction for both components of Conveyance Pipeline Phase 1, Index-Linked, using as the Base Contract Year the Contract Year in which the Conveyance Pipeline Phase 1 Substantial Completion Date occurs, and further using as the Payment Contract Year the Contract Year in which the Conveyance Pipeline Phase 1 Payment is due, multiplied by (b) 64.6%; minus

(2) The Allocated Grant Amount with respect to Conveyance Pipeline Phase 1, Index-Linked using as the Base Contract Year the Contract Year in which the Allocated Grant Amount was received by the City and further using as the Payment Contract Year the Contract Year in which the Conveyance Pipeline Phase 1 Payment is due.

(B) Condition to Conveyance Pipeline Phase 1 Payment. The Conveyance Pipeline Phase 1 Payment is due and payable in a lump sum on the later of (i) the Conveyance Pipeline Phase 1 Substantial Completion Date, or (ii) the date on which the Capital Modifications required to upgrade the Plant Capacity to 5,000 AFY are Substantially Complete. If the Plant Capacity is never upgraded to 5,000 AFY during the Term, the District will have no obligation to make the Conveyance Pipeline Phase 1 Payment.

(C) Conveyance Pipeline Phase 2 Payment Defined. The District will pay the City the “**Conveyance Pipeline Phase 2 Payment**” when due in a lump sum equal to the District’s negotiated share of Conveyance Pipeline Phase 2 costs, calculated as follows:

(1) An amount equal to (a) the City’s Costs of Conveyance Pipeline Construction for the Relining/Replacing Project component of Conveyance Pipeline Phase 2, Index-Linked, using as the Base Contract Year the Contract Year in which the Relining/Replacing Project component Substantial Completion Date occurs, and further using as the Payment Contract Year the Contract Year in which the Conveyance Pipeline Phase 2 Payment is due, multiplied by (b) 64.6%; plus

(2) An amount equal to (a) the City’s Costs of Conveyance Pipeline Construction for the Cater Pipeline Extension component of Conveyance Pipeline Phase 2, Index-Linked, using as the Base Contract Year the Contract Year in which the Cater Pipeline Extension component Substantial Completion Date occurs, and further using as the Payment Contract Year the Contract Year in which the Conveyance Pipeline Phase 2 Payment is due, multiplied by (b) 64.6%; minus

(3) The Allocated Grant Amount with respect to Conveyance Pipeline Phase 2, Index-Linked, using as the Base Contract Year the Contract Year in which an Allocated Grant Amount was received by the City and further using as the Payment Contract Year the Contract Year in which the Conveyance Pipeline Phase 2 Payment is due. This paragraph (3) applies only to grants for the Conveyance Pipeline Phase 2.

(D) Condition to Conveyance Pipeline Phase 2 Payment. The Conveyance Pipeline Phase 2 Payment is due and payable in a lump sum on the later of (i) the Conveyance

Pipeline Phase 2 Substantial Completion Date, or (ii) the date on which the Capital Modifications required to upgrade the Plant Capacity to 5,000 AFY are Substantially Complete, whichever is later. If the Substantial Completion date of each component of Conveyance Pipeline Phase 2 is not concurrent, then the Conveyance Pipeline Phase 2 Payment shall be made in two installments commensurate with the Substantial Completion date of each particular component. If the Plant Capacity is never upgraded to 5,000 AFY during the Term, the District will have no obligation to make the Conveyance Pipeline Phase 2 Payment.

(E) Contract Administration Memorandum. The City and the District will enter into a Contract Administration Memorandum in connection with each of the Conveyance Pipeline Phase 1 Payment and the Conveyance Pipeline Phase 2 Payment.

(F) Cost Substantiation. The City will provide reasonable documentation of the City's Costs of Conveyance Pipeline Construction for each of the four components of Conveyance Pipeline work to the District promptly following the date each such component of the Conveyance Pipeline is Substantially Complete in accordance with Section 15.7 (Cost Substantiation).

SECTION 9.2. DEBT SERVICE COVERAGE DEPOSIT.

(A) Debt Service Coverage Deposit Defined. The District's annual debt service coverage deposit (the "**Debt Service Coverage Deposit**") means an amount equal to (1) the District's ratable portion of City debt service, as determined by the calculations performed for the Plant Capital Charge Component provided in Section 8.3 (City's Annual Capital Charge Amount Defined), multiplied (2) by 0.25. The District's ratable portion of City debt service will be adjusted if the City incurs additional debt service as part of its financing costs for a Core Plant Capital Modification pursuant to subsection 8.3(B) (Adjustments to the City's Annual Capital Charge Amount), but will not be adjusted for additional debt incurred for any Additional Plant. Examples illustrating how such an adjustment would be calculated in different scenarios are shown in Table [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification).

(B) Payment to City and Refund to District. The Debt Service Coverage Deposit will be paid by the District to the City in equal monthly installments each Contract Year. The Debt Service Coverage Deposit payments received by the City during a Contract Year will be refunded to the District within thirty days of the end of that Contract Year.

(C) Interest Earnings. In lieu of determining the interest actually earned on Debt Service Coverage Deposit amounts, interest earnings will be deemed to be \$3,000 (Index-Linked, using as the Base Contract Year the Contract Year in which the Contract Water Delivery Commencement Date occurs, and further using as the Payment Contract Year the Contract Year with respect to which such interest earnings are to be credited to the District). The deemed interest amount will be credited to the District against the payment of the Debt Service Coverage Deposit due to the City in the first Billing Period following the end of the Payment Contract Year.

(D) Duration of Debt Service Coverage Deposit Requirement. The requirement to fund a Debt Service Coverage Deposit will continue for the term of the City SRF Loan. At final maturity of the City SRF Loan, any remaining funds will be returned to the District and the funding requirement provided for in this Section will terminate.

(E) Use of Deposit. The City may comingle the Debt Service Coverage Deposit with other funds held by the City and may use the Debt Service Coverage Deposit for the purposes of the City SRF Loan in the same manner as the City may use its own debt service coverage deposit funds that it is required to hold in accordance with the terms of the City's SRF loan agreement.

SECTION 9.3. DEBT SERVICE RESERVE DEPOSITS.

(A) City's Debt Service Reserve Target Amount. The City is required by the City SRF Loan provisions to fund a debt service reserve over the first 10 years of the payment term of the City SRF Loan, and to maintain such debt service reserve through full repayment of the City SRF Loan. The target amount due at the end of the 10-year period constitutes the City's "**Debt Service Reserve Target Amount**".

(B) District's Portion of the Debt Service Reserve Target Amount. The "**District's Portion of the Debt Service Reserve Target Amount**" means an amount equal to (1) the Debt Service Reserve Target Amount, multiplied by (2) the Capital Charge Allocation Percentage.

(C) Debt Service Reserve Deposits. The District's annual Debt Service Reserve Deposit (the "**Debt Service Reserve Deposit**") means an amount equal to (1) the District's Portion of the Debt Service Reserve Target Amount, divided by (2) the number of years between the Contract Water Delivery Commencement Date and the date on which the Debt Service Reserve Target Amount must be satisfied by the City. The amounts so determined are shown in Table 3 of Appendix 2 (Schedules Supporting Article 9 (Special Payments)). The District's annual Debt Service Reserve Deposit will be made to the City in equal monthly installments each Contract Year.

(D) Interest Earnings. The City will account for the Debt Service Reserve Deposit as part of the debt service reserve that the City maintains under the City SRF Loan. The City will invest the amounts constituting the Debt Service Reserve Deposit in accordance with its investment policies as part of the debt service reserve that the City maintains under the City SRF Loan and record the amount of interest income earned in each Contract Year. Earned interest will be credited to the District against amounts otherwise due to the City in the first Billing Period following the end of a Contract Year.

(E) Application of Balance. The accumulated amount of the Debt Service Reserve Deposits will be applied against the final debt service payments due on the City SRF Loan, thereby offsetting the Plant Capital Charge Component. If the accumulated amount of the Debt Service Reserve Deposits are greater than the Plant Capital Charge Component in the Contract Year of the final debt service payment due on the City SRF Loan, the amount of the excess will be credited to the District against amounts otherwise due to the City in the first Billing Period following the end of such Contract Year.

(F) Adjustments to the Debt Service Reserve Deposit Amount. The Debt Service Reserve Deposits shown in Table 3 of Appendix 2 (Schedules Supporting Article 9 (Special Payments)) may be adjusted from time to time in accordance with this subsection. Revisions of Table 3 of Appendix 2 (Schedules Supporting Article 9 (Special Payments)) will be implemented by a Contract Administration Memorandum. The Contract Administration Memorandum will also specify the effective date of the adjustment. Adjustments to the Debt Service Reserve Deposit will be made if there are changes to either the Debt Service Reserve Target Amount or the Capital Charge Allocation Percentage. The City will recompute the Debt Service Reserve Deposit to reflect the change to the Debt Service Reserve Target Amount or Capital Charge Allocation Percentage, and to determine the District's Portion of the Debt Service Reserve Target Amount. The City will then calculate the cumulative amount of Debt Service Reserve Deposits that the District has already funded. The City will then divide the difference between the revised District's Portion of the Debt Service Reserve Target Amount and the amounts of Debt Service Reserve Deposits that the District has already funded by the number of Contract Years remaining until the revised Debt Service Reserve Target Amount date. An example of this calculation is provided in Table [] of Appendix 4 (Schedules Illustrating Plant Capacity Upgrade Capital Modification).

(G) Return of Overfunded Amounts. If, at any time, the cumulative amount of Debt Service Reserve Deposit payments that the District has made exceeds the District's Portion of the Debt Service Reserve Target Amount, the excess amount will be credited to the District against amounts otherwise due to the City in the first Billing Period following the end of the Contract Year in which such over-funding is recorded.

SECTION 9.4. PLANT CAPITAL MAINTENANCE COSTS.

(A) Obligation of District to Pay Proportionate Share. The District will pay its proportionate share of major maintenance, repair and replacement costs incurred by the City with respect to the Core Plant (including uninsured costs of repairing or replacing the Core Plant on account of damage caused by a Force Majeure Event) throughout the Term, excluding costs covered by the Fixed O&M Charge Component and Variable O&M Charge Component (the "**Plant Capital Maintenance Costs**"). Payments for Plant Capital Maintenance Costs will be made as Special Payments, based on billings that are submitted to the District in compliance with Section 15.7 (Cost Substantiation). The District's proportionate share will be determined by the Capital Charge Allocation Percentage for the Contract Year in which Plant Capital Maintenance Costs are incurred. In light of the flexibility afforded the City under Article 6 (Plant Operations and Maintenance) (including the right to operate and maintain the Plant through Contract Operations or Self-Performed Operations of any duration, to include or exclude maintenance obligations in operating contracts, and to replace the Plant), the Plant Capital Maintenance Costs will need to be determined based on the manner in which the Plant is actually operated and maintained.

(B) Limitation on District's Obligation. The District is not responsible for Plant Capital Maintenance Costs reasonably attributable to any Additional Plant.

(C) Annual Plant Maintenance, Repair and Replacement Plan. The City will prepare and submit to the District an annual Plant maintenance, repair and replacement plan (the "**Annual Plant Maintenance, Repair and Replacement Plan**") 90 days prior to the beginning of each Contract Year. The Annual Plant Capital Maintenance, Repair and Replacement Plan will describe the anticipated projects and budget for items that will be attributed to Plant Capital Maintenance Costs for the ensuing Contract Year and for each of the following four Contract Years, including whether the projects will be financed on a pay-as-you-go basis or on amortized basis. The District may provide to the City written comments on the draft Annual Plant Capital Maintenance, Repair and Replacement Plan not more than 30 days after it is submitted to the District. The City will prepare a final Annual Plant Capital Maintenance, Repair and Replacement Plan, including responses to the District's comments, if any, not less than 15 days before the commencement of the Contract Year. The plans prepared pursuant to this Section will be used as a guide for the convenience of the Parties.

ARTICLE 10

BILLING AND PAYMENT PROCEDURES

SECTION 10.1. BILLING AND PAYMENT.

(A) Monthly Water Supply Payments. The District will pay the Contract Compensation for each Contract Year in monthly installments in an amount equal to the sum of:

- (1) one-twelfth of the Plant Capital Charge Component;
- (2) one-twelfth of the Fixed O&M charge Component;
- (3) one-twelfth of the Variable O&M Charge Component;
- (4) one-twelfth of the of the Administrative Charge Component;
- (5) one-twelfth of the Water Supply Development Fee Component;
- (6) Special Payments due for the Billing Period; and
- (7) any adjustments, plus or minus, to reconcile any prior monthly Contract Compensation payments. Any overpayment from prior months will be credited against the subsequent monthly Contract Compensation payment,

less an amount equal to any Deductions payable pursuant to Section 8.11 (Deductions) with respect to the Billing Period. The payments required to be made under this subsection constitute the “**Monthly Water Supply Payments**”.

(B) Relationship of Plant Operating Mode to Monthly Water Supply Payments. The Monthly Water Supply Payments are payable as provided in Article 8 (Annual Contract Water Supply Charge) and Article 9 (Special Payments) irrespective of Plant Operating Mode.

(C) Payment. The Monthly Water Supply Payment for a Billing Period will be on account of the Contract Water delivered during the prior Billing Period. If the City provides the District with an invoice by the fifteenth day of each month which sets forth the Monthly Water Supply Payment for the prior month and which shows the Monthly Water Supply Payment and each component thereof as calculated for the then current Billing Period, together with the accumulated payments for each component to the date of such invoice and such other documentation or information as the District may reasonably require to determine the accuracy and appropriateness of the invoice, then the District will pay the invoice within 30 days of receipt, consistent with Section 10.4 (Billing Statement Disputes).

SECTION 10.2. ESTIMATES AND ADJUSTMENTS.

(A) Pro Rata Adjustments. Any computation made on the basis of a stated period will be adjusted on a pro rata basis to take into account any initial or final period which is a partial period. For purposes of this subsection, a month will be taken as a month containing 30 days and a year will be taken as a year containing 360 days.

(B) Budgeting. For District budgeting purposes, no later than 90 days preceding the beginning of each Contract Year, the City will provide to the District a written statement setting forth for such Contract Year its reasonable estimate of the Contract Compensation, including a projected breakdown between the Fixed O&M Charge Component

and the Variable O&M Charge Component. The City's written statement will include the City's anticipated schedule, on a month by month basis, for Plant Capital Maintenance Costs for the Contract Year. The estimate will not be binding on the City but will establish the basis for monthly billing for such Contract Year, subject to annual settlement pursuant to this Article. The City will provide the District with a draft version of the written statement for the District's review and comment.

SECTION 10.3. ANNUAL SETTLEMENT.

Within 30 days after the end of each Contract Year, the City will provide to the District an annual settlement statement (the "**Annual Settlement Statement**") setting forth (1) the actual volume of Contract Water delivered during such Contract Year, and (2) the actual aggregate Contract Compensation payable with respect to such Contract Year, as well as a reconciliation of such amount with the amounts actually paid by the District with respect to such Contract Year. The District or the City, as appropriate, will pay and thereby "true-up" all known and undisputed amounts within 60 days after receipt or delivery of the Annual Settlement Statement. If any amount is then in dispute or is for other reasons not definitely known at the time the Annual Settlement Statement is due, the Annual Settlement Statement will identify the subject matter and reasons for such dispute or uncertainty and, in cases of uncertainty, will include a good faith estimate by the City of the amount in question. When the dispute is resolved or the amount otherwise finally determined, the City will file with the District an amended Annual Settlement Statement which will, in all other respects, be subject to this Section.

SECTION 10.4. BILLING STATEMENT DISPUTES.

If the District disputes any amount billed by the City, the District will pay the amount billed and provide the City with a written objection indicating the amount that is being disputed and providing all reasons then known to the District for its objection to or disagreement with such amount. The City may resolve the dispute and repay the District any overpayment, without interest, within 60 days. If the dispute is not resolved within 60 days, then when the billing dispute is finally resolved, if the City is required to reimburse the District for any amount paid under protest, such reimbursement will be made within 45 days of the date of resolution of the dispute, together with interest thereon, in accordance with Section 15.6 (Interest on Overdue Obligations and Reimbursements).

ARTICLE 11

CITY RELIEF EVENTS

SECTION 11.1. GENERALLY.

The City will be relieved of its Contract Water Supply Obligation only as and to the extent provided in this Article.

SECTION 11.2. ADVERSE WATER SYSTEM EVENTS.(A) Adverse Water System Events Caused by Asset Failure or Contamination.

The City will be excused from its Contract Water Supply Obligation during the continuance of an event described in item (a) or (b) of the definition of Adverse Water System Event if:

- (1) The Plant has a capacity of at least 5,000 AFY;
- (2) The Plant is being operated at Full Production;
- (3) Except for water delivered to the District, Plant Water is not being sold to a third party outside of the City's service territory; and
- (4) The City is unable to meet its Basic Public Health, Safety and Sanitation Needs as a result of such Adverse Water System Event using the City's Non-Plant Core Water Supplies and Plant Water that is not obligated to the District.

(B) Adverse Water System Events Caused by Severe Drought. The City will be excused from its Contract Water Supply Obligation during the continuance of an event described in item (c) of the definition of Adverse Water System Event if:

- (1) The Plant has a capacity of at least 7,500 AFY;
- (2) The Plant is being operated at Full Production;
- (3) Except for water delivered to the District, Plant Water is not being sold to a third party outside of the City's service territory; and
- (4) The City is unable to meet its Basic Public Health, Safety and Sanitation Needs as a result of such Adverse Water System Event using the City's Non-Plant Core Water Supplies and Plant Water that is not obligated to the District.

(C) Allowable Relief. During the period in which the City is excused from its Contract Water Supply Obligation due to the continuance of an Adverse Water System Event, except as provided in Section 11.4 (Basic Public Health, Safety and Sanitation Needs of Both Parties Not Met), the City will be relieved from its Contract Water Supply Obligation to the extent that Plant Water is required for the City to meet its Basic Public Health, Safety and Sanitation Needs, after taking account of water available from the City's Non-Plant Core Water Supplies and Plant Water that is not obligated to the District.

SECTION 11.3. ADVERSE PLANT EVENTS.

(A) Adverse Plant Event Relief. The City will be excused from its Contract Water Supply Obligation during the continuance of an Adverse Plant Event if either:

(1) The Plant Capacity is 3,125 AFY and an Adverse Plant Event occurs while the Plant is in Base Operating Mode that causes a full Plant shutdown, or

(2) The Plant Capacity has been upgraded to at least 5,000 AFY and an Adverse Plant Event occurs while the Plant is in Base Operating Mode that causes a full Plant shutdown or a reduction in Plant production.

(B) Allowable Relief. Relief will be allowed during the continuance of an Adverse Plant Event as follows:

(1) Full Plant Shutdown. If the City is entitled to relief under either subsection (A)(1) or (A)(2) of this Section, and the Adverse Plant Event has caused a full shutdown of the Plant's production capacity on any day, then the City will be relieved of its Contract Water Supply Obligation on such day.

(2) Partial Plant Shutdown. If the City is entitled to relief under subsection (A)(2) of this Section, and the Adverse Plant Event has caused a partial shutdown of the Plant's production capacity on any day, then the City's Contract Water Supply Obligation for such day will be reduced by multiplying the volume of Contract Water actually produced on such day by a fraction, the numerator of which is the Annual Contract Water Volume and the denominator of which is the Plant Capacity at the time of the shutdown. For example: if the Plant Capacity is 5,000 AFY at the time the Adverse Plant Event occurs, the fraction is 1,430/5,000; if the Plant Capacity is 7,500 AFY at the time the Adverse Plant Event occurs, the fraction is 1,430/7,500.

(C) No Adverse Plant Event Relief if Plant is in Curtailment Operating Mode; Exception. The City will not be entitled to relief for an Adverse Plant Event during Curtailment Operating Mode; provided, however, that during any period in which the City is precluded from returning to Base Operating Mode as provided in subsections (D) and (E) of this Section because of the occurrence of an Adverse Plant Event and except as provided in Section 11.4 (Basic Public Health, Safety and Sanitation Needs of Both Parties Not Met), the City will be relieved from its Contract Water Supply Obligation to the extent of any Contract Water that is reasonably necessary to permit the City to meet its Basic Public Health, Safety and Sanitation Needs, after taking account of water available from the City's Non-Plant Core Water Supplies and Plant Water that is not obligated to the District.

(D) Return to Base Operating Mode. Subject to subsection (E) of this Section, nothing in this Section will be construed to limit the City's rights under Section 6.1 (Operating Modes Generally) to return the Plant from Curtailment Operating Mode to Base Operating Mode for any reason, including any City inability to deliver Contract Water when the Plant is in Curtailment Operating Mode.

(E) Timing of Return to Base Operating Mode. Any City return from Curtailment Operating Mode to Base Operating Mode will not take effect until the Plant is actually producing Contract Water at the rate of 1,430 AFY. Prior to such effective date, the Plant will continue to be in Curtailment Operating Mode.

SECTION 11.4. BASIC PUBLIC HEALTH, SAFETY AND SANITATION NEEDS OF BOTH PARTIES NOT MET.

If both Parties are unable to meet their respective Basic Public Health, Safety and Sanitation Needs because of an Adverse Water System Event or an Adverse Plant Event, the total amount of water available to the City and the District (including Plant Water and the non-plant core water supplies of each Party) will be evaluated when determining the extent of relief allowable under this Article. In determining the extent of relief, residential customers of both

Parties will receive the same amount of water per capita per day, and other critical service water demands will be apportioned equitably. The Parties will cooperate, meet and confer in good faith to implement this Section during the continuance of the Adverse Water System Event or Adverse Plant Event.

SECTION 11.5. EFFECT OF DISTRICT RELIEF EVENT.

Irrespective of Plant Operating Mode, the City will be entitled to relief from its Contract Water Supply Obligation as and to the extent provided in Article 12 (District Relief Events) upon the occurrence of a District Relief Event.

SECTION 11.6. EXTENT OF RELIEF.

If on any day during a Billing Period the City is entitled to relief from its Contract Water Supply Obligation due to the occurrence of a City Relief Event as provided in this Article 11 (City Relief Events) the extent of relief will be based on the Daily Contract Water Volume if the City Relief Event or a portion of the City Relief Event has a duration of less than one month. For purposes of determining the duration of a City Relief Event, days will be counted in full-day increments regardless of the number of hours during a day that the City Relief Event existed or continued. Otherwise, the extent of relief will be based on the Monthly Contract Water Volume.

ARTICLE 12

DISTRICT RELIEF EVENTS

SECTION 12.1. DISTRICT RELIEF EVENTS.

(A) Allowable Relief. During the continuance of a District Relief Event, the District will be relieved of its obligation to take delivery of Contract Water, and the City will be relieved of its Contract Water Supply Obligation, in an amount equal to the volume of water that the District is unable to accept because of the occurrence of the District Relief Event.

(B) No Effect on Contract Compensation. The occurrence of a District Relief Event will not relieve the District of its obligation to pay the Contract Compensation.

(C) Use of Undelivered Water; District Banked Water. Any water that the City is obligated to deliver under its Contract Water Supply Obligation but is unable to deliver due to the occurrence of a District Relief Event may be used by the City for any purpose. Such water will be deemed to constitute "**District Banked Water**", which will be credited by COMB to the Lake Cachuma account of the District and which may be used by the District at any time thereafter. District Banked Water will be subject to all conveyance restrictions, losses, and costs applicable to District-owned water at Lake Cachuma. The District will pay all costs associated with the storage and conveyance of the District Banked Water.

SECTION 12.2. EFFECT OF CITY RELIEF EVENT.

The District will be entitled to relief from its obligation to take delivery of Contract Water as and to the extent provided in Article 11 (City Relief Events) upon the occurrence of a City Relief Event.

SECTION 12.3. EXTENT OF RELIEF.

If on any day during a Billing Period the District is entitled to relief from its obligation to take delivery of Contract Water under Section 12.1 (District Relief Events) due to the occurrence of a District Relief Event, the extent of relief will be based on the Daily Contract Water Volume if the District Relief Event or a portion of the District Relief Event has a duration of less than one month. For purposes of determining the duration of a District Relief Event, days will be counted in full-day increments regardless of the number of hours during a day that the District Relief Event existed or continued. Otherwise, the extent of relief will be based on the Monthly Contract Water Volume.

ARTICLE 13

RELIEF EVENT OBLIGATIONS AND CLAIM PROCEDURES

SECTION 13.1. COOPERATION DURING RELIEF EVENTS.

(A) Resumption of Performance. The Party claiming entitlement to relief due to a Relief Event will use all reasonable efforts to eliminate the cause of the Relief Event and to resume performance of its respective obligations under this Water Supply Agreement.

(B) Mitigation. Whenever a Relief Event occurs, the Parties will, as promptly as practicable, use all use reasonable efforts to eliminate the cause thereof, reduce costs resulting therefrom, mitigate and limit damage to the Parties, and resume or continue full performance under this Water Supply Agreement. The Parties will also use all reasonable efforts to equitably determine the extent of relief to which a Party is entitled, provided that neither Party is required to forego any rights under this Water Supply Agreement. Any relief to which a Party is entitled under this Article will be adjusted to account for the effect of such measures and any other mitigation measures which were or should have been taken by the Parties in compliance with their respective duties to mitigate.

SECTION 13.2. RELIEF EVENT – CLAIM PROCEDURES.

(A) Notice and Written Report. In order to assert an entitlement based on the occurrence of a Relief Event, the Party claiming entitlement to relief must give notice to the other Party as soon as practicable, and in any event within 10 Business Days of the date that the Party claiming entitlement has knowledge that the Relief Event has caused or is likely to cause an entitlement to relief under this Water Supply Agreement. The notice must include a written report:

- (1) Describing the Relief Event and the cause thereof, to the extent known;
- (2) Stating the date on which the Relief Event began and its estimated duration;
- (3) Summarizing the consequences of the Relief Event and the expected impact on the performance of obligations under this Water Supply Agreement for which the Party claiming entitlement is responsible;
- (4) Indicating the nature and scope of the relief to which the Party claims entitlement;
- (5) Stating the date when the interruption, curtailment, or reduction commenced or will commence and the anticipated date, if known, when Contract Water deliveries will resume, if the claim for relief entails the interruption, curtailment, or reduction of deliveries; and
- (6) Stating the anticipated date for recommencement and completion of construction, if the claim for relief is predicated on the occurrence of a Force Majeure Event that affects the completion of a Capital Modification with respect to the Core Plant or the Conveyance Pipeline.

(B) Updates. The Party claiming entitlement to relief must provide the other Party with periodic updates, together with further details and supporting documentation, as it receives or develops additional information pertaining to the Relief Event and the matters

described in subsection (A) of this Section. In particular, the Party claiming entitlement to relief will notify the other Party as soon as the Relief Event has ceased and of the time when the performance of its affected obligations can be resumed.

(C) Submittal of Relief Request. The Party claiming entitlement to relief must submit to the other Party a further notice making its request for specific relief, the basis therefor and the event giving rise to the requested relief within 30 days after the notice referred to in subsection (A) of this Section. If the specific relief cannot reasonably be ascertained within such 30-day period, the Party must furnish such notice within such longer period as necessary to detail the event and ascertain such relief.

(D) Delay in Notification. If any Relief Event notice or any required information is submitted by the Party claiming entitlement to relief to the other Party after the dates required under this Section, then the Party claiming entitlement to relief will be entitled to relief provided due to the occurrence of the Relief Event except to the extent that the ability to mitigate was adversely affected as a result of the delay in providing such notice or information.

(E) Multiple and Overlapping Claims. The Party claiming entitlement to relief may make multiple but not duplicative claims with respect to a Relief Event.

(F) Burden of Proof and Mitigation. The Party claiming entitlement to relief bears the burden of proof in establishing the occurrence of a Relief Event, the entitlement to relief based thereon, and compliance with its mitigation obligations under subsection 13.1(B) (Mitigation).

(G) Resumption of Performance. Promptly following the occurrence of a Relief Event, the Party claiming entitlement to relief must use all reasonable efforts to eliminate the cause thereof and resume the performance of its obligations under this Water Supply Agreement.

(H) Relief Request Response. The Party receiving the request for relief must respond within 30 days after receipt of a relief request submitted by the Party claiming entitlement to relief pursuant to subsection (C) of this Section. The response must include a written determination as to the extent, if any, to which it concurs with such relief request, and the reasons therefor.

(I) Agreement or Dispute. The agreement of the Parties as to the specific relief to be given to the Party claiming entitlement to relief on account of a Relief Event will be documented by a Contract Administration Memorandum or an amendment to this Water Supply Agreement, as applicable. Any issue in dispute relating to the assertion of the occurrence of a Relief Event may be referred to the dispute resolution procedures set forth in Section 14.11 (Dispute Resolution Procedures).

ARTICLE 14

BREACH, DEFAULT, REMEDIES AND TERMINATION

SECTION 14.1. REMEDIES FOR BREACH.

(A) Generally. The Parties agree that, except as otherwise provided in this Article with respect to termination rights, in the event that either Party breaches this Water Supply Agreement, the other Party may exercise any legal rights it may have under this Water Supply Agreement and under Applicable Law to recover damages or to secure specific performance as provided in Section 14.2 (District Right to Compel Specific Performance) and that such rights to recover damages and to secure specific performance will ordinarily constitute adequate remedies for any such breach. Neither Party will have the right to terminate this Water Supply Agreement for cause except as provided or referred to in Section 14.4 (Termination in Events of Default).

(B) Foreseeable Damages. Neither Party will be liable for breach-of-contract damages that the breaching Party could not reasonably have foreseen on entry into this Water Supply Agreement.

(C) No Duplication. Every right to claim compensation or reimbursement under this Water Supply Agreement will be construed so that recovery is without duplication to any other amount recoverable under this Water Supply Agreement. A Party will not be entitled to make any claim against the other Party for compensation or reimbursement other than as provided under this Water Supply Agreement

SECTION 14.2. DISTRICT RIGHT TO COMPEL SPECIFIC PERFORMANCE.

(A) Consent and Agreement. The Parties agree that damages are an insufficient remedy for breach of the City's obligation to deliver Contract Water in accordance with this Water Supply Agreement. In any action by the District for specific performance, the City hereby consents to the District's right to seek specific performance. Further, the City agrees that the District is fully entitled to seek a preliminary or permanent injunction to compel performance in aid of a decree of specific performance or where the further breach may render specific performance meaningless or otherwise impair the District's ability to obtain performance of this Water Supply Agreement. In connection with such requests for specific performance or injunctive relief, the City acknowledges and agrees that:

(1) Specific performance may be ordered to compel performance or injunctive relief of the Parties' obligations set forth in Article 5 (Water Supply).

(2) Monetary damages are not an adequate remedy at law for the City's breach of the provisions set forth in Article 5 (Water Supply). This Water Supply Agreement is fair and reasonable to the City and the failure to specifically enforce this Water Supply Agreement would effectively deny the District the rights bargained for under this Water Supply Agreement.

(3) In connection with the request for a preliminary or mandatory injunction which constitutes a mandatory injunction compelling the City's performance under this Water Supply Agreement, the City acknowledges that this extraordinary form of relief is appropriate and proper under the unique circumstances of this Water Supply Agreement and that a mandatory injunction should issue if the District demonstrates that it will incur irreparable injury if performance is not compelled. The City further agrees that in

the event of a mandatory injunction compelling performance that such injunction will not be stayed by any appeal of the injunctive order.

(4) The remedies set forth in this subsection will be in addition to any and all other legal or equitable remedies that may be available to the District under this Water Supply Agreement.

(B) City Water Delivery Suspension Right Unaffected. The District agrees that nothing in this Section affects the City's right to suspend deliveries of Contract Water pursuant to Section 14.3 (City Right to Withhold Water Deliveries) due to the District's failure to make payments as required by this Water Supply Agreement.

SECTION 14.3. CITY RIGHT TO WITHHOLD WATER DELIVERIES.

The City may withhold deliveries of Contract Water if the District is delinquent for more than 60 days in any payment of undisputed amounts required by this Water Supply Agreement. The City may continue to withhold deliveries until the all delinquent amounts are paid in full. The City will give the District notice of intent to withhold deliveries not less than 10 days before withholding. The City will be relieved of its obligation to deliver Contract Water during the period when deliveries are withheld. The District will not be relieved of its obligation to pay for the Annual Contract Water Volume due to the City's exercise of its rights under this Section.

SECTION 14.4. TERMINATION IN EVENTS OF DEFAULT.

(A) Events of Default by the City. "**City Event of Default**" means any of the following events or circumstances:

(1) The occurrence of a breach that is not remedied in accordance with Section 14.5 (Notice of Breach and Right to Cure).

(2) The authorized filing by the City of a petition seeking relief under the Bankruptcy Code, as applicable to political subdivisions which are insolvent or unable to meet their obligations as they mature; provided that the appointment of a financial control or oversight board by the State for the City will not in and of itself constitute a City Event of Default.

(B) Events of Default by the District. "**District Event of Default**" means any of the following events or circumstances:

(1) The occurrence of a breach that is not cured in accordance with Section 14.5 (Notice of Breach and Right to Cure).

(2) The authorized filing by the District of a petition seeking relief under the Bankruptcy Code, as applicable to political subdivisions which are insolvent or unable to meet their obligations as they mature; provided that the appointment of a financial control or oversight board by the State for the District will not in and of itself constitute a District Event of Default.

(C) Notice by City. The City will notify the District of the occurrence, along with the details, of any City Event of Default and of any event or circumstance which is likely, with the passage of time or otherwise, to constitute or give rise to a City Event of Default, promptly on the City becoming aware of either occurrence.

(D) Notice by District. The District will notify the City of the occurrence, along with the details, of any District Event of Default and of any event or circumstance which is likely, with the passage of time or otherwise, to constitute or give rise to a District Event of Default, promptly on the District becoming aware of either occurrence.

(E) District Right to Terminate. If a City Event of Default occurs, then the District may (if the City Event of Default continues unwaived and unremedied) terminate this Water Supply Agreement upon notice to the City. The right of the District to terminate this Water Supply Agreement under this Section is in addition, and without prejudice, to any other right which the District may have in connection with the City's non-compliance with this Water Supply Agreement.

(F) City Right to Terminate. If a District Event of Default occurs, then the City may (if the District Event of Default continues unwaived and unremedied), terminate this Water Supply Agreement upon notice to the District. The right of the City to terminate this Water Supply Agreement under this Section is in addition, and without prejudice, to any other right which the City may have in connection with the District's non-compliance with this Water Supply Agreement.

(G) District Payment Upon Termination. In addition to any other remedy, if the District terminates this Water Supply Agreement as a result of a City Event of Default on or before the 40th anniversary of the Contract Water Delivery Commencement Date, the City will pay to the District an amount equal to the sum of the Conveyance Pipeline Phase 1 Payment and Conveyance Pipeline Phase 2 Payment, multiplied by (1) the number of months by which the Termination Date follows the Contract Water Delivery Commencement Date, divided by (2) 480.

SECTION 14.5. NOTICE OF BREACH AND RIGHT TO CURE.

(A) Notice. After the occurrence of a breach by a Party, and while it is continuing, the other Party may serve a notice specifying in reasonable detail the type and nature of the breach and the action required to cure the breach.

(B) Duty to Cure. The Party receiving the notice must promptly undertake to cure the breach and complete the cure within 60 days after the delivery of the notice or within such longer period as is reasonably required for the Party to complete the cure so as long as the Party is diligently pursuing necessary actions to accomplish the cure.

(C) Cure Program. If the Party receiving the notice reasonably considers that the breach described in the notice cannot be cured as provided in subsection (B) of this Section, the Party must deliver to the other Party a reasonable program, including a description of actions to be taken and a schedule of performance, to cure the breach. The program will specify in reasonable detail the manner in, and the latest date by which, the Party plans to complete the cure. The program will be delivered within 20 days of the delivery of the notice of breach.

(D) Failure to Cure. Failure of a Party to cure a breach as provided in either subsection (B) or subsection (C) of this Section is an Event of Default as described in Section 14.4 (Termination in Events of Default).

SECTION 14.6. NO WAIVER OF REMEDIES.

No failure to exercise, and no delay in exercising, any right or remedy under this Water Supply Agreement will be deemed to be a waiver of that right or remedy. No waiver of any breach of any provision of this Water Supply Agreement will be deemed to be a waiver of any subsequent breach of that provision or of any similar provision.

SECTION 14.7. EXERCISE OF REMEDIES.

(A) Remedies Cumulative. The rights and remedies of the Parties under this Water Supply Agreement are cumulative and are in addition to and not in substitution for any other rights and remedies available at law or in equity or otherwise.

(B) Other Remedies. A Party will not be prevented from enforcing a right or remedy on the basis that another right or remedy hereunder deals with the same or similar subject matter.

(C) Single or Partial Exercise of Remedies. No single or partial exercise by a Party of any right or remedy precludes or otherwise affects the exercise of any other right or remedy to which that Party may be entitled.

SECTION 14.8. CLAIMS FOR MONEY OR DAMAGES.

(A) Claims Against the City. Claims and actions for money or damages against the City are subject to the provisions of California Government Code Sections 900 et seq., Santa Barbara Municipal Code Chapter 1.35, and Santa Barbara City Charter Sections 1216 and 1217, or such successor statutes, ordinances, or charter provisions as may exist at the time of the Event of Default that gives rise to the claim or action.

(B) Claims Against the District. Claims and actions for money or damages against the District are subject to the provisions of California Government Code Sections 900 et seq. and Montecito Water District Ordinance 91, or such successor statutes or other local law as may exist at the time of the Event of Default that gives rise to the claim or action.

SECTION 14.9. NO WAIVERS.

No action of the District or City pursuant to this Water Supply Agreement (including any investigation or payment), and no failure to act, will constitute a waiver by either Party of the other Party's compliance with any term or provision of this Water Supply Agreement. No course of dealing or delay by the District or City in exercising any right, power or remedy under this Water Supply Agreement will operate as a waiver thereof or otherwise prejudice such Party's rights, powers and remedies. No single or partial exercise of (or failure to exercise) any right, power or remedy of the District or the City under this Water Supply Agreement will preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

SECTION 14.10. NO SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES.

Neither Party will be liable to the other or obligated in any manner to pay to the other any special, incidental, consequential, punitive or similar damages based upon claims arising out of or in connection with the performance or non-performance of its obligations or otherwise under this Water Supply Agreement, or the material inaccuracy of any representation made in this Water Supply Agreement, whether such claims are based upon contract, tort, negligence, warranty or other legal theory.

SECTION 14.11. DISPUTE RESOLUTION PROCEDURES.

(A) Generally. Except as provided in subsection (G) of this Section, each Party agrees to follow the dispute resolution procedures set forth in this Section to attempt to resolve and settle disputes between themselves concerning the rights, obligations and liabilities of the Parties. The dispute resolution procedures set forth in this Section are intended to encourage a negotiated resolution of disputes in a prompt and efficient manner without resort to mediation or litigation, which should be a last resort.

(B) Informal Negotiations. Representatives of the City and the District with day-to-day involvement in the administration of this Water Supply Agreement and the performance of the Parties' respective obligations hereunder will initially and promptly enter into negotiations to attempt to address and resolve any disputes that may arise concerning this Water Supply Agreement. In connection with such negotiations, the Party asserting the dispute will provide the other with a written description of the nature of the dispute, along with reasonable supporting documentation. The Parties may involve senior representatives and other upper management personnel of each Party in the informal negotiation process, as well as other representatives of the parties not actively involved in the day-to-day activities associated with the dispute who might be able to take a broader look at the dispute in the context of the overall objectives of this Water Supply Agreement. Upon the expenditure of reasonable efforts towards resolution of a dispute through such informal negotiations without reaching agreement, a Party may declare that the informal negotiations have been exhausted and such Party may request Non-Binding Mediation in accordance with this Section.

(C) Rights to Request and Decline Non-Binding Mediation. Subject to the requirements of subsection (B) of this Section, either Party may request Non-Binding Mediation of any dispute arising under this Water Supply Agreement, whether technical or otherwise. The non-requesting Party may decline the request in its discretion. If there is concurrence that any particular matter will be mediated, the provisions of this Section will apply. The costs of such Non-Binding Mediation will be divided equally between the City and the District. In connection with any Non-Binding Mediation:

(1) Procedure. The Mediator must be a professional firm or individual mutually acceptable to the Parties who has no current or on-going relationship with either Party. The Mediator will have full discretion as to the conduct of the mediation. Each Party will participate in the Mediator's program to resolve the dispute until and unless the Parties reach agreement with respect to the disputed matter or one Party determines in its discretion that its interests are not being served by the mediation.

(2) Non-Binding Effect. Mediation is intended to assist the Parties in resolving disputes over the correct interpretation of this Water Supply Agreement. The Mediator is not empowered to render a binding decision. The mediation proceedings and communications will be confidential and privileged to the fullest extent provided by law.

(D) Relation to Judicial Proceedings. Nothing in this Section operates to limit, interfere with or delay the right of either Party to commence judicial proceedings to enforce this Water Supply Agreement, whether in lieu of, concurrently with, or at the conclusion of any Non-Binding Mediation. Further, nothing in this Section limits or interferes with judicially-imposed mediation.

(E) Survival. The provisions of this Section survive the termination of this Water Supply Agreement.

SECTION 14.12. FORUM FOR DISPUTE RESOLUTION.

(A) Consent to State Court Jurisdiction. It is the express intention of the Parties that all judicial proceedings related to this Water Supply Agreement or to any rights or any relationship between the Parties arising therefrom will be solely and exclusively initiated and maintained in State court located in Santa Barbara, California, subject to removal of federal questions to the federal court as provided by law. Each Party irrevocably consents to the jurisdiction of such courts in any such judicial proceeding and waives any objection it may have to the laying of the jurisdiction of any such proceeding.

(B) Waiver of Jury Trial. Each Party waives any right it may have to a jury trial of any claim or cause of action in connection with this Water Supply Agreement or any transaction contemplated hereby.

ARTICLE 15

MISCELLANEOUS PROVISIONS

SECTION 15.1. OWNERSHIP.

Nothing in this Water Supply Agreement vests or conveys to the District any legal, equitable, tax beneficial or other ownership, property, or leasehold interest in the Plant or the Conveyance Pipeline.

SECTION 15.2. RELATIONSHIP OF THE PARTIES.

Neither Party has any responsibility with respect to the services to be provided or contractual benefits assumed by the other Party. Nothing in this Water Supply Agreement creates a joint powers, partnership, agency, or similar legal representative relationship between the Parties. No liability or benefits, such as workers compensation, pension rights or liabilities, or other provisions or liabilities arising out of or related to a contract for hire or employer/employee relationship, is created or accrues to any Party's agent or employee as a result of this Water Supply Agreement.

SECTION 15.3. WATER SUPPLY AGREEMENT ADMINISTRATION.

(A) Administrative Communications. The Parties recognize that a variety of contract administrative matters will routinely arise throughout the Term. These matters will by their nature involve requests, notices, questions, assertions, responses, objections, reports, claims, and other communications made personally, in meetings, by phone, by mail and by electronic and computer communications. The purpose of this Section is to set forth a process by which the resolution of the matters, once resolution is reached, can be formally reflected in the common records of the Parties so as to permit the orderly and effective administration of this Water Supply Agreement.

(B) Contract Administration Memoranda. A "**Contract Administration Memorandum**" is the principal formal tool for the administration of routine matters arising under this Water Supply Agreement between the Parties that do not require a Water Supply Agreement Amendment. A Contract Administration Memorandum will be prepared, once all preliminary communications have been concluded, to evidence the resolution reached by the District and the City as to matters of interpretation and application arising during the course of the performance of their obligations hereunder. Such matters may include, for example: (1) issues as to the meaning, interpretation or application of this Water Supply Agreement in particular circumstances or conditions; (2) calculations required to be made; (3) notices, waivers, releases, satisfactions, confirmations, further assurances, consents and approvals given hereunder; and (4) other similar routine contract administration matters. Executed Contract Administration Memoranda will serve to guide the ongoing interpretation and application of the terms and conditions of this Water Supply Agreement.

(C) Procedure. Either Party may request the execution of a Contract Administration Memorandum. When resolution of the matter is reached, a Contract Administration Memorandum reflecting the resolution will be prepared by or at the direction of either Party. Contract Administration Memoranda will be prepared in duplicate, serially numbered, dated and signed by the Contract Representative of each Party. Each Party will be responsible for maintaining its own file of all Contract Administration Memoranda, separate and distinct from the Water Supply Agreement Amendments and all other documents relating to the administration and performance of this Water Supply Agreement.

SECTION 15.4. WATER SUPPLY AGREEMENT AMENDMENTS.

(A) Amendments Generally. Notwithstanding the provisions of Section 15.3 (Water Supply Agreement Administration), no material change, alteration, revision or modification of the terms and conditions of this Water Supply Agreement will be made except through a written amendment to this Water Supply Agreement (a “**Water Supply Agreement Amendment**”) duly approved or authorized by the City Council and by the Board of Directors of the District, in each case as and to the extent required by Applicable Law.

(B) Procedure. Water Supply Agreement Amendments will be prepared in duplicate, serially numbered, dated and signed by the Contract Representative of each Party. Each Party will be responsible for maintaining its own file of all Water Supply Agreement Amendments, separate and distinct from the Contract Administration Memoranda and all other documents relating to the administration and performance of this Water Supply Agreement.

SECTION 15.5. CONTRACT REPRESENTATIVES.

The City and the District each will designate an individual or firm to administer this Water Supply Agreement and act as their respective liaisons in connection with the Water Supply Services (each a “**Contract Representative**”). Each Contract Representative has only limited authority with respect to the implementation of this Water Supply Agreement, and cannot bind the City or the District with respect to any Water Supply Agreement Amendment or to incurring costs in excess of the amounts appropriated therefor. Within such limitations, each Party will be entitled to rely on the written directions of the other Party’s Contract Representative. Each Contract Representative will have the right at any time to issue a written request for information relating to this Water Supply Agreement to the other Party.

SECTION 15.6. INTEREST ON OVERDUE OBLIGATIONS AND REIMBURSEMENTS.

All amounts due hereunder that are not paid when due and amounts to be reimbursed following payment under protest as provided in Section 10.4 (Billing Statement Disputes), will bear simple interest at the Overdue Rate, and such amounts will be calculated on the basis of a 365-day year from the date such payment is due or was paid under protest under this Water Supply Agreement until paid.

SECTION 15.7. COST SUBSTANTIATION.

The City must provide Cost Substantiation for costs for which the District is financially responsible hereunder, other than costs for which the Parties have negotiated a lump sum price in negotiating and executing this Water Supply Agreement. Any certificate delivered hereunder to substantiate a cost must state the amount of such cost and the provisions of this Water Supply Agreement under which such cost is chargeable to the District, describe the competitive or other process utilized by the City to obtain the reasonable price, and state that such services and materials are reasonably required pursuant to this Water Supply Agreement. The Cost Substantiation certificate must be accompanied by copies of such documentation as will be necessary to reasonably demonstrate that the cost as to which Cost Substantiation is required has been paid or incurred. Such documentation will be in a format reasonably acceptable to the District and will include reasonably detailed information concerning all Subcontracts. The City’s entitlement to reimbursement of the City’s costs evidenced by Cost Substantiation will be subject to the limitations set forth in this Section.

SECTION 15.8. NOTICE OF DISPUTES.

If the City has knowledge of an actual or potential contract, labor or other dispute that may affect any of the Water Supply Services, the City will promptly:

- (1) Give notice thereof to the District, including all relevant information related to the dispute of which the City has knowledge; and
- (2) Take all reasonable steps to ensure that any such dispute does not affect its performance of any of the Water Supply Services, including by applying for relief to appropriate tribunals or courts.

SECTION 15.9. ASSIGNMENT.

(A) By the City. The City may not assign its rights or obligations under this Water Supply Agreement without the prior written consent of the District. The City may, however, assign its rights and obligations under this Water Supply Agreement, without the consent of the District, to another Governmental Body if such assignee assumes, and is legally capable of discharging, the duties and obligations of the City hereunder.

(B) By the District. The District may not assign its rights or obligations under this Water Supply Agreement without the prior written consent of the City. The District may, however, assign its rights and obligations under this Water Supply Agreement, without the consent of the City, to another Governmental Body if such assignee assumes, and is legally capable of discharging, the duties and obligations of the District hereunder.

SECTION 15.10. BINDING EFFECT.

This Water Supply Agreement will inure to the benefit of and be binding upon the District and the City and any assignee acquiring an interest hereunder consistent with Section 15.9 (Assignment).

SECTION 15.11. NOTICES.

(A) Procedure. All notices, consents, approvals or written communications given pursuant to the terms of this Water Supply Agreement will be: (1) in writing and delivered in person; (2) transmitted by certified mail, return, receipt requested, postage prepaid or by overnight courier utilizing the services of a nationally-recognized overnight courier service with signed verification of delivery; or (3) given by facsimile transmission, if a signed original is deposited in the United States Mail within two days after transmission. Notices will be deemed given only when actually received at the address first given below with respect to each Party. Either Party may, by like notice, designate further or different addresses to which subsequent notices will be sent.

(B) City Notice Address. Notices required to be given to the City will be addressed as follows:

City of Santa Barbara
630 Garden Street
Santa Barbara, California 93101
Attn: Public Works Director

with a copy to:

City of Santa Barbara
Post Office Box 1990
Santa Barbara, California 93102-1990
Attn: City Clerk

and:

City of Santa Barbara
Post Office Box 1990
Santa Barbara, California 93102-1990
Attn: City Attorney

(C) District Notice Address. Notices required to be given to the District will be addressed as follows:

Montecito Water District
583 San Ysidro Road
Montecito, CA 93108
Attn: General Manager

with a copy to:

Cohen & Burge LLP
699 Hampshire Road, Suite 207
Thousand Oaks, CA 91361
Attn: Robert Cohen

SECTION 15.12. NOTICE OF LITIGATION.

In the event the City or District receives notice of or undertakes the defense or the prosecution of any Legal Proceedings, claims, or investigations in connection with the Project, the Party receiving such notice or undertaking such defense or prosecution will give the other Party timely notice of such proceedings and will inform the other Party in advance of all hearings regarding such proceedings. For purposes of this Section only, "timely notice" will be deemed given if the receiving Party has a reasonable opportunity to provide objections or comments or to proffer to assume the defense or prosecution of the matter in question, given the deadlines for response established by the relevant rules of procedure.

SECTION 15.13. FURTHER ASSURANCES.

The District and City each agree to execute and deliver such further instruments and to perform any acts that may be necessary or reasonably requested in order to give full effect to this Water Supply Agreement. The District and the City, in order to carry out this Water Supply Agreement, each will use all reasonable efforts to provide such information, execute such further instruments and documents and take such actions as may be reasonably requested by the other and not inconsistent with the provisions of this Water Supply Agreement and not involving the assumption of obligations or liabilities different from or in excess of or in addition to those expressly provided for herein.

APPENDICES
TO THE
WATER SUPPLY AGREEMENT

between

THE CITY OF SANTA BARBARA

and

THE MONTECITO WATER DISTRICT

Dated

[_____], 2020

APPENDIX 1

**SCHEDULES SUPPORTING ARTICLE 8
ANNUAL CONTRACT WATER SUPPLY CHARGE**

Table 1
Plant Capital Charge Component

Period Ending	City's Annual Capital Charge Amount (\$)	Capital Charge Allocation Percentage (%)	Plant Capital Charge Component (\$)	Notes:
6/30/2022	2,519,000.29	45.76%	1,152,694.53	Computations supporting the City's Annual Capital Charge Amount are set forth in Appendix 3
6/30/2023	5,038,000.58	45.76%	2,305,389.06	
6/30/2024	5,038,000.58	45.76%	2,305,389.06	
6/30/2025	5,038,000.58	45.76%	2,305,389.06	
6/30/2026	5,038,000.58	45.76%	2,305,389.06	
6/30/2027	5,038,000.58	45.76%	2,305,389.06	
6/30/2028	5,038,000.58	45.76%	2,305,389.06	
6/30/2029	5,038,000.58	45.76%	2,305,389.06	
6/30/2030	5,038,000.58	45.76%	2,305,389.06	
6/30/2031	5,038,000.58	45.76%	2,305,389.06	
6/30/2032	5,038,000.58	45.76%	2,305,389.06	
6/30/2033	5,038,000.58	45.76%	2,305,389.06	
6/30/2034	5,038,000.58	45.76%	2,305,389.06	
6/30/2035	5,038,000.58	45.76%	2,305,389.06	
6/30/2036	5,038,000.58	45.76%	2,305,389.06	
6/30/2037	5,038,000.58	45.76%	2,305,389.06	
6/30/2038	5,038,000.76	45.76%	2,305,389.15	
6/30/2039	856,320.14	45.76%	391,852.09	
6/30/2040	856,320.14	45.76%	391,852.09	
6/30/2041	856,320.14	45.76%	391,852.09	
6/30/2042	428,160.07	45.76%	195,926.05	
6/30/2043	-	45.76%	-	Annual Contract Water Volume <u>1,430</u> Core Plant Capacity <u>3,125</u> Capital Charge Allocation Percentage 45.76%
6/30/2044	-	45.76%	-	
6/30/2045	-	45.76%	-	
6/30/2046	-	45.76%	-	
6/30/2047	-	45.76%	-	
6/30/2048	-	45.76%	-	
6/30/2049	-	45.76%	-	
6/30/2050	-	45.76%	-	
6/30/2051	-	45.76%	-	
6/30/2052	-	45.76%	-	
6/30/2053	-	45.76%	-	
6/30/2054	-	45.76%	-	
6/30/2055	-	45.76%	-	
6/30/2056	-	45.76%	-	
6/30/2057	-	45.76%	-	
6/30/2058	-	45.76%	-	
6/30/2059	-	45.76%	-	
6/30/2060	-	45.76%	-	
6/30/2061	-	45.76%	-	
6/30/2062	-	45.76%	-	
6/30/2063	-	45.76%	-	
6/30/2064	-	45.76%	-	
6/30/2065	-	45.76%	-	
6/30/2066	-	45.76%	-	
6/30/2067	-	45.76%	-	
6/30/2068	-	45.76%	-	
6/30/2069	-	45.76%	-	
6/30/2070	-	45.76%	-	
6/30/2071	-	45.76%	-	
12/31/2071	-	45.76%	-	
Totals	86,124,130.18		39,410,401.97	

Table 2
Fixed O&M Charge Component

City's Annual Fixed O&M Costs (Illustrative) (\$)	Fixed O&M Charge Allocation Percentage (%)	Fixed O&M Charge Component (Illustrative) (\$)
1,682,361.00	45.76%	769,848.39

Notes:

The amount shown on this table as the City's Annual Fixed O&M Costs, and the Fixed O&M Charge Component resulting therefrom, are illustrative.

Annual Contract Water Volume	1,430
Plant Capacity	<u>3,125</u>
Fixed O&M Charge Allocation Percentage	45.76%

Table 3
Variable O&M Charge Component

City's Annual Variable O&M Costs (Illustrative) (\$)	Variable O&M Charge Allocation Percentage (Illustrative) (%)	Variable O&M Charge Component (Illustrative) (\$)
2,413,903.00	45.76%	1,104,602.01

Notes:

The amount shown on this table as the City's Annual Variable O&M Costs, the annual water volume actually produced by the Plant, and the Variable O&M Charge Component resulting therefrom, are illustrative.

Annual Contract Water Volume	1,430
Annual water volume produced by the Plant	<u>3,125</u>

Variable O&M Charge Allocation Percentage	45.76%
---	--------

Table 4
Administrative Charge Component

City's Annual Administrative Costs (Illustrative) (\$)	Capital Charge Allocation Percentage (%)	Administrative Charge Component (Illustrative) (\$)
328,610.00	45.76%	150,371.94

Notes:

The amount shown on this table as the City's Annual Administrative Costs, and the Administrative Charge Component resulting therefrom, are illustrative.

The Capital Charge Allocation Percentage is taken from Appendix 1, Table 1.

Table 5
Water Supply Development Fee Component

Period Ending	Water Supply Development Fee Component (\$)	Notes:	
6/30/2022	118,750.00	The Water Supply Development Fee Component for the First Contract Year is shown to the right. It is pro-rated for the partial first Contract Year to reflect commencement of delivery on January 1, 2022	
6/30/2023	244,625.00		
6/30/2024	251,963.75		
6/30/2025	259,522.66		
6/30/2026	267,308.34		
6/30/2027	275,327.59		Annual escalation at the rate shown to the right has been calculated for the first 20 years.
6/30/2028	283,587.42		
6/30/2029	292,095.04		Index-Linked escalation for the remainder of Term is not shown.
6/30/2030	300,857.89		
6/30/2031	309,883.63		
6/30/2032	319,180.14		
6/30/2033	328,755.54		
6/30/2034	338,618.21		
6/30/2035	348,776.76		
6/30/2036	359,240.06		
6/30/2037	370,017.26		
6/30/2038	381,117.78		
6/30/2039	392,551.31		3.00%
6/30/2040	404,327.85		
6/30/2041	416,457.69		
6/30/2042	428,951.42		
6/30/2043	-		
6/30/2044	-		
6/30/2045	-		
6/30/2046	-		
6/30/2047	-		
6/30/2048	-		
6/30/2049	-		
6/30/2050	-		
6/30/2051	-		
6/30/2052	-		
6/30/2053	-		
6/30/2054	-		
6/30/2055	-		
6/30/2056	-		
6/30/2057	-		
6/30/2058	-		
6/30/2059	-		
6/30/2060	-		
6/30/2061	-		
6/30/2062	-		
6/30/2063	-		
6/30/2064	-		
6/30/2065	-		
6/30/2066	-		
6/30/2067	-		
6/30/2068	-		
6/30/2069	-		
6/30/2070	-		
6/30/2071	-		
12/31/2071	-		

APPENDIX 2

**SCHEDULES SUPPORTING ARTICLE 9
SPECIAL PAYMENTS**

Table 1
Conveyance Pipeline Payment

Section 9.1(A)(1) Calculations	
City's Costs of Conveyance Pipeline Construction (Illustrative) (\$)	\$20,000,000.00
Pipeline Allocation Percent	64.6%
District Capital Cost Allocation (Illustrative) (\$)	\$12,920,000.00
Allocated Grant Amount Calculations	
Grant Received and Expected by the City (Illustrative) (\$)	\$11,000,000.00
Grant Allocation Percent	28.6%
Allocated Grant Amount (Illustrative) (\$)	\$3,146,000.00
Conveyance Pipeline Payment (Illustrative) (\$)	\$9,774,000.00

Table 2
Debt Service Coverage Deposit

Period Ending	City Debt Service (\$)	Capital Charge Allocation Percent (%)	District's Ratable Portion (\$)	Debt Service Coverage Deposit (\$)	Refund to District (\$)
6/30/2022	2,090,840.22	45.76%	956,768.48	239,192.12	-
6/30/2023	4,181,680.44	45.76%	1,913,536.97	478,384.24	239,192.12
6/30/2024	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2025	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2026	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2027	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2028	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2029	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2030	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2031	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2032	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2033	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2034	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2035	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2036	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2037	4,181,680.44	45.76%	1,913,536.97	478,384.24	478,384.24
6/30/2038	4,181,680.62	45.76%	1,913,537.05	478,384.26	478,384.24
6/30/2039	-	-	-	-	478,384.26
6/30/2040	-	-	-	-	-
6/30/2041	-	-	-	-	-
6/30/2042	-	-	-	-	-
6/30/2043	-	-	-	-	-
6/30/2044	-	-	-	-	-
6/30/2045	-	-	-	-	-
6/30/2046	-	-	-	-	-
6/30/2047	-	-	-	-	-
6/30/2048	-	-	-	-	-
6/30/2049	-	-	-	-	-
6/30/2050	-	-	-	-	-
6/30/2051	-	-	-	-	-
6/30/2052	-	-	-	-	-
6/30/2053	-	-	-	-	-
6/30/2054	-	-	-	-	-
6/30/2055	-	-	-	-	-
6/30/2056	-	-	-	-	-
6/30/2057	-	-	-	-	-
6/30/2058	-	-	-	-	-
6/30/2059	-	-	-	-	-
6/30/2060	-	-	-	-	-
6/30/2061	-	-	-	-	-
6/30/2062	-	-	-	-	-
6/30/2063	-	-	-	-	-
6/30/2064	-	-	-	-	-
6/30/2065	-	-	-	-	-
6/30/2066	-	-	-	-	-
6/30/2067	-	-	-	-	-
6/30/2068	-	-	-	-	-
6/30/2069	-	-	-	-	-
6/30/2070	-	-	-	-	-
6/30/2071	-	-	-	-	-
12/31/2071	-	-	-	-	-
Totals	68,997,727.44		31,573,360.08	7,893,340.02	7,893,340.02

Notes:

Computations supporting the City's Debt Service are set forth in Appendix 3, Table 1.

The Capital Charge Allocation Percentage is taken from Appendix 1, Table 1.

Debt Service Coverage Requirement 25%

Table 3
Debt Service Reserve Deposits

Period Ending	Debt Service Reserve Deposits (\$)	Application to Pay District Portion of Debt Service (\$)	Cummulative Amount (\$)	Notes:	
6/30/2022	147,195.15	-	147,195.15	City's Debt Service Reserve Target Amount	4,181,680.44
6/30/2023	294,390.30	-	441,585.45	Capital Charge Allocation Percentage (from Appendix 1, Table 1)	45.76%
6/30/2024	294,390.30	-	735,975.76	District's Portion of the Debt Service Reserve Target Amount	1,913,536.97
6/30/2025	294,390.30	-	1,030,366.06		
6/30/2026	294,390.30	-	1,324,756.36	Commencement of Payment Term on City SRF Loan	7/1/2018
6/30/2027	294,390.30	-	1,619,146.67	Tenth Anniversary (Target Date)	7/1/2028
6/30/2028	294,390.30	-	1,913,536.97		
6/30/2029	-	-	1,913,536.97	Commencement of Water Deliveries	1/1/2022
6/30/2030	-	-	1,913,536.97	Years for District to Accrue District's Portion of Target Amount	6.5
6/30/2031	-	-	1,913,536.97		
6/30/2032	-	-	1,913,536.97	Annual Debt Service Reserve Deposit	294,390.30
6/30/2033	-	-	1,913,536.97		
6/30/2034	-	-	1,913,536.97		
6/30/2035	-	-	1,913,536.97		
6/30/2036	-	-	1,913,536.97		
6/30/2037	-	-	1,913,536.97		
6/30/2038	-	(1,913,536.97)	0.00		
6/30/2039	-	-	-		
6/30/2040	-	-	-		
6/30/2041	-	-	-		
6/30/2042	-	-	-		
6/30/2043	-	-	-		
6/30/2044	-	-	-		
6/30/2045	-	-	-		
6/30/2046	-	-	-		
6/30/2047	-	-	-		
6/30/2048	-	-	-		
6/30/2049	-	-	-		
6/30/2050	-	-	-		
6/30/2051	-	-	-		
6/30/2052	-	-	-		
6/30/2053	-	-	-		
6/30/2054	-	-	-		
6/30/2055	-	-	-		
6/30/2056	-	-	-		
6/30/2057	-	-	-		
6/30/2058	-	-	-		
6/30/2059	-	-	-		
6/30/2060	-	-	-		
6/30/2061	-	-	-		
6/30/2062	-	-	-		
6/30/2063	-	-	-		
6/30/2064	-	-	-		
6/30/2065	-	-	-		
6/30/2066	-	-	-		
6/30/2067	-	-	-		
6/30/2068	-	-	-		
6/30/2069	-	-	-		
6/30/2070	-	-	-		
6/30/2071	-	-	-		
12/31/2071	-	-	-		
Totals	1,913,536.97	(1,913,536.97)			

Table 4
Application of Accumulated Balance of Debt Service Reserve Deposits

Period Ending	Plant Capital Charge Component (\$)	Application of District DSR Balance (\$)	Net Plant Capital Charge Component (\$)	Notes:
6/30/2022	1,152,694.53	0.00	1,152,694.53	The Plant Capital Charge Component is taken from Appendix 1, Table 1.
6/30/2023	2,305,389.06	0.00	2,305,389.06	
6/30/2024	2,305,389.06	0.00	2,305,389.06	The District's accumulated Debt Service Reserve Deposits is taken from Appendix 2, Table 3.
6/30/2025	2,305,389.06	0.00	2,305,389.06	
6/30/2026	2,305,389.06	0.00	2,305,389.06	
6/30/2027	2,305,389.06	0.00	2,305,389.06	
6/30/2028	2,305,389.06	0.00	2,305,389.06	
6/30/2029	2,305,389.06	0.00	2,305,389.06	Final payment on the City SRF Loan is in the Contract Year ending 6/30/2038
6/30/2030	2,305,389.06	0.00	2,305,389.06	
6/30/2031	2,305,389.06	0.00	2,305,389.06	
6/30/2032	2,305,389.06	0.00	2,305,389.06	
6/30/2033	2,305,389.06	0.00	2,305,389.06	
6/30/2034	2,305,389.06	0.00	2,305,389.06	
6/30/2035	2,305,389.06	0.00	2,305,389.06	
6/30/2036	2,305,389.06	0.00	2,305,389.06	
6/30/2037	2,305,389.06	0.00	2,305,389.06	
6/30/2038	2,305,389.15	1,913,536.97	391,852.18	
6/30/2039	391,852.09	0.00	391,852.09	
6/30/2040	391,852.09	0.00	391,852.09	
6/30/2041	391,852.09	0.00	391,852.09	
6/30/2042	195,926.05	0.00	195,926.05	
6/30/2043	-	-	-	
6/30/2044	-	-	-	
6/30/2045	-	-	-	
6/30/2046	-	-	-	
6/30/2047	-	-	-	
6/30/2048	-	-	-	
6/30/2049	-	-	-	
6/30/2050	-	-	-	
6/30/2051	-	-	-	
6/30/2052	-	-	-	
6/30/2053	-	-	-	
6/30/2054	-	-	-	
6/30/2055	-	-	-	
6/30/2056	-	-	-	
6/30/2057	-	-	-	
6/30/2058	-	-	-	
6/30/2059	-	-	-	
6/30/2060	-	-	-	
6/30/2061	-	-	-	
6/30/2062	-	-	-	
6/30/2063	-	-	-	
6/30/2064	-	-	-	
6/30/2065	-	-	-	
6/30/2066	-	-	-	
6/30/2067	-	-	-	
6/30/2068	-	-	-	
6/30/2069	-	-	-	
6/30/2070	-	-	-	
6/30/2071	-	-	-	
12/31/2071	-	-	-	
Totals	39,410,401.97	1,913,536.97	37,496,865.00	

APPENDIX 3

**SCHEDULES SUPPORTING COMPUTATION OF THE
CITY'S ANNUAL CAPITAL CHARGE AMOUNT**

Table 1
Composition of the City's Annual Capital Charge Amount

Period Ending	Debt Service On City SRF Loan (\$)	Amortization of Interest During Construction (\$)	Amortization of Principal Paid Prior to Deliveries (\$)	Amortization of Amounts set forth in Section 8.3(A)(4) (\$)	City's Annual Capital Charge Amount (\$)	Notes:
6/30/2022	2,090,840.22	31,583.82	301,187.17	95,389.07	2,519,000.29	Computations supporting debt service on the City SRF Loan are shown in Appendix 3, Table 2.
6/30/2023	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2024	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2025	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2026	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2027	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2028	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2029	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2030	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2031	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2032	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	Computations supporting amortization of interest during construction of the Original Plant that was paid by the City on the City SRF Loan through the date of beneficial use of the Original Plant by the City are shown in Appendix 3, Table 3.
6/30/2033	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2034	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2035	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2036	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2037	4,181,680.44	63,167.65	602,374.34	190,778.15	5,038,000.58	
6/30/2038	4,181,680.62	63,167.65	602,374.34	190,778.15	5,038,000.76	
6/30/2039	0.00	63,167.65	602,374.34	190,778.15	856,320.14	
6/30/2040	0.00	63,167.65	602,374.34	190,778.15	856,320.14	
6/30/2041	0.00	63,167.65	602,374.34	190,778.15	856,320.14	
6/30/2042	0.00	31,583.82	301,187.17	95,389.07	428,160.07	Computations supporting amortization of the amount of principal with respect to the Original Plant paid by the City on the City SRF Loan prior to the Contract Water Delivery Commencement Date are shown in Appendix 3, Table 4.
6/30/2043	-	-	-	-	-	
6/30/2044	-	-	-	-	-	
6/30/2045	-	-	-	-	-	
6/30/2046	-	-	-	-	-	
6/30/2047	-	-	-	-	-	
6/30/2048	-	-	-	-	-	
6/30/2049	-	-	-	-	-	
6/30/2050	-	-	-	-	-	
6/30/2051	-	-	-	-	-	
6/30/2052	-	-	-	-	-	Computations supporting amortization of amounts set forth in Section 8.3(A)(4) are shown in Appendix 3, Table 5.
6/30/2053	-	-	-	-	-	
6/30/2054	-	-	-	-	-	
6/30/2055	-	-	-	-	-	
6/30/2056	-	-	-	-	-	
6/30/2057	-	-	-	-	-	
6/30/2058	-	-	-	-	-	
6/30/2059	-	-	-	-	-	
6/30/2060	-	-	-	-	-	
6/30/2061	-	-	-	-	-	
6/30/2062	-	-	-	-	-	
6/30/2063	-	-	-	-	-	
6/30/2064	-	-	-	-	-	
6/30/2065	-	-	-	-	-	
6/30/2066	-	-	-	-	-	
6/30/2067	-	-	-	-	-	
6/30/2068	-	-	-	-	-	
6/30/2069	-	-	-	-	-	
6/30/2070	-	-	-	-	-	
6/30/2071	-	-	-	-	-	
12/31/2071	-	-	-	-	-	
Totals	68,997,727.44	1,263,352.92	12,047,486.86	3,815,562.96	86,124,130.18	

Table 2
Annual Debt Service Due on the City SRF Loan with Respect to the Original Plant

Period Ending	Principal	Interest	Debt Service	Annual Debt Service	Notes:
6/30/2022	1,590,908.94	499,931.28	2,090,840.22	2,090,840.22	This schedule is illustrative of the actual City SRF Loan debt service schedule effective at the time of payment. The City SRF Loan debt service schedule is provided from time to time to the City by the California State Water Resources Control Board. At the time of contract execution, the schedule is labeled "Drinking Water State Revolving Fund Payment Schedule"
12/31/2022	1,604,137.35	486,702.87	2,090,840.22		
6/30/2023	1,617,475.75	473,364.47	2,090,840.22	4,181,680.44	
12/31/2023	1,630,925.07	459,915.15	2,090,840.22		
6/30/2024	1,644,486.21	446,354.01	2,090,840.22	4,181,680.44	
12/31/2024	1,658,160.11	432,680.11	2,090,840.22		
6/30/2025	1,671,947.71	418,892.51	2,090,840.22	4,181,680.44	
12/31/2025	1,685,849.96	404,990.26	2,090,840.22		
6/30/2026	1,699,867.80	390,972.42	2,090,840.22	4,181,680.44	
12/31/2026	1,714,002.20	376,838.02	2,090,840.22		
6/30/2027	1,728,254.13	362,586.09	2,090,840.22	4,181,680.44	
12/31/2027	1,742,624.56	348,215.66	2,090,840.22		
6/30/2028	1,757,114.48	333,725.74	2,090,840.22	4,181,680.44	
12/31/2028	1,771,724.89	319,115.33	2,090,840.22		
6/30/2029	1,786,456.78	304,383.44	2,090,840.22	4,181,680.44	
12/31/2029	1,801,311.17	289,529.05	2,090,840.22		
6/30/2030	1,816,289.07	274,551.15	2,090,840.22	4,181,680.44	
12/31/2030	1,831,391.52	259,448.70	2,090,840.22		
6/30/2031	1,846,619.54	244,220.68	2,090,840.22	4,181,680.44	
12/31/2031	1,861,974.18	228,866.04	2,090,840.22		
6/30/2032	1,877,456.50	213,383.72	2,090,840.22	4,181,680.44	
12/31/2032	1,893,067.55	197,772.67	2,090,840.22		
6/30/2033	1,908,808.40	182,031.82	2,090,840.22	4,181,680.44	
12/31/2033	1,924,680.14	166,160.08	2,090,840.22		
6/30/2034	1,940,683.86	150,156.36	2,090,840.22	4,181,680.44	
12/31/2034	1,956,820.65	134,019.57	2,090,840.22		
6/30/2035	1,973,091.61	117,748.61	2,090,840.22	4,181,680.44	
12/31/2035	1,989,497.87	101,342.35	2,090,840.22		
6/30/2036	2,006,040.54	84,799.68	2,090,840.22	4,181,680.44	
12/31/2036	2,022,720.77	68,119.45	2,090,840.22		
6/30/2037	2,039,539.69	51,300.53	2,090,840.22	4,181,680.44	
12/31/2037	2,056,498.46	34,341.76	2,090,840.22		
6/30/2038	2,073,598.43	17,241.97	2,090,840.40	4,181,680.62	
	60,124,025.89	8,873,701.55	68,997,727.44	68,997,727.44	

Table 3
Annual Amortization of Interest During Construction Paid by City on the City SRF Loan
With Respect to the Original Plant, Through the Date of Beneficial Use of the
Original Plant by the City, Amortized at the City SRF Loan Interest Rate

Period Ending	Principal	Rate	Interest	Debt Service	Annual Debt Service	Notes:
6/30/2022	22,678.57	1.663%	8,905.26	31,583.82	31,583.82	Contract Water Delivery Commencement Date 1/1/2022
12/31/2022	22,867.14	1.663%	8,716.69	31,583.82		
6/30/2023	23,057.28	1.663%	8,526.55	31,583.82	63,167.65	City's Interest Payments on City SRF Loan
12/31/2023	23,249.00	1.663%	8,334.82	31,583.82		Interest Payment - 7/1/2016 55,208.64
6/30/2024	23,442.31	1.663%	8,141.51	31,583.82	63,167.65	Interest Payment - 1/1/2017 221,050.30
12/31/2024	23,637.24	1.663%	7,946.59	31,583.82		Interest Payment - 7/1/2017 372,541.52
6/30/2025	23,833.78	1.663%	7,750.04	31,583.82	63,167.65	Interest Payment - 1/1/2018 395,041.64
12/31/2025	24,031.96	1.663%	7,551.86	31,583.82		Interest Payment - 7/1/2018 444,190.52
6/30/2026	24,231.78	1.663%	7,352.04	31,583.82	63,167.65	Less: Portion of 7/1/2018 Interest payment
12/31/2026	24,433.27	1.663%	7,150.55	31,583.82		accruing after January 12, 2018 (417,045.54)
6/30/2027	24,636.43	1.663%	6,947.39	31,583.82	63,167.65	Total 1,070,987.08
12/31/2027	24,841.29	1.663%	6,742.54	31,583.82		
6/30/2028	25,047.84	1.663%	6,535.98	31,583.82	63,167.65	Final Maturity Date 1/1/2042
12/31/2028	25,256.11	1.663%	6,327.71	31,583.82		
6/30/2029	25,466.12	1.663%	6,117.70	31,583.82	63,167.65	Rate 1.663%
12/31/2029	25,677.87	1.663%	5,905.95	31,583.82		
6/30/2030	25,891.38	1.663%	5,692.44	31,583.82	63,167.65	Semi-Annual Amortization 31,584
12/31/2030	26,106.67	1.663%	5,477.15	31,583.82		
6/30/2031	26,323.75	1.663%	5,260.08	31,583.82	63,167.65	
12/31/2031	26,542.63	1.663%	5,041.20	31,583.82		
6/30/2032	26,763.33	1.663%	4,820.49	31,583.82	63,167.65	
12/31/2032	26,985.87	1.663%	4,597.96	31,583.82		
6/30/2033	27,210.25	1.663%	4,373.57	31,583.82	63,167.65	
12/31/2033	27,436.51	1.663%	4,147.32	31,583.82		
6/30/2034	27,664.64	1.663%	3,919.18	31,583.82	63,167.65	
12/31/2034	27,894.67	1.663%	3,689.15	31,583.82		
6/30/2035	28,126.62	1.663%	3,457.21	31,583.82	63,167.65	
12/31/2035	28,360.49	1.663%	3,223.33	31,583.82		
6/30/2036	28,596.31	1.663%	2,987.52	31,583.82	63,167.65	
12/31/2036	28,834.09	1.663%	2,749.74	31,583.82		
6/30/2037	29,073.84	1.663%	2,509.98	31,583.82	63,167.65	
12/31/2037	29,315.59	1.663%	2,268.23	31,583.82		
6/30/2038	29,559.35	1.663%	2,024.47	31,583.82	63,167.65	
12/31/2038	29,805.14	1.663%	1,778.69	31,583.82		
6/30/2039	30,052.97	1.663%	1,530.86	31,583.82	63,167.65	
12/31/2039	30,302.86	1.663%	1,280.97	31,583.82		
6/30/2040	30,554.82	1.663%	1,029.00	31,583.82	63,167.65	
12/31/2040	30,808.89	1.663%	774.94	31,583.82		
6/30/2041	31,065.06	1.663%	518.76	31,583.82	63,167.65	
12/31/2041	31,323.37	1.663%	260.45	31,583.82	31,583.82	
	1,070,987.08		192,365.84	1,263,352.92	1,263,352.92	

Table 4
Annual Amortization of Principal Paid by City on the City SRF Loan
With Respect to the Original Plant, Prior to Contract Water Delivery
Commencement Date, Amortized at the City SRF Loan Interest Rate

Period Ending	Principal	Rate	Interest	Debt Service	Annual Debt Service	Notes:
6/30/2022	216,265.55	1.663%	84,921.62	301,187.17	301,187.17	Contract Water Delivery Commencement Date 1/1/2022
12/31/2022	218,063.80	1.663%	83,123.37	301,187.17		
6/30/2023	219,877.00	1.663%	81,310.17	301,187.17	602,374.34	City's Principal Pay-Down Principal Payment - 1/1/2019 1,359,279.12 Principal Payment - 7/1/2019 1,374,982.31 Principal Payment - 1/1/2020 1,386,415.29 Principal Payment - 7/1/2020 1,397,943.33 Principal Payment - 1/1/2021 1,551,874.65 Principal Payment - 7/1/2021 1,564,778.49 Principal Payment - 1/1/2022 1,577,789.62 Total 10,213,062.81
12/31/2023	221,705.28	1.663%	79,481.89	301,187.17		
6/30/2024	223,548.76	1.663%	77,638.41	301,187.17	602,374.34	
12/31/2024	225,407.57	1.663%	75,779.60	301,187.17		
6/30/2025	227,281.83	1.663%	73,905.34	301,187.17	602,374.34	
12/31/2025	229,171.68	1.663%	72,015.49	301,187.17		
6/30/2026	231,077.24	1.663%	70,109.93	301,187.17	602,374.34	
12/31/2026	232,998.65	1.663%	68,188.52	301,187.17		
6/30/2027	234,936.03	1.663%	66,251.14	301,187.17	602,374.34	
12/31/2027	236,889.53	1.663%	64,297.65	301,187.17		
6/30/2028	238,859.26	1.663%	62,327.91	301,187.17	602,374.34	
12/31/2028	240,845.38	1.663%	60,341.79	301,187.17		
6/30/2029	242,848.01	1.663%	58,339.16	301,187.17	602,374.34	
12/31/2029	244,867.29	1.663%	56,319.88	301,187.17		
6/30/2030	246,903.36	1.663%	54,283.81	301,187.17	602,374.34	
12/31/2030	248,956.36	1.663%	52,230.81	301,187.17		
6/30/2031	251,026.43	1.663%	50,160.74	301,187.17	602,374.34	
12/31/2031	253,113.72	1.663%	48,073.45	301,187.17		
6/30/2032	255,218.36	1.663%	45,968.81	301,187.17	602,374.34	
12/31/2032	257,340.50	1.663%	43,846.67	301,187.17		
6/30/2033	259,480.29	1.663%	41,706.89	301,187.17	602,374.34	
12/31/2033	261,637.86	1.663%	39,549.31	301,187.17		
6/30/2034	263,813.38	1.663%	37,373.79	301,187.17	602,374.34	
12/31/2034	266,006.99	1.663%	35,180.18	301,187.17		
6/30/2035	268,218.84	1.663%	32,968.33	301,187.17	602,374.34	
12/31/2035	270,449.08	1.663%	30,738.09	301,187.17		
6/30/2036	272,697.86	1.663%	28,489.31	301,187.17	602,374.34	
12/31/2036	274,965.35	1.663%	26,221.83	301,187.17		
6/30/2037	277,251.68	1.663%	23,935.49	301,187.17	602,374.34	
12/31/2037	279,557.03	1.663%	21,630.14	301,187.17		
6/30/2038	281,881.55	1.663%	19,305.62	301,187.17	602,374.34	
12/31/2038	284,225.39	1.663%	16,961.78	301,187.17		
6/30/2039	286,588.73	1.663%	14,598.45	301,187.17	602,374.34	
12/31/2039	288,971.71	1.663%	12,215.46	301,187.17		
6/30/2040	291,374.51	1.663%	9,812.66	301,187.17	602,374.34	
12/31/2040	293,797.29	1.663%	7,389.88	301,187.17		
6/30/2041	296,240.22	1.663%	4,946.96	301,187.17	602,374.34	
12/31/2041	298,703.45	1.663%	2,483.72	301,187.17	301,187.17	
	10,213,062.81		1,834,424.05	12,047,486.86	12,047,486.86	

Table 5
Annual Amortization of the sum of (a) \$734,852 plus (b) the design and construction costs of the Pump Station Improvements
In accordance with Section 8.3 (A) (4)

Period Ending	Principal	Rate	Interest	Debt Service	Annual Debt Service	Notes:
6/30/2022	68,493.52	1.663%	26,895.55	95,389.07	95,389.07	Contract Water Delivery Commencement Date 1/1/2022
12/31/2022	69,063.05	1.663%	26,326.03	95,389.07		
6/30/2023	69,637.31	1.663%	25,751.77	95,389.07	190,778.15	
12/31/2023	70,216.34	1.663%	25,172.73	95,389.07		Plant self-financed costs by the City 734,582.00
6/30/2024	70,800.19	1.663%	24,588.88	95,389.07	190,778.15	Illustrative Cost of Pump Station Improvements Costs 2,500,000.00
12/31/2024	71,388.89	1.663%	24,000.18	95,389.07		
6/30/2025	71,982.49	1.663%	23,406.58	95,389.07	190,778.15	Total 3,234,582.00
12/31/2025	72,581.03	1.663%	22,808.05	95,389.07		
6/30/2026	73,184.54	1.663%	22,204.54	95,389.07	190,778.15	Final Maturity Date 1/1/2042
12/31/2026	73,793.07	1.663%	21,596.01	95,389.07		
6/30/2027	74,406.66	1.663%	20,982.42	95,389.07	190,778.15	Rate 1.663%
12/31/2027	75,025.35	1.663%	20,363.73	95,389.07		
6/30/2028	75,649.18	1.663%	19,739.89	95,389.07	190,778.15	Semi-Annual Amortization 95,389.07
12/31/2028	76,278.21	1.663%	19,110.87	95,389.07		
6/30/2029	76,912.46	1.663%	18,476.61	95,389.07	190,778.15	
12/31/2029	77,551.99	1.663%	17,837.09	95,389.07		
6/30/2030	78,196.83	1.663%	17,192.24	95,389.07	190,778.15	
12/31/2030	78,847.04	1.663%	16,542.03	95,389.07		
6/30/2031	79,502.65	1.663%	15,886.42	95,389.07	190,778.15	
12/31/2031	80,163.72	1.663%	15,225.36	95,389.07		
6/30/2032	80,830.28	1.663%	14,558.80	95,389.07	190,778.15	
12/31/2032	81,502.38	1.663%	13,886.69	95,389.07		
6/30/2033	82,180.07	1.663%	13,209.00	95,389.07	190,778.15	
12/31/2033	82,863.40	1.663%	12,525.67	95,389.07		
6/30/2034	83,552.41	1.663%	11,836.66	95,389.07	190,778.15	
12/31/2034	84,247.15	1.663%	11,141.92	95,389.07		
6/30/2035	84,947.66	1.663%	10,441.41	95,389.07	190,778.15	
12/31/2035	85,654.00	1.663%	9,735.07	95,389.07		
6/30/2036	86,366.22	1.663%	9,022.86	95,389.07	190,778.15	
12/31/2036	87,084.35	1.663%	8,304.72	95,389.07		
6/30/2037	87,808.46	1.663%	7,580.62	95,389.07	190,778.15	
12/31/2037	88,538.59	1.663%	6,850.49	95,389.07		
6/30/2038	89,274.78	1.663%	6,114.29	95,389.07	190,778.15	
12/31/2038	90,017.10	1.663%	5,371.97	95,389.07		
6/30/2039	90,765.60	1.663%	4,623.48	95,389.07	190,778.15	
12/31/2039	91,520.31	1.663%	3,868.76	95,389.07		
6/30/2040	92,281.30	1.663%	3,107.77	95,389.07	190,778.15	
12/31/2040	93,048.62	1.663%	2,340.45	95,389.07		
6/30/2041	93,822.32	1.663%	1,566.75	95,389.07	190,778.15	
12/31/2041	94,602.45	1.663%	786.62	95,389.07	95,389.07	
	3,234,582.00		580,980.96	3,815,562.96	3,815,562.96	

APPENDIX 4

**SCHEDULES ILLUSTRATING A POTENTIAL FUTURE
CAPITAL MODIFICATION INCREASING PLANT CAPACITY**

Table 1
Common Assumptions for Illustrative Schedules

The schedules in this Appendix 4 illustrate adjustments to the Annual Contract Water Supply Charge, Debt Service Coverage Deposit, and Debt Service Reserve Deposits arising from a future Capital Modification to increase Plant Capacity. The amounts used in these illustrations are illustrative and non-binding.

1. Illustrative assumptions for cost of Capital Modification	
City's design and construction Costs	\$40,000,000.00
City's payment of interest during construction	\$1,500,000.00
City's direct costs of executing financing of Capital Modification	\$100,000.00
City's design, construction and financing costs of Capital Modification	\$41,600,000.00
2. Illustrative assumption for timing of Capital Modification	
Date that Capital Modification is Substantially Complete	6/15/2027
3. Illustrative assumptions for increase in Plant Capacity	
Capital Modification increases Plant Capacity to:	5,500 AFY
Portion of design and construction costs attributable to expansion to 5,000 AFY Plant Capacity	\$32,000,000.00
4. Illustrative financing assumptions for City financing of Capital Modification	
Type of borrowing	SRF Loan
Illustrative interest rate	2.50%
Term	20 years
Level semi-annual debt service	
Debt service coverage requirement	1.25x
Debt service reserve requirement of 12 months debt service, funded over first ten years	
5. Illustrative operating and administrative costs for modified Plant	
City's Annual Fixed O&M Costs	3,400,000
City's Annual Variable O&M Costs	4,900,000
City's Annual Administrative Costs	380,000
6. Illustrative annual water production volume	5,500 AF

Table 2
Illustrative Adjusted Plant Capital Charge Component

Period Ending	City's Adjusted Annual Capital Charge Amount (\$)	Capital Charge Allocation Percent (%)	Plant Capital Charge Component (\$)	Notes:
6/30/2028	7,162,689.89	28.60%	2,048,529.31	Computations supporting the City's Adjusted Annual Capital Charge Amount are set forth in Table 3 of Appendix 4
6/30/2029	7,162,689.89	28.60%	2,048,529.31	
6/30/2030	7,162,689.89	28.60%	2,048,529.31	
6/30/2031	7,162,689.89	28.60%	2,048,529.31	
6/30/2032	7,162,689.89	28.60%	2,048,529.31	
6/30/2033	7,162,689.89	28.60%	2,048,529.31	
6/30/2034	7,162,689.89	28.60%	2,048,529.31	
6/30/2035	7,162,689.89	28.60%	2,048,529.31	
6/30/2036	7,162,689.89	28.60%	2,048,529.31	
6/30/2037	7,162,689.89	28.60%	2,048,529.31	
6/30/2038	7,162,690.07	28.60%	2,048,529.36	Annual Contract Water Volume <u>1,430</u> Core Plant Capacity <u>5,000</u>
6/30/2039	2,981,009.45	28.60%	852,568.70	
6/30/2040	2,981,009.45	28.60%	852,568.70	Capital Charge Allocation Percentage 28.60%
6/30/2041	2,981,009.45	28.60%	852,568.70	
6/30/2042	2,552,849.38	28.60%	730,114.92	
6/30/2043	2,124,689.31	28.60%	607,661.14	
6/30/2044	2,124,689.31	28.60%	607,661.14	
6/30/2045	2,124,689.31	28.60%	607,661.14	
6/30/2046	2,124,689.31	28.60%	607,661.14	
6/30/2047	2,124,689.31	28.60%	607,661.14	
6/30/2048	-	28.60%	-	
6/30/2049	-	28.60%	-	
6/30/2050	-	28.60%	-	
6/30/2051	-	28.60%	-	
6/30/2052	-	28.60%	-	
6/30/2053	-	28.60%	-	
6/30/2054	-	28.60%	-	
6/30/2055	-	28.60%	-	
6/30/2056	-	28.60%	-	
6/30/2057	-	28.60%	-	
6/30/2058	-	28.60%	-	
6/30/2059	-	28.60%	-	
6/30/2060	-	28.60%	-	
6/30/2061	-	28.60%	-	
6/30/2062	-	28.60%	-	
6/30/2063	-	28.60%	-	
6/30/2064	-	28.60%	-	
6/30/2065	-	28.60%	-	
6/30/2066	-	28.60%	-	
6/30/2067	-	28.60%	-	
6/30/2068	-	28.60%	-	
6/30/2069	-	28.60%	-	
6/30/2070	-	28.60%	-	
6/30/2071	-	28.60%	-	
12/31/2071	-	28.60%	-	
Totals	100,908,913.20		28,859,949.18	

Table 3
Illustrative Composition of the City's Adjusted Annual Capital Charge Amount

Period Ending	City's Annual Capital Charge Amount without Capital Modification (\$)	Debt Service on City SRF Loan for Capital Modification (\$)	City's Adjusted Annual Capital Charge Amount (\$)	Notes:
6/30/2028	5,038,000.58	2,124,689.31	7,162,689.89	City's Annual Capital Charge Amount without Capital Modification is taken from Table 1 of Appendix 1
6/30/2029	5,038,000.58	2,124,689.31	7,162,689.89	
6/30/2030	5,038,000.58	2,124,689.31	7,162,689.89	Debt Service on City SRF Loan for Capital Modification is taken from Table 4 of Appendix 4
6/30/2031	5,038,000.58	2,124,689.31	7,162,689.89	
6/30/2032	5,038,000.58	2,124,689.31	7,162,689.89	
6/30/2033	5,038,000.58	2,124,689.31	7,162,689.89	
6/30/2034	5,038,000.58	2,124,689.31	7,162,689.89	
6/30/2035	5,038,000.58	2,124,689.31	7,162,689.89	
6/30/2036	5,038,000.58	2,124,689.31	7,162,689.89	
6/30/2037	5,038,000.58	2,124,689.31	7,162,689.89	
6/30/2038	5,038,000.76	2,124,689.31	7,162,690.07	
6/30/2039	856,320.14	2,124,689.31	2,981,009.45	
6/30/2040	856,320.14	2,124,689.31	2,981,009.45	
6/30/2041	856,320.14	2,124,689.31	2,981,009.45	
6/30/2042	428,160.07	2,124,689.31	2,552,849.38	
6/30/2043	-	2,124,689.31	2,124,689.31	
6/30/2044	-	2,124,689.31	2,124,689.31	
6/30/2045	-	2,124,689.31	2,124,689.31	
6/30/2046	-	2,124,689.31	2,124,689.31	
6/30/2047	-	2,124,689.31	2,124,689.31	
6/30/2048	-	-	-	
6/30/2049	-	-	-	
6/30/2050	-	-	-	
6/30/2051	-	-	-	
6/30/2052	-	-	-	
6/30/2053	-	-	-	
6/30/2054	-	-	-	
6/30/2055	-	-	-	
6/30/2056	-	-	-	
6/30/2057	-	-	-	
6/30/2058	-	-	-	
6/30/2059	-	-	-	
6/30/2060	-	-	-	
6/30/2061	-	-	-	
6/30/2062	-	-	-	
6/30/2063	-	-	-	
6/30/2064	-	-	-	
6/30/2065	-	-	-	
6/30/2066	-	-	-	
6/30/2067	-	-	-	
6/30/2068	-	-	-	
6/30/2069	-	-	-	
6/30/2070	-	-	-	
6/30/2071	-	-	-	
12/31/2071	-	-	-	
Totals	58,415,127.01	42,493,786.20	100,908,913.20	

Table 4
Illustrative Debt Service on City loan attributable to Capital Modification

Period Ending	Principal	Rate	Interest	Debt Service	Annual Debt Service	Notes:
12/31/2027	646,344.65	2.500%	416,000.00	1,062,344.65		Allocable portion of SRF Loan
6/30/2028	654,423.96	2.500%	407,920.69	1,062,344.65	2,124,689.31	City's Design and Construction Costs \$32,000,000.00
12/31/2028	662,604.26	2.500%	399,740.39	1,062,344.65		Allocable portion of interest during construction \$1,200,000.00
6/30/2029	670,886.82	2.500%	391,457.84	1,062,344.65	2,124,689.31	Allocable portion of financing costs \$80,000.00
12/31/2029	679,272.90	2.500%	383,071.75	1,062,344.65		Total \$33,280,000.00
6/30/2030	687,763.81	2.500%	374,580.84	1,062,344.65	2,124,689.31	
12/31/2030	696,360.86	2.500%	365,983.79	1,062,344.65		Rate 2.500%
6/30/2031	705,065.37	2.500%	357,279.28	1,062,344.65	2,124,689.31	
12/31/2031	713,878.69	2.500%	348,465.97	1,062,344.65		Semi-Annual Amortization 1,062,345
6/30/2032	722,802.17	2.500%	339,542.48	1,062,344.65	2,124,689.31	
12/31/2032	731,837.20	2.500%	330,507.46	1,062,344.65		
6/30/2033	740,985.16	2.500%	321,359.49	1,062,344.65	2,124,689.31	
12/31/2033	750,247.48	2.500%	312,097.18	1,062,344.65		
6/30/2034	759,625.57	2.500%	302,719.08	1,062,344.65	2,124,689.31	
12/31/2034	769,120.89	2.500%	293,223.76	1,062,344.65		
6/30/2035	778,734.90	2.500%	283,609.75	1,062,344.65	2,124,689.31	
12/31/2035	788,469.09	2.500%	273,875.57	1,062,344.65		
6/30/2036	798,324.95	2.500%	264,019.70	1,062,344.65	2,124,689.31	
12/31/2036	808,304.01	2.500%	254,040.64	1,062,344.65		
6/30/2037	818,407.81	2.500%	243,936.84	1,062,344.65	2,124,689.31	
12/31/2037	828,637.91	2.500%	233,706.74	1,062,344.65		
6/30/2038	838,995.89	2.500%	223,348.77	1,062,344.65	2,124,689.31	
12/31/2038	849,483.33	2.500%	212,861.32	1,062,344.65		
6/30/2039	860,101.88	2.500%	202,242.78	1,062,344.65	2,124,689.31	
12/31/2039	870,853.15	2.500%	191,491.51	1,062,344.65		
6/30/2040	881,738.81	2.500%	180,605.84	1,062,344.65	2,124,689.31	
12/31/2040	892,760.55	2.500%	169,584.11	1,062,344.65		
6/30/2041	903,920.06	2.500%	158,424.60	1,062,344.65	2,124,689.31	
12/31/2041	915,219.06	2.500%	147,125.60	1,062,344.65		
6/30/2042	926,659.30	2.500%	135,685.36	1,062,344.65	2,124,689.31	
12/31/2042	938,242.54	2.500%	124,102.12	1,062,344.65		
6/30/2043	949,970.57	2.500%	112,374.09	1,062,344.65	2,124,689.31	
12/31/2043	961,845.20	2.500%	100,499.45	1,062,344.65		
6/30/2044	973,868.26	2.500%	88,476.39	1,062,344.65	2,124,689.31	
12/31/2044	986,041.62	2.500%	76,303.04	1,062,344.65		
6/30/2045	998,367.14	2.500%	63,977.52	1,062,344.65	2,124,689.31	
12/31/2045	1,010,846.73	2.500%	51,497.93	1,062,344.65		
6/30/2046	1,023,482.31	2.500%	38,862.34	1,062,344.65	2,124,689.31	
12/31/2046	1,036,275.84	2.500%	26,068.81	1,062,344.65		
6/30/2047	1,049,229.29	2.500%	13,115.37	1,062,344.65	2,124,689.31	
	33,280,000.00		9,213,786.20	42,493,786.20	42,493,786.20	

Table 5
Illustrative Adjusted Fixed O&M Charge Component

City's Annual Fixed O&M Costs (Illustrative) (\$)	Fixed O&M Charge Allocation Percent (%)	Fixed O&M Charge Component (Illustrative) (\$)
3,400,000.00	26.00%	884,000.00

Notes:

The amount shown on this table as the City's Annual Fixed O&M Costs, and the Fixed O&M Charge Component resulting therefrom, are illustrative.

Annual Contract Water Volume	1,430
Plant Capacity	<u>5,500</u>
Fixed O&M Charge Allocation Percentage	26.00%

Table 6
Illustrative Adjusted Variable O&M Charge Component

City's Annual Variable O&M Costs (Illustrative) (\$)	Variable O&M Charge Allocation Percent (Illustrative) (%)	Variable O&M Charge Component (Illustrative) (\$)
4,900,000.00	26.00%	1,274,000.00

Notes:

The amount shown on this table as the City's Annual Variable O&M Costs, the annual water volume actually produced by the Plant, and the Variable O&M Charge Component resulting therefrom, are illustrative.

Annual Contract Water Volume	1,430
Annual water volume produced by the Plant	5,500

Variable O&M Charge Allocation Percentage 26.00%

Table 7
Illustrative Adjusted Administrative Charge Component

City's Annual Administrative Costs (Illustrative) (\$)	Capital Charge Allocation Percentage (%)	Administrative Charge Component (Illustrative) (\$)
380,000.00	28.60%	108,680.00

Notes:

The amount shown on this table as the City's Annual Administrative Costs, and the Administrative Charge Component resulting therefrom, are illustrative.

The applicable Capital Charge Allocation Percentage is taken from Table 2 of Appendix 4

Table 8
No Adjustment to Water Supply Development Fee Component

Period Ending	Water Supply Development Fee Component (\$)	Notes:	
6/30/2028	283,587.42	The Water Supply Development Fee Component for the remaining portion of the first 20 years of Contract Term is taken from Table 5 of Appendix 1.	
6/30/2029	292,095.04		
6/30/2030	300,857.89		
6/30/2031	309,883.63		
6/30/2032	319,180.14		
6/30/2033	328,755.54		
6/30/2034	338,618.21		
6/30/2035	348,776.76		
6/30/2036	359,240.06		
6/30/2037	370,017.26		
6/30/2038	381,117.78		
6/30/2039	392,551.31		
6/30/2040	404,327.85		
6/30/2041	416,457.69		
6/30/2042	428,951.42		
6/30/2043	-		Index-Linked escalation for the remainder of Term is not shown.
6/30/2044	-		
6/30/2045	-		
6/30/2046	-		
6/30/2047	-		
6/30/2048	-		
6/30/2049	-		
6/30/2050	-		
6/30/2051	-		
6/30/2052	-		
6/30/2053	-		
6/30/2054	-		
6/30/2055	-		
6/30/2056	-		
6/30/2057	-		
6/30/2058	-		
6/30/2059	-		
6/30/2060	-		
6/30/2061	-		
6/30/2062	-		
6/30/2063	-		
6/30/2064	-		
6/30/2065	-		
6/30/2066	-		
6/30/2067	-		
6/30/2068	-		
6/30/2069	-		
6/30/2070	-		
6/30/2071	-		
12/31/2071	-		

Table 9
Illustrative Adjusted Debt Service Coverage Deposit

Period Ending	City Debt Service (\$)	Capital Charge Allocation Percent (%)	District's Ratable Portion (\$)	Debt Service Coverage Deposit (\$)	Refund to District (\$)	Notes:	
6/30/2028	6,306,369.75	28.60%	1,803,621.75	450,905.44	478,384.24	City Debt Service is the sum of (i) the remaining debt service shown in Table 2 of Appendix 3 and (ii) the debt service shown in Table 4 of Appendix 4.	
6/30/2029	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44		
6/30/2030	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44		
6/30/2031	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44		
6/30/2032	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44	The applicable Capital Charge Allocation Percentage is taken from Table 2 of Appendix 4.	
6/30/2033	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44		
6/30/2034	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44		
6/30/2035	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44		
6/30/2036	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44		
6/30/2037	6,306,369.75	28.60%	1,803,621.75	450,905.44	450,905.44		
6/30/2038	6,306,369.93	28.60%	1,803,621.80	450,905.45	450,905.44		
6/30/2039	2,124,689.31	28.60%	607,661.14	151,915.29	450,905.45		Debt Service Coverage Requirement 25%
6/30/2040	2,124,689.31	28.60%	607,661.14	151,915.29	151,915.29		The Refund to District amount for 6/30/2028 is taken from Table 2 of Appendix 2.
6/30/2041	2,124,689.31	28.60%	607,661.14	151,915.29	151,915.29		
6/30/2042	2,124,689.31	28.60%	607,661.14	151,915.29	151,915.29		
6/30/2043	2,124,689.31	28.60%	607,661.14	151,915.29	151,915.29		
6/30/2044	2,124,689.31	28.60%	607,661.14	151,915.29	151,915.29		
6/30/2045	2,124,689.31	28.60%	607,661.14	151,915.29	151,915.29		
6/30/2046	2,124,689.31	28.60%	607,661.14	151,915.29	151,915.29		
6/30/2047	2,124,689.31	28.60%	607,661.14	151,915.29	151,915.29		
6/30/2048	-	-	-	-	151,915.29		
6/30/2049	-	-	-	-	-		
6/30/2050	-	-	-	-	-		
6/30/2051	-	-	-	-	-		
6/30/2052	-	-	-	-	-		
6/30/2053	-	-	-	-	-		
6/30/2054	-	-	-	-	-		
6/30/2055	-	-	-	-	-		
6/30/2056	-	-	-	-	-		
6/30/2057	-	-	-	-	-		
6/30/2058	-	-	-	-	-		
6/30/2059	-	-	-	-	-		
6/30/2060	-	-	-	-	-		
6/30/2061	-	-	-	-	-		
6/30/2062	-	-	-	-	-		
6/30/2063	-	-	-	-	-		
6/30/2064	-	-	-	-	-		
6/30/2065	-	-	-	-	-		
6/30/2066	-	-	-	-	-		
6/30/2067	-	-	-	-	-		
6/30/2068	-	-	-	-	-		
6/30/2069	-	-	-	-	-		
6/30/2070	-	-	-	-	-		
6/30/2071	-	-	-	-	-		
12/31/2071	-	-	-	-	-		
Totals	88,492,271.22		25,308,789.57	6,327,197.39	6,805,581.63		

Table 10
Illustrative Adjusted Debt Service Reserve Deposits

Period Ending	Debt Service Reserve Deposits (\$)	Application to Pay District Portion of Debt Service (\$)	Cummulative Amount (\$)	Notes:
6/30/2027			1,619,146.67	
6/30/2028	18,447.51		1,637,594.17	1. City's Debt Service Reserve Target Amount on City SRL Loan with respect to the Original Plant (Taken from Table 3 of Appendix 2) 4,181,680.44
6/30/2029	18,447.51	-	1,656,041.68	
6/30/2030	18,447.51	-	1,674,489.19	
6/30/2031	18,447.51	-	1,692,936.70	2. Adjusted Capital Charge Allocation Percentage (from Table 2 of Appendix 4) 28.60%
6/30/2032	18,447.51	-	1,711,384.21	
6/30/2033	18,447.51	-	1,729,831.72	3. District's Revised Portion of the Debt Service Reserve Target Amount 1,195,960.61
6/30/2034	18,447.51	-	1,748,279.22	
6/30/2035	18,447.51	-	1,766,726.73	4. District's cumulative Debt Service Reserve Deposits to date (from Table 3 of Appendix 2) 1,619,146.67
6/30/2036	18,447.51	-	1,785,174.24	
6/30/2037	18,447.51	-	1,803,621.75	
6/30/2038	-	(1,195,960.61)	607,661.14	5. Excess of cumulative Debt Service Reserve Deposits to District's revised Portion of the Debt Service Reserve Target Amount on the original loan 423,186.06
6/30/2039	-	-	607,661.14	
6/30/2040	-	-	607,661.14	
6/30/2041	-	-	607,661.14	6. City's Debt Service Reserve Target Amount on City SRL Loan with respect to the Capital Modification (Taken from Table 3 of Appendix 2) 2,124,689.31
6/30/2042	-	-	607,661.14	
6/30/2043	-	-	607,661.14	
6/30/2044	-	-	607,661.14	7. Adjusted Capital Charge Allocation Percentage (from Table 2 of Appendix 4) 28.60%
6/30/2045	-	-	607,661.14	
6/30/2046	-	-	607,661.14	8. District's Revised Portion of the Debt Service Reserve Target Amount on the Capital Modification loan 607,661.14
6/30/2047	-	(607,661.14)	0.00	
6/30/2048	-	-	-	
6/30/2049	-	-	-	9. Shortfall of Line 5 versus Line 8 184,475.08
6/30/2050	-	-	-	
6/30/2051	-	-	-	10. Years for District to Accrue District's Portion of Target Amount 10
6/30/2052	-	-	-	
6/30/2053	-	-	-	11. Adjusted Annual Debt Service Reserve Deposit 18,447.51
6/30/2054	-	-	-	
6/30/2055	-	-	-	
6/30/2056	-	-	-	
6/30/2057	-	-	-	
6/30/2058	-	-	-	
6/30/2059	-	-	-	
6/30/2060	-	-	-	
6/30/2061	-	-	-	
6/30/2062	-	-	-	
6/30/2063	-	-	-	
6/30/2064	-	-	-	
6/30/2065	-	-	-	
6/30/2066	-	-	-	
6/30/2067	-	-	-	
6/30/2068	-	-	-	
6/30/2069	-	-	-	
6/30/2070	-	-	-	
6/30/2071	-	-	-	
12/31/2071	-	-	-	
Totals	184,475.08	(1,803,621.75)		

Table 11
Illustrative Adjusted Application of Accumulated Balance of Debt Service Reserve Deposits

Period Ending	Plant Capital Charge Component (\$)	Application of District DSR Balance (\$)	Net Plant Capital Charge Component (\$)	Notes:
6/30/2028	2,048,529.31	-	2,048,529.31	The Plant Capital Charge Component is taken from Table 2 of Appendix 4
6/30/2029	2,048,529.31	-	2,048,529.31	
6/30/2030	2,048,529.31	-	2,048,529.31	The District's accumulated Debt Service Reserve Deposits is taken from Table 10 of Appendix 4
6/30/2031	2,048,529.31	-	2,048,529.31	
6/30/2032	2,048,529.31	-	2,048,529.31	
6/30/2033	2,048,529.31	-	2,048,529.31	
6/30/2034	2,048,529.31	-	2,048,529.31	
6/30/2035	2,048,529.31	-	2,048,529.31	
6/30/2036	2,048,529.31	-	2,048,529.31	
6/30/2037	2,048,529.31	-	2,048,529.31	
6/30/2038	2,048,529.36	1,195,960.61	852,568.75	
6/30/2039	852,568.70	-	852,568.70	
6/30/2040	852,568.70	-	852,568.70	
6/30/2041	852,568.70	-	852,568.70	
6/30/2042	730,114.92	-	730,114.92	
6/30/2043	607,661.14	-	607,661.14	
6/30/2044	607,661.14	-	607,661.14	
6/30/2045	607,661.14	-	607,661.14	
6/30/2046	607,661.14	-	607,661.14	
6/30/2047	607,661.14	607,661.14	0.00	
6/30/2048	-	-	-	
6/30/2049	-	-	-	
6/30/2050	-	-	-	
6/30/2051	-	-	-	
6/30/2052	-	-	-	
6/30/2053	-	-	-	
6/30/2054	-	-	-	
6/30/2055	-	-	-	
6/30/2056	-	-	-	
6/30/2057	-	-	-	
6/30/2058	-	-	-	
6/30/2059	-	-	-	
6/30/2060	-	-	-	
6/30/2061	-	-	-	
6/30/2062	-	-	-	
6/30/2063	-	-	-	
6/30/2064	-	-	-	
6/30/2065	-	-	-	
6/30/2066	-	-	-	
6/30/2067	-	-	-	
6/30/2068	-	-	-	
6/30/2069	-	-	-	
6/30/2070	-	-	-	
6/30/2071	-	-	-	
12/31/2071	-	-	-	
Totals	28,859,949.18	1,803,621.75	27,056,327.43	

APPENDIX 5

ITEMIZATION OF FIXED O&M AND VARIABLE O&M COST ELEMENTS

ITEMIZATION OF FIXED O&M AND VARIABLE O&M COST ITEMS

<u>Cost Item</u>	<u>Fixed O&M Cost</u>	<u>Variable O&M Cost</u>
Item A - Labor	1,108,293	205,853
Item B - Monitoring, Testing and Reporting	22,182	210,768
Item C - Sewer and Potable Water Service	70,004	392
Item D - Backwash Residuals Disposal	1,109	23,118
Item E - Administrative (Mangement, Office supplies and equipment)	17,808	56,782
Item F - Preventive Maintenance	88,730	176,332
Item G - Site Maintenance and Security	30,887	173
Item H - Minor Equipment Repair and Replacement	-	88,355
Item I - Operations Performance Bond and Insurance	195,665	83,430
Item J - Membrane and Cartridge Filter Replacement	-	82,139
Item K - Membrane Chemical Cleaning	-	787
Item J - Other (Communication, Professional Advisor Fees, Training, Membership & Seminars, Security, Customer Relations, Car, Travel Expenses)	-	117,649
Item R - Treatment Chemicals	-	175,377
Item S - Electrical Usage	147,682	1,192,747
	<u>1,682,361</u>	<u>2,413,903</u>
	41%	59%

Notes:

(1) This Appendix reflects an estimate for the individual Fixed O&M and Variable O&M cost components for Fiscal Year 2020. It is intended to inform discussions between the District and the City concerning the assignment of costs to the Fixed O&M and Variable O&M categories.

(2) According to Section 12.03 of the DBO contract, the annual service fee payable to the DBO contractor is index linked and adjusted annually for each contract year beginning October 1. The initial Fixed O&M and Variable O&M cost items were itemized in Attachment Q, the Complete Price Proposal Forms of the DBO. However, annual price adjustments are made to the aggregate service fee, not to each individual cost item. Therefore, the Fixed O&M and Variable O&M costs itemized in the table above are based on the current annual service fee held to the same proportions as in Attachment Q.

APPENDIX 6

ITEMIZATION OF CITY'S ADMINISTRATIVE COST ELEMENTS

ITEMIZATION OF CITY'S ADMINISTRATIVE COST ELEMENTS

Line Item Description	FY 21 Adopted Budget
Salaries - Permanent	\$142,734
Salaries - Overtime	-
Salaries - OT CompTime Cashout	-
Alloc-Vacation Cashout	614
Alloc-Sick Leave Cashout	571
Benefits - Group Insurance	18,303
Benefits - Retirement	13,296
Benefits - Retirement UAL	31,685
Benefits - Workers Comp/Unemployment	5,517
Medicare	2,102
Alloc-Retiree Medical	503
Inter-Department Allocated Costs	91,785
Office Supplies & Expense	500
Facilities Maintenance	1,000
Profess. Services-Contract	-
Engineering Services	15,000
Meeting & Travel	1,500
Dues Memberships & License	2,500
Printing & Binding	1,000
	\$328,610

APPENDIX 7

**ILLUSTRATIVE ALLOCATIONS OF COSTS BETWEEN
THE CORE PLANT AND THE ADDITIONAL PLANT**

APPENDIX 7**ILLUSTRATIVE ALLOCATIONS OF COSTS BETWEEN
THE CORE PLANT AND THE ADDITIONAL PLANT****1. Pretreatment Modification**

The costs of a Capital Modification affecting pretreatment facilities would be allocated between the Core Plant and the Additional Plant based on the design capacity of the modification. For example, the costs of a pretreatment modification capable of supporting 4,000 AFY of desalinated water production would be allocated 100% to the Core Plant, while the costs of a pretreatment modification capable of supporting 7,500 AFY of desalinated water production would be allocated 66.6% to the Core Plant and 33.3% to the Additional Plant.

2. Intake Modification

The costs of a Capital Modification affecting the intake system that is designed to support the full intake capacity of 10,000 AFY would be allocated 50% to the Core Plant and 50% to the Additional Plant.

3. Capacity Upgrade

The costs of a Capital Modification affecting the Plant's production capacity would be allocated between the Core Plant and the Additional Plant based on the design capacity of the modification. For example, the costs of a capacity expansion increasing Plant Capacity from 3,125 AFY to 4,000 AFY would be allocated 100% to the Core Plant. The costs of a subsequent capacity expansion increasing Plant Capacity from 4,000 AFY to 6,000 AFY would be allocated 50% to the Core Plant and 50% to the Additional Plant. The costs of a subsequent capacity expansion increasing Plant Capacity from 6,000 AFY to 7,500 AFY would be allocated 100% to the Additional Plant.

4. On-Site Solar Power Plant

The capital costs of an onsite solar power plant would be deemed supportive of the fully built-out Plant (10,000 AFY) and would be allocated to 50% to the Core Plant and 50% to the Additional Plant. The electric power production benefits of the on-site solar power plant (meaning the reduction in electricity supply costs from Southern California Edison as reduced by solar power plant operating costs) would be allocated between the City and the District in proportion to the capital cost allocation.

5. Off-Site Solar Power Plant

The capital costs of an offsite solar power plant would be considered to be a capital modification of the Plant to the extent that electricity metering of the solar electricity output was made specific to the Plant site. In such event, the capital and operating costs of an Off-Site Solar Power Plant would be allocated as described in item 4 above. An off-site solar power plant that is not integrated with the Plant through metering would not be considered a Capital Modification of the Plant.

APPENDIX 8
DESCRIPTION OF THE CONVEYANCE PIPELINE

APPENDIX 8**DESCRIPTION OF THE CONVEYANCE PIPELINE****CONVEYANCE PIPELINE GENERALLY**

The Conveyance Pipeline will be built in two phases, both described below in this Appendix, consisting of Conveyance Pipeline Phase 1 and Conveyance Pipeline Phase 2. The general route of the Conveyance Pipeline is shown on Attachment A to this Appendix, and a schematic of the Conveyance Pipeline is shown on Attachment B to this Appendix.

CONVEYANCE PIPELINE PHASE 1

Conveyance Pipeline Phase 1 consists of two components as described below in this Section.

New Conveyance Pipeline

The first component of Conveyance Pipeline Phase 1 will consist of the installation of approximately 11,800 feet of 24-inch PVC potable water pipe underground and through City streets from the property line of the Plant to the intersection at Mission St & Garden St (the “**New Conveyance Pipeline**”). At that point, the New Conveyance Pipeline will intercept an existing City water transmission main. The New Conveyance Pipeline component will be constructed pursuant to a contract bid in accordance with laws applicable to City public works construction projects and is shown in more detail on City of Santa Barbara Public Works Drawings C-1-4877 on file in the City’s Public Works Department.

Repurposing Project

The second component of Conveyance Pipeline Phase 1 will consist of the repurposing of an existing transmission main to convey water from the end point of the New Conveyance Pipeline component at Mission St and Garden St to the Cater Water Treatment Plant (the “**Repurposing Project**”). The Repurposing Project will include repairing, replacing and rehabilitating various piping, valves, and appurtenances, along with cathodic protection, along a 2-mile section of a 24”/30” water transmission main that was installed in the 1950’s. The work locations will be within City rights-of-way along Mission Street, Laguna St, Los Olivos St, Mission Canyon Road, Foothill Road, and San Roque Rd. The Repurposing Project component work will be performed pursuant to a contract bid in accordance with laws applicable to City maintenance and repair projects and is shown in more detail on City of Santa Barbara Public Works Drawings C-1-3684 on file in the City’s Public Works Department.

CONVEYANCE PIPELINE PHASE 2

Conveyance Pipeline Phase 2 also consists of two components, as described below in this Section.

Relining/Replacement Project

The first component of Conveyance Pipeline Phase 2 consists of a relining or replacement project to extend the useful life of a City water transmission line through the Term of the Water Supply Agreement (the “**Relining/Replacement Project**”). The transmission main that will be repurposed through the Repurposing Project was constructed in the 1950’s, and was estimated under industry standards at the time to have a lifespan of approximately 80 years. It is anticipated that in the next 30 years, a portion of the transmission line will need major rehabilitation or replacement. The portion of the transmission line that will be repaired or replaced as part of the Relining/Replacement Project starts at the intersection of Mission Street/Garden Street and continues to the Cater Pipeline Extension described below.

Cater Pipeline Extension

The second component of Conveyance Pipeline Phase 2 consists of the installation of new piping connecting the transmission main repurposed through the Repurposing Project to the upstream side of the Cater Clearwell, as generally shown in the diagram on Attachment B to this Appendix (the “**Cater Pipeline Extension**”). The Cater Pipeline Extension has not been designed as of the Contract Date, but will be constructed as part of the Conveyance Pipeline to make improvements to the Cater Clearwell.

Attachment 8A: Conveyance Pipeline Map



Cater Water Treatment Plant

To Montecito WD →

South Coast Conduit

Conveyance Pipeline - Repurposed

Conveyance Pipeline

Charles E. Meyer Desalination Facility

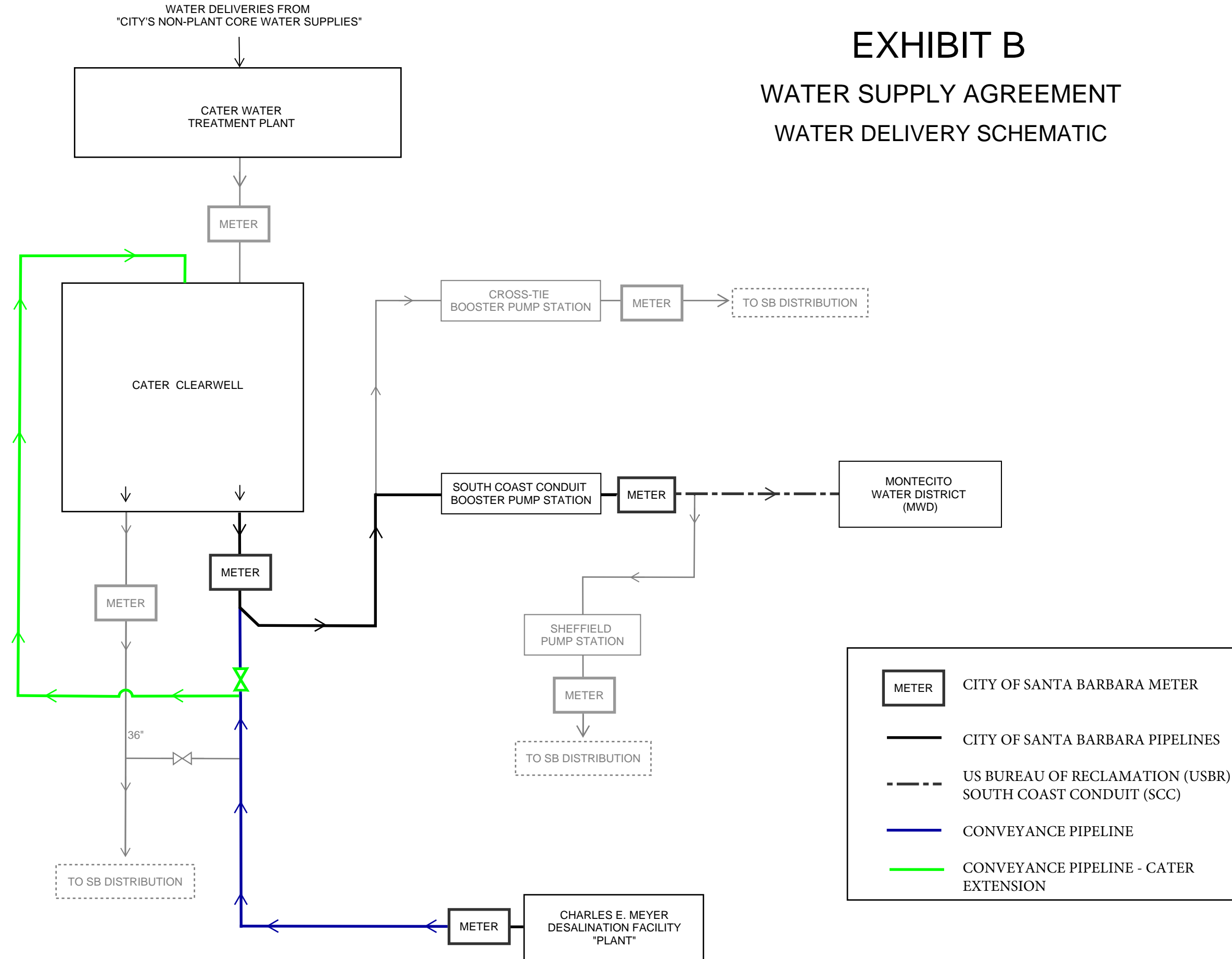
Exhibit A - Conveyance Pipeline

Attachment 8B: Conveyance Pipeline Schematic

EXHIBIT B

WATER SUPPLY AGREEMENT

WATER DELIVERY SCHEMATIC



Cater Water Treatment Plant

ATTACHMENT 2

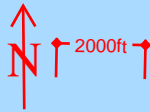
To Montecito WD →

South Coast Conduit

Conveyance Pipeline - Repurposed

Conveyance Pipeline

Charles E. Meyer Desalination Facility



ORDINANCE NO. _____

AN ORDINANCE OF THE COUNCIL OF THE CITY OF SANTA BARBARA APPROVING A WATER SUPPLY AGREEMENT FOR THE LONG TERM WHOLESAL SUPPLY TO THE MONTECITO WATER DISTRICT OF WATER MADE AVAILABLE FROM THE OPERATION OF THE CHARLES E. MEYER DESALINATION FACILITY

THE CITY COUNCIL OF THE CITY OF SANTA BARBARA DOES ORDAIN AS FOLLOWS:

SECTION 1. Findings and Determinations.

A. The City's Charles E. Meyer Desalination Facility ("Plant") is a seawater desalination facility that is fully permitted for operation at a production capacity of up to 7,500 AFY and potentially up to 10,000 AFY under a variety of operating scenarios, including operation to meet regional water supply needs.

B. The general purpose of the Water Supply Agreement approved by this Ordinance is to further the public health, safety, and welfare and provide local and regional benefits afforded by a safe and reliable supply of water through the sale by the City and the purchase by the Montecito Water District ("District"), at wholesale, of supplemental water that is made available from production capacity of the Plant.

C. The Plant's current production capacity is 3,125 AFY. The Water Supply Agreement is premised on a planned initial upgrade in Plant production capacity of up to 5,000 AFY and a subsequent upgrade to 7,500 AFY. The Water Supply Agreement will provide the District with a firm supply of 1,430 AFY while assuring that the City will have

supplies sufficient to meet the current and planned future needs of City residents, businesses, industries, and institutions.

D. The City Council and District Board of Directors approved a Term Sheet for a long term water supply agreement in January 2019. The Water Supply Agreement approved by this Ordinance is consistent with the Term Sheet.

E. The District Board of Directors approved the Water Supply Agreement at its meeting of June 25, 2020.

F. The City Council has considered the environmental review documents discussed in the Council Agenda Report dated June 30, 2020 relating to the subject of “Authorization To Execute A Water Supply Agreement With The Montecito Water District,” determined that no further environmental review is required for the reasons stated therein, and directed the filing of a Notice of Determination pursuant to the California Environmental Quality Act.

G. This Ordinance is adopted pursuant to City Charter Section 521.

SECTION 2. The Water Supply Agreement between the City and the Montecito Water District substantially in the form presented to the City Council at its meeting of June 30, 2020, a copy of which is on file with the City Clerk, is approved. The Mayor and City Clerk are authorized and directed to execute on behalf of the City the Water Supply Agreement as approved as to form by the City Attorney.

SECTION 3. The City Administrator, City Attorney, and Public Works Director are authorized to take all actions necessary or convenient to the implementation of the Water Supply Agreement according to its terms. The City Administrator, City Attorney, and Public Works Director may further delegate responsibility authorized by this Section.