



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
BOARD OF DIRECTORS' REGULAR MEETING**

*Minutes of March 19, 2020*

**1. 4:00 PM OPEN SESSOIN / CALL TO ORDER / FLAG SALUTE**

President Burgess called the meeting to order at 4:05 pm and led the flag salute.

**2. ROLL CALL**

Secretary Gelos called the role. Directors Burgess and Barker were present. Directors Cousineau and Rowley were present via teleconference. Director Capps was absent.

Staff present: General Manager Scott Duffield and Office Supervisor/Board Secretary Kristen Gelos.

**3. PUBLIC COMMENT ON ITEMS NOT ON THE AGENDA**

No comments

**4. CONSENT ITEMS**

- a. **Meeting Minutes:** Receive/approve minutes of regular meeting of February 20, 2020.
- b. **Warrant Register:** Receive/approve February 2020 warrants.
- c. **Treasurer's Report:** Receive/file February 2020 report.
- d. **Fiscal Report:** Receive/file February 2020 status report.

Director Cousineau made a motion to approve all consent items as presented. Director Rowley seconded the motion. The motion passed by the following roll call vote:

Ayes: Burgess, Cousineau, Rowley

Absent: Barker, Capps

**5. DISCUSSION ITEMS**

- a. **Request to approve a request for proposals for professional auditing services, and direct staff to advertise.**

Manager Duffield provided a brief summary of the item and answered any questions the board had.

Director Rowley made a motion to approve a request for proposal for professional auditing services. Director Cousineau seconded the motion. The motion passed by the following roll call vote:

Ayes: Burgess, Cousineau, Rowley

Absent: Capps

Director Barker arrived at 4:10pm.

**b. Submittal for approval Resolution 20-04 Initiating Proceedings and Establishing of Water and Sewer Standby Charges for Property within the District for Fiscal Year 2020/21.**

Manager Duffield provided a brief summary of the item and answered any questions the Board had.

Director Barker made a motion to approve Resolution 20-04 Initiating Proceedings and Establishing of Water and Sewer Standby Charges. Director Rowley seconded the motion. The motion passed by the following roll call vote:

Ayes: Barker, Burgess, Cousineau, Rowley

Absent: Capps

**c. Request to receive and file Photovoltaic System Project updates.**

Manager Duffield provided a brief summary of the item and answered any questions the Board had.

The report was received and filed.

**6. MANAGER'S REPORT**

The report was received and filed.

**7. STAFF REPORTS**

The reports were received and filed.

**8. COMMITTEE AND DIRECTOR REPORTS**

Manager Duffield said that due to the COVID-19, we will need to hold a special meeting to declare a state of emergency by Resolution. Meeting date and time TBD.

**9. ADJOURNMENT**

On a motion by Director Barker and seconded by Director Burgess, the meeting adjourned at 5:03 pm to the next scheduled regular meeting on Thursday, April 16, 2020.

**APPROVED:**

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**Dan Burgess, President  
Board of Directors**

**ATTEST:**

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**Kristen Gelos, Secretary**  
**Board of Directors**



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
BOARD OF DIRECTORS' SPECIAL MEETING**

*Minutes of March 24, 2020*

**1. 4:00 PM OPEN SESSION / CALL TO ORDER / FLAG SALUTE**

President Burgess called the meeting to order at 4:00 pm and led the flag salute.

**2. ROLL CALL**

Secretary Gelos called the roll. Directors Barker was present. Directors Burgess, Cousineau and Rowley were present via teleconference. Director Capps was absent.

Staff present: General Manager Scott Duffield and Office Supervisor/Board Secretary Kristen Gelos.

**3. DISCUSSION ITEMS**

**a. Submittal for approval Resolution No. 20-05, A Declaration of Emergency and Resolution of the Board of Directors of the Heritage Ranch Community Services District to Temporarily Authorize Increased Authority of the General Manager.**

Manager Duffield provided a brief summary of the item and answered any questions the board had.

Director Barker made a motion to approve Resolution 20-05 A Declaration of Emergency and Resolution of the Board of Directors of the Heritage Ranch Community Services District to Temporarily Authorize Increased Authority of the General Manager. Director Rowley seconded the motion. The motion passed by the following roll call vote:

Ayes: Barker, Burgess, Cousineau, Rowley

Absent: Capps

**4. ADJOURNMENT**

On a motion by Director Cousineau and seconded by Director Rowley, the meeting adjourned at 4:15 pm to the next scheduled regular meeting on Thursday, April 16, 2020.

**APPROVED:**

**ATTEST:**

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**Dan Burgess, President  
Board of Directors**

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**Kristen Gelos, Secretary  
Board of Directors**



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020  
WARRANT REGISTER**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
3/3/2020	INTERNAL REVENUE SERVICE FEDERAL WITHHOLDING TAXES MEDICARE	2,487.63 797.16	\$3,284.79
3/3/2020	EMPLOYMENT DEVELOPMENT DEPARTMENT SDI STATE WITHHOLDING	274.88 904.11	\$1,178.99
3/3/2020	ALPHA ELECTRICAL SERVICE PVS PROJECT	351.50	\$351.50
3/3/2020	U.S. BANK TRAINING & TRAVEL TRAINING & TRAVEL VOIP PHONE SYSTEM VOIP PHONE SYSTEM POSTAGE PVS PROJECT MAINTENANCE FIXED EQUIPMENT SM TOOLS & EQUIPMENT	115.00 225.00 297.07 110.46 13.90 51.49 167.34 25.00	\$1,005.26
3/3/2020	JAMES A. PRITCHETT UNIFORM ALLOWANCE MEDICAL REIMBURSEMENTS	226.89 70.00	\$296.89
3/3/2020	KENWOOD ENERGY PVS PROJECT	536.25	\$536.25
3/3/2020	J.B. DEWAR. INC. FUEL & OIL	480.52	\$480.52
3/3/2020	STAPLES CREDIT PLAN OFFICE SUPPLIES	77.52	\$77.52
3/3/2020	GREAT WESTERN ALARM ALARM / ANSWERING SERVICE	288.10	\$288.10
3/3/2020	WALLACE GROUP CONSULTING & ENGINEERING PVS PROJECT	301.20 1,462.50	\$1,763.70
3/3/2020	ADAMSKI, MOROSKI, MADDEN, CUMBERLAND, GREEN LEGAL & ATTORNEY/PVS PROJECT	2,544.00	\$2,544.00

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020  
WARRANT REGISTER**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
3/3/2020	USA BLUEBOOK MAINT. FIXED EQUIP/LAB TESTING	241.02	\$241.02
3/3/2020	FGL ENVIRONMENTAL LAB TESTING LAB TESTING LAB TESTING	152.00 108.00 50.54	\$310.54
3/3/2020	WESTERN JANITOR SUPPLY SUPPLIES	95.79	\$95.79
3/3/2020	GREAT WESTERN ALARM ALARM INSTALL DEPOSIT ALARM INSTALL REMAIN. BALANCE	250.00 750.00	\$1,000.00
3/3/2020	SERVPRO MAINT. FIXED EQUIPMENT	700.00	\$700.00
3/3/2020	BAUTISTA'S CLEANING SERVICE STRUCTURES & GROUNDS	180.00	\$180.00
3/4/2020	HERITAGE RANCH CSD CASH DRAWER ADJUSTMENT	23.75	\$23.75
3/6/2020	SWRCB LICENSES & PERMITS	9,000.00	\$9,000.00
3/6/2020	CALPERS RETIREMENT SYSTEM PERS RETIREMENT PERS RETIREMENT TIER 2 PERS RETIREMENT PEPRA SURVIVOR BENEFIT	3,123.28 962.32 509.95 7.44	\$4,602.99
3/6/2020	CALPERS 457 DEFFERED COMP PROGRAM PERS 457- DEFFERED COMP.	1,225.00	\$1,225.00
3/11/2020	PG&E ELECTRICITY	14,371.21	\$14,371.21
3/13/2020	R. BRINK NET PAYROLL	2,235.04	\$2,235.04

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020  
WARRANT REGISTER**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
3/13/2020	J. MOLINARI NET PAYROLL	2,892.95	\$2,892.95
3/13/2020	R. ARNOLD NET PAYROLL	2,113.33	\$2,113.33
3/13/2020	J. PRITCHETT NET PAYROLL	2,172.33	\$2,172.33
3/13/2020	M. HUMPHREY NET PAYROLL	1,867.15	\$1,867.15
3/13/2020	K. GELOS NET PAYROLL	2,323.75	\$2,323.75
3/13/2020	D. BURGESS NET PAYROLL	92.35	\$92.35
3/13/2020	B. BARKER NET PAYROLL	138.52	\$138.52
3/13/2020	M. ROWLEY NET PAYROLL	92.35	\$92.35
3/13/2020	R. COUSINEAU NET PAYROLL	92.35	\$92.35
3/13/2020	S. DUFFIELD NET PAYROLL	3,502.95	\$3,502.95
3/13/2020	D. CAPPS NET PAYROLL	92.35	\$92.35
3/13/2020	S. BRENNEMAN NET PAYROLL	1,617.52	\$1,617.52
3/16/2020	AMERICAN WATER WORKS ASSOCIATION DUES & SUBSCRIPTIONS	445.00	\$445.00
3/16/2020	FLUID RESOURCE MANAGEMENT PROFESSIONAL SERVICES	525.00	\$525.00

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020  
WARRANT REGISTER**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
3/16/2020	NAPA AUTO PARTS VEHICLES	20.89	\$20.89
3/16/2020	ABALONE COAST ANALYTICAL, INC. LAB TESTING	757.00	\$757.00
3/16/2020	TELSTAR INSTRUMENTS INC. PROFESSIONAL SERVICES	5,850.00	\$5,850.00
3/16/2020	KRISTEN GELOS CELL PHONE/INTERNET ALLOWANCE	40.00	\$40.00
3/16/2020	JAMES A. PRITCHETT CELL PHONE/INTERNET ALLOWANCE	80.00	\$80.00
3/16/2020	LOWE'S MAINT. FIXED EQUIP./SUPPLIES MAINT. FIXED EQUIP./SUPPLIES	44.31 56.90	\$101.21
3/16/2020	DATA PROSE LLC FEBRUARY BILLING / LATE NOTICES	1,325.29	\$1,325.29
3/16/2020	SCOTT DUFFIELD CELL PHONE/INTERNET ALLOWANCE	40.00	\$40.00
3/16/2020	WESTERN EXTERMINATOR COMPANY STRUCTURES & GROUNDS	86.00	\$86.00
3/16/2020	RIVAL TECHNOLOGY INC. COMPUTER / SOFTWARE	144.74	\$144.74
3/16/2020	MARK HUMPHREY CELL PHONE/INTERNET ALLOWANCE	80.00	\$80.00
3/16/2020	READY REFRESH BY NESTLE LAB TESTING	15.94	\$15.94
3/16/2020	KRITZ EXCAVATING & TRUCKING MAINTENANCE FIXED EQUIPMENT	92.19	\$92.19
3/16/2020	BRENNTAG PACIFIC, INC CHEMICALS	2,668.50	\$2,668.50

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020  
WARRANT REGISTER**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
3/16/2020	CALIFORNIA-NEVADA SECTION, AWWA LICENSES & PERMITS	55.00	\$55.00
3/16/2020	CAL COAST IRRIGATION, INC. MAINTENANCE FIXED EQUIPMENT	79.49	\$79.49
3/16/2020	JASON MOLINARI CELL PHONE/INTERNET ALLOWANCE	80.00	\$80.00
3/16/2020	ROY ARNOLD CELL PHONE/INTERNET ALLOWANCE	80.00	\$80.00
3/16/2020	RYAN BRINK CELL PHONE/INTERNET ALLOWANCE	80.00	\$80.00
3/16/2020	SAN MIGUEL GARBAGE DELINQUENT SOLID WASTE FEES	242.50	\$242.50
3/17/2020	EMPLOYMENT DEVELOPMENT DEPARTMENT SDI	266.10	
	STATE WITHHOLDING	828.88	\$1,094.98
3/17/2020	INTERNAL REVENUE SERVICE FEDERAL WITHHOLDING TAXES	2,357.90	
	FICA WITHHOLDING	68.20	
	MEDICARE	787.66	\$3,213.76
3/20/2020	J.B. DEWAR. INC. FUEL & OIL	301.84	\$301.84
3/20/2020	CALPERS RETIREMENT SYSTEM EMPLOYER'S CONTRIBUTION	19.44	
	PERS RETIREMENT	3,123.28	
	PERS RETIREMENT TIER 2	962.32	
	PERS RETIREMENT PEPRA	509.95	
	SURVIVOR BENEFIT	7.44	\$4,622.43
3/30/2020	AT&T TELEPHONE / INTERNET	255.17	\$255.17
3/20/2020	AT&T TELEPHONE / INTERNET	166.29	\$166.29

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020  
WARRANT REGISTER**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
3/20/2020	CALPERS 457 DEFFERED COMP PROGRAM PERS 457- DEFFERED COMP.	1,225.00	\$1,225.00
3/24/2020	CALPERS RETIREMENT SYSTEM PERS RETIREMENT U/L PERS RETIREMENT U/L PERS RETIREMENT U/L	5,797.93 168.52 36.14	\$6,002.59
3/26/2020	CALPERS HEALTH BENEFITS CALPERS HEALTH BENEFITS EMPLOYEE PAID HEALTH BENEFIT EMPLOYEE PAID HEALTH BENEFIT	10,884.97 874.06 874.06	\$12,633.09
3/27/2020	R. BRINK NET PAYROLL	2,333.89	\$2,333.89
3/27/2020	J. MOLINARI NET PAYROLL	2,892.95	\$2,892.95
3/27/2020	J. MOLINARI NET PAYROLL	12,912.95	\$12,912.95
3/27/2020	R. ARNOLD NET PAYROLL	2,289.35	\$2,289.35
3/27/2020	J. PRITCHETT NET PAYROLL	2,451.23	\$2,451.23
3/27/2020	M. HUMPHREY NET PAYROLL	1,888.90	\$1,888.90
3/27/2020	K. GELOS NET PAYROLL	2,323.75	\$2,323.75
3/27/2020	S. DUFFIELD NET PAYROLL	3,669.82	\$3,669.82
3/27/2020	S. BRENNEMAN NET PAYROLL	1,617.52	\$1,617.52
3/28/2020	CHARTER COMMUNICATIONS INTERNET	84.99	\$84.99

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020  
WARRANT REGISTER**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
3/31/2020	J. MOLINARI NET PAYROLL	16,181.30	\$16,181.30
3/31/2020	INTERNAL REVENUE SERVICE FEDERAL WITHHOLDING TAXES MEDICARE	2,504.08 800.18	\$3,304.26
3/31/2020	EMPLOYMENT DEVELOPMENT DEPARTMENT SDI STATE WITHHOLDING	275.92 899.03	\$1,174.95
3/31/2020	STAPLES CREDIT PLAN OFFICE SUPPLIES OFFICE SUPPLIES	26.43 41.59	\$68.02
3/31/2020	GREAT WESTERN ALARM ALARM / ANSWERING SERVICE	295.90	\$295.90
3/31/2020	WALLACE GROUP CONSULTING & ENGINEERING PVS PROJECT	496.25 487.50	\$983.75
3/31/2020	ADAMSKI, MOROSKI, MADDEN, CUMBERLAND, GREEN PVS PROJECT / LEGAL & ATTORNEY	1,850.00	\$1,850.00
3/31/2020	RYAN BRINK UNIFORM ALLOWANCE	167.00	\$167.00
3/31/2020	PG&E ELECTRICITY	15,789.27	\$15,789.27
3/31/2020	BRENNTAG PACIFIC, INC CHEMICALS	2,082.00	\$2,082.00
3/31/2020	FGL ENVIRONMENTAL LAB TESTING LAB TESTING	73.00 1,012.00	\$1,085.00
3/31/2020	CAL COAST IRRIGATION, INC. MAINTENANCE FIXED EQUIPMENT	688.53	\$688.53
3/31/2020	MID-COAST FIRE PROTECTION, INC STRUCTURES & GROUNDS	529.45	\$529.45

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020  
WARRANT REGISTER**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
3/31/2020	WESTERN JANITOR SUPPLY SUPPLIES	260.56	
	SUPPLIES	103.92	
	SUPPLIES	8.35	\$372.83
3/31/2020	FLUID RESOURCE MANAGEMENT MAINTENANCE FIXED EQUIPMENT	1,615.00	
	MAINTENANCE FIXED EQUIPMENT	15,510.00	\$17,125.00
3/31/2020	BURT INDUSTRIAL SUPPLY SUPPLIES	373.98	\$373.98
3/31/2020	DATA PROSE LLC BILLING INSERTS	173.52	\$173.52
3/31/2020	RIVAL TECHNOLOGY INC. VOIP PHONE SYSTEM	7,603.35	
	PROFESSIONAL SERVICES	50.00	
	VOIP PHONE SYSTEM / EQ	224.11	
	VOIP PHONE SYSTEM / EQ	3,717.76	\$11,595.22
3/31/2020	FEDEX - DEPT LA CHEMICALS	182.54	\$182.54
3/31/2020	LANCE'S CARPET FIXED EQUIPMENT	350.00	\$350.00
3/31/2020	SERVPRO MAINT. FIXED EQUIPMENT	2,749.75	\$2,749.75
3/31/2020	BAUTISTA'S CLEANING SERVICE STRUCTURES & GROUNDS	180.00	\$180.00
<b>GRAND TOTAL FOR ALL WARRANTS</b>			<b>\$214,962.28</b>



**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
TREASURER'S REPORT  
MARCH 2020**

**SUMMARY REPORT OF ALL ACCOUNTS**

Beginning Balance:	\$ 3,682,136.62
Ending Balance:	\$ 3,757,901.06
Variance:	\$ 75,764.44
Interest Earnings for the Month Reported:	\$ 109.70
Interest Earnings Fiscal Year-to-Date:	\$ 61,550.77

**ANALYSIS OF REVENUES**

Total operating income for water and sewer was:	\$ 132,158.48
Non-operating income was:	\$ 18,522.90
Franchise fees paid to the District by San Miguel Garbage was:	\$ 5,582.19
Interest earnings for the P.P.B. checking account was:	\$ 5.80
Interest earnings for the P.P.B. DWR Loan Services account was:	\$ 12.63
Interest earnings for the P.P.B. DWR Reserve account was:	\$ 70.32
Interest earnings for the P.P.B. SRF Loan Services account was:	\$ 20.95
Interest earnings for the P.P.B. SRF Reserve account was:	\$ -
Interest earnings for the LAIF account was:	\$ -

**ANALYSIS OF EXPENSES**

Pacific Premier Bank checking account total warrants, fees, and Electronic Fund Transfers was:	\$ 240,290.51
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**STATEMENT OF COMPLIANCE**

This report was prepared in accordance with the Heritage Ranch Community Services District Statement of Investment Policy. All investment activity was within policy limits. There are sufficient funds to meet the next 30 days obligations. Attached is a status report of all accounts and related bank statements.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
STATUS REPORT FOR ALL ACCOUNTS  
MARCH 2020**

**BEGINNING BALANCE ALL ACCOUNTS** **\$ 3,682,136.62**

**OPERATING CASH IN DRAWER** **\$300.00**

**PACIFIC PREMIER BANK - CHECKING**

<b>BEGINNING BALANCE 02/29/2020</b>	\$145,576.07	
DEPOSIT REVENUE & MISCELLANEOUS INCOME	\$158,576.22	
INTEREST EARNED	\$5.80	
TOTAL CHECKS, FEES AND EFT'S	(\$240,290.51)	
TRANSFER TO LAIF ACCOUNT	\$0.00	
<b>ENDING BALANCE 03/31/2020</b>		<b>\$63,867.58</b>

**PACIFIC PREMIER BANK DWR LOAN REPAYMENT (1994-2029):**

**LOAN SERVICES ACCOUNT**

<b>BEGINNING BALANCE 02/29/2020</b>	\$26,008.87	
QUARTERLY DEPOSIT	\$25,907.00	
INTEREST EARNED	\$12.63	
SEMI-ANNUAL PAYMENT	(\$51,814.22)	
<b>ENDING BALANCE 03/31/2020</b>		<b>\$114.28</b>

**PACIFIC PREMIER BANK DWR RESERVE ACCOUNT**

<b>BEGINNING BALANCE 02/29/2020</b>	\$113,090.05	
INTEREST EARNED	\$70.32	
<b>ENDING BALANCE 03/31/2020</b>		<b>\$113,160.37</b>

**PACIFIC PREMIER BANK SDWSRF LOAN SERVICES ACCOUNT**

<b>BEGINNING BALANCE 02/29/2020</b>	\$29,492.33	
QUARTERLY DEPOSIT	\$14,685.00	
INTEREST EARNED	\$20.95	
SEMI-ANNUAL PAYMENT	\$0.00	
<b>ENDING BALANCE 03/31/2020</b>		<b>\$44,198.28</b>

**PACIFIC PREMIER BANK SDWSRF RESERVE ACCOUNT**

<b>BEGINNING BALANCE 02/29/2020</b>	\$0.00	
QUARTERLY DEPOSIT	\$0.00	
INTEREST EARNED	\$0.00	
<b>ENDING BALANCE 03/31/2020</b>		<b>\$0.00</b>

**LOCAL AGENCY INVESTMENT FUND (LAIF)**

<b>BEGINNING BALANCE 02/29/2020</b>	\$3,536,560.55	
INTEREST EARNED	\$0.00	
TRANSFER FROM PACIFIC PREMIER CHECKING	\$0.00	
TRANSFER TO PACIFIC PREMIER CHECKING	\$0.00	
<b>ENDING BALANCE 03/31/2020</b>		<b>\$3,536,560.55</b>

**ENDING BALANCE ALL ACCOUNTS** **\$3,757,901.06**

**DIFFERENCE FROM LAST MONTH** **Increase \$75,764.44**

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
QUARTERLY TREASURER'S  
REPORT FOR THE PERIOD OF  
JANUARY 1, 2020 – MARCH 31, 2020**

**SUMMARY REPORT OF ALL ACCOUNTS**

Beginning Balance	\$	3,707,833
Ending Balance	\$	3,757,901
Variance	\$	50,068
Interest Earnings	\$	19,340.38

**STATEMENT OF COMPLIANCE**

This report was prepared in accordance with the HRCSD Statement of Investment Policy. All investment activity was within policy limits. There are sufficient funds to meet the next 180 days' obligations. Attached is a status report of all accounts and related bank statements. For more information contact the District Office.

**ACCOUNT PROFILE INFORMATION**

1. Operating cash in cash drawer: Maintained to make change for cash transactions.
2. Pacific Premier Bank Checking: Variable interest-bearing checking account currently at 0.05%, at Pacific Premier branch in Paso Robles used for most of our transactions such as payroll, accounts receivable and accounts payable. Statements are received on a monthly basis.
3. Pacific Premier Bank DWR loan repayments: The Loan Services Account interest earnings rate is 0.25%. Quarterly deposits are made into each account. Semi-annual payments are made from the Loan Services account by the bank, which functions as our fiscal agent, to DWR for repayment of a \$2 million loan to partially finance our water treatment plant and water pumping facilities.
4. Pacific Premier Bank DWR reserve: The Reserve Account interest earnings rate is 0.25%. The purpose of the Reserve Account was to build up over ten years an amount equal to debt service for one year, a DWR requirement. Statements are received on a quarterly basis.
5. Pacific Premier Bank SDWSRF (Safe Drinking Water State Revolving Fund) loan repayments: The Loan Services Account interest earnings rate is 0.25%. Quarterly deposits will be made into the Loan Services. Semi-annual payments will be made from the Loan Services account by the bank, which functions as our fiscal agent, to SDWSRF for repayment of a \$714,000 loan to finance upgrades at the water treatment plant. The fund will provide for a twenty (20) year repayment period at a 1.7875 percent interest rate. Statements are received on a quarterly basis.
6. Pacific Premier Bank SDWSRF (Safe Drinking Water State Revolving Fund) reserve: Quarterly deposits will be made into the Reserve Account. The purpose of the Reserve Account is to build up over ten years an amount equal to two semiannual payments, which is based upon the estimated loan principal and interest rate.
7. LAIF: Local Agency Investment Fund, a variable interest-bearing investment fund administered by the California State Treasurer. The majority of our funds are retained in this account. The last reported interest rate was 2.57%. Statements are received on a quarterly basis.

## INTEREST EARNINGS: TRENDS & PROJECTIONS

The number of accounts in this report totals seven. The interest earnings for those accounts are summarized below. The accounts are referenced by number which corresponds with the Account Profile Information.

### SUMMARY OF INTEREST EARNINGS

\* *Account Profile by Reference Number*

	<b>Beginning Balance</b>	<b>Total Debits</b>	<b>Total Credits</b>	<b>Interest Earnings</b>	<b>Ending Balance</b>
<b>1</b>	300.00	-	-	-	300.00
<b>2</b>	181,905.68			12.05	63,867.58
<b>3</b>	26,008.87	-51,814.22	25,907.00	12.63	114.28
<b>4</b>	113,090.05	0.00	0.00	70.32	113,160.37
<b>5</b>	29,492.33	0.00	14,685.00	20.95	44,198.28
<b>6</b>	0.00	0.00	0.00	0.00	0.00
<b>7</b>	3,357,336.12	0.00	0.00	19,224.43	3,536,560.55
<b>TOTALS</b>	<b>\$3,708,133.05</b>	<b>(\$51,814.22)</b>	<b>\$40,592.00</b>	<b>\$19,340.38</b>	<b>\$3,758,201.06</b>

Interest earnings in accounts 2, 3, 4, 5 & 6 above are always low because of account balance policies. Account 7 (LAIF) is the one account with more productive interest earnings because it typically holds over 90% of HRCSD cash reserves. Interest rates continue to fluctuate and remain low.

### MANAGEMENT BY CONTRACTED PARTIES

For the reporting period, only the Local Agency Investment Fund (LAIF) is held under the Management By Contracted Parties.

LAIF is a treasury of pooled money made up of deposits from many of the over 5,000 local agencies within California. More than \$25 billion is vested in a variety of ways with a cumulative net yield of a conservative nature. State law requires, and the LAIF Pooled Money Investment Board requires that pooled money first be invested in such a manner to realize the maximum return consistent with safe and prudent management after which yield is considered. In other words, because these are public moneys invested and managed by others, the investments are low risk, low yield.

HRCSD typically has most of its cash (over 90%) deposited in LAIF. This is common strategy with many local agencies in the state, especially those with cash reserves of less than \$5 million. Complete reports of all investment activity, etc. are received from the LAIF Board on a monthly basis, along with an annual report, which are available for inspection at the District office. In addition, an analysis is provided in our *Status Report of All Accounts* for our share of LAIF deposits on a monthly basis.

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET  
2019/20 Budget**

<b>OPERATING INCOME</b>	<b>Budget FY 19/20</b>	<b>Actual March</b>	<b>Actual Year to Date</b>	<b>Percentage Year to Date</b>	<b>Variance Explanation</b>
Water Fees	1,048,675	72,804	784,081	75%	
Sewer Fees	628,817	54,974	470,164	75%	
Hook-Up Fees	6,000	0	1,200	20%	Fluctuates based on activity
Turn on Fees	3,500	400	2,475	71%	
Late Fees	18,000	1,388	13,223	73%	
Plan Check & Inspection	10,000	0	993	10%	
Miscellaneous Income	2,000	2,592	12,458	623%	SDRMA claim, SLOCOPWD refund
<b>TOTAL OPERATING INCOME</b>	<b>\$1,716,992</b>	<b>\$132,158</b>	<b>\$1,284,593</b>	<b>75%</b>	

**FRANCHISE INCOME**

Solid Waste Franchise Fees	70,932	5,582	52,337	74%	
<b>TOTAL FRANCHISE REVENUE</b>	<b>\$70,932</b>	<b>\$5,582</b>	<b>\$52,337</b>	<b>74%</b>	

**NON-OPERATING INCOME**

Standby Charges	242,466	7,176	157,566	65%	
Property Tax	364,361	11,237	254,570	70%	
Interest	50,000	110	61,551	123%	Fluctuates based on activity
Connection Fees	141,160	0	28,340	20%	Fluctuates based on activity
<b>TOTAL NON-OPERATING INCOME</b>	<b>\$797,987</b>	<b>\$18,523</b>	<b>\$502,027</b>	<b>63%</b>	

**RESERVE REVENUE**

Capital Reserves	63,307	1,372	18,954	30%	
Operating Reserves	151,584	5,818	87,255	58%	
<b>TOTAL RESERVE REVENUE</b>	<b>\$214,891</b>	<b>\$7,191</b>	<b>\$106,210</b>	<b>49%</b>	

<b>TOTAL ALL INCOME</b>	<b>\$2,800,802</b>	<b>\$163,454</b>	<b>\$1,945,167</b>	<b>69%</b>	
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**HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET  
2019/20 Budget**

**OPERATING EXPENSES**

<b>SALARIES AND BENEFITS</b>	<b>Budget FY 19/20</b>	<b>Actual March</b>	<b>Actual Year to Date</b>	<b>Percentage Year to Date</b>	<b>Variance Explanation</b>
Salaries	644,289	74,321	536,450	83%	
Health Insurance	96,753	7,559	72,909	75%	
Health Insurance - Retiree	48,561	3,950	35,539	73%	
PERS	115,465	11,333	104,218	90%	
Standby	12,900	982	9,607	74%	
Overtime	15,050	1,308	11,261	75%	Fluctuates based on need & staffing
Workers Comp. Ins.	25,072	0	21,681	86%	Paid Annually
Directors' Fees	7,000	550	4,750	68%	
Medicare/FICA	9,863	1,227	8,218	83%	
Car Allowance	3,000	250	2,250	75%	
SUI/ETT	1,500	0	599	40%	
Uniforms	4,500	394	1,905	42%	
<b>TOTAL SALARIES &amp; BENEFITS</b>	<b>\$983,953</b>	<b>\$101,874</b>	<b>\$809,387</b>	<b>82%</b>	

**UTILITIES**

Electricity	240,202	30,160	180,660	75%	
Propane	973	0	559	57%	
Water Purchase	23,114	0	23,114	100%	Paid Semiannually
Telephone/Internet	11,663	986	8,574	74%	
<b>TOTAL UTILITIES EXPENSE</b>	<b>\$275,952</b>	<b>\$31,147</b>	<b>\$212,907</b>	<b>77%</b>	

**MAINTENANCE & SUPPLIES**

Chemicals	76,000	4,933	41,278	54%	
Computer/Software	7,000	145	6,573	94%	Logmein increase
Equip. Rental/Lease	1,000	0	215	22%	
Fixed Equip.	103,000	22,207	62,989	61%	
Fuel & Oil	12,000	782	9,077	76%	
Lab Testing	30,000	2,205	32,848	109%	Compliance needs
Office Supplies	3,000	146	1,214	40%	
Parks & Recreation	500	0	0	0%	
Struct./Grnds.	14,000	975	7,904	56%	
Small Tools/Equip.	3,500	25	1,662	47%	
Supplies	6,000	893	5,881	98%	Increased operational need
Meters/Equip.	5,000	0	0	0%	Fluctuates based on activity
Vehicles	8,500	21	4,828	57%	
<b>TOTAL MAINT. &amp; SUPPLY EXPENSE</b>	<b>\$269,500</b>	<b>\$32,333</b>	<b>\$174,470</b>	<b>65%</b>	

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET**  
**2019/20 Budget**

<b>GENERAL &amp; ADMINISTRATION</b>	<b>Budget FY 19/20</b>	<b>Actual March</b>	<b>Actual Year to Date</b>	<b>Percentage Year to Date</b>	<b>Variance Explanation</b>
Ads./Advertising	1,500	0	382	25%	Fluctuates based on activity
Alarm/Answering Service	3,275	1,584	3,633	111%	Upgrade cost
Audit	10,000	0	6,057	61%	
Bank Charges/Fees	3,000	373	3,158	105%	Fluctuates based on activity
Consulting/Engineering	20,000	797	3,559	18%	
Dues/Subscription	9,400	445	8,548	91%	
Elections	1,000	0	0	0%	
Insurance	20,488	0	30,306	148%	Paid Annually
LAFCO	8,000	0	7,904	99%	Paid Annually
Legal/Attorney	22,000	3,294	14,803	67%	
Licenses/Permits	28,200	9,055	26,267	93%	
Plan Check & Inspection	10,000	0	993	10%	
Postage/Billing	20,000	1,513	12,563	63%	
Professional Service	38,400	6,425	27,072	71%	
Tax Collection	5,300	0	0	0%	
Staff Training & Travel	7,000	215	3,928	56%	
Board Training & Travel	10,000	125	145	1%	
<b>TOTAL G &amp; A</b>	<b>\$217,563</b>	<b>\$23,826</b>	<b>\$149,317</b>	<b>69%</b>	

<b>CAPITAL PROJECTS &amp; EQUIPMENT</b>					
Projects	243,918	3,989	73,846	30%	
Equipment	135,000	11,953	117,830	87%	
<b>TOTAL CAPITAL EXPENSE</b>	<b>\$378,918</b>	<b>15,942</b>	<b>191,676</b>	<b>51%</b>	

<b>DEBT</b>					
State Loan Payment	103,629	51,814	103,628	100%	paid semiannually
State Loan Payment Phase II	58,740	0	29,369	50%	paid semiannually
<b>TOTAL DEBT</b>	<b>\$162,369</b>	<b>\$51,814</b>	<b>\$132,998</b>		

FUNDED DEPRECIATION	\$288,000	\$24,000	\$216,000	75%	
UNFUNDED DEPRECIATION	\$0	\$0	\$0	0%	

<b>TOTAL EXPENSE</b>	<b>\$2,576,255</b>	<b>\$280,935</b>	<b>\$1,886,755</b>	<b>73%</b>	
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CONNECTION FEES TRANSFER      \$141,160                      \$0                      \$28,340                      20%

SOLID WASTE FEES TRANSFER      \$30,321                      \$2,590                      \$22,768                      75%

<b>FUND TOTAL</b>	<b>\$53,065</b>	<b>(\$120,071)</b>	<b>\$7,304</b>		
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## HERITAGE RANCH COMMUNITY SERVICES DISTRICT

### MEMORANDUM

**TO:** Board of Directors

**FROM:** Scott Duffield, General Manager  
Project Finance Team

**DATE:** April 16, 2020

**SUBJECT:** Submittal for approval Resolution 20-06 approving a Private Placement with Western Alliance and a Lease Agreement for the District's Photovoltaic System Project.

#### **Recommendation**

It is recommended that the Board of Directors adopt Resolution 20-06:

1. Approving the financing of the Photovoltaic System Project with Western Alliance Bank; and
2. Approving the legal documentation for the financing; and
3. Authorizing the General Manager to finalize the financing.

#### **Background**

On January 16, 2020 the Board approved awarding the Design Build Photovoltaic System Project (the "Energy Project"). As discussed in the January 16<sup>th</sup> Staff Report, Staff would begin work to secure financing for the Energy Project through a Private Placement.

Staff was authorized to engage the services of A. M. Peché & Associates LLC, as Municipal Advisor ("Peché & Associates"), Brandis Tallman LLC, as Placement Agent ("Brandis Tallman") and Kutak Rock LLP, as Bond Counsel ("Kutak"), (collectively the "Financing Team"). Representatives from Brandis Tallman and Peché & Associates had made presentations to the Board on July 18, 2019 and August 15, 2019, respectively. The Board then authorized Staff to enter into agreements with the Financing Team whereby compensation to the Financing Team would be contingent upon the closing, and payable only from the proceeds, of a Private Placement. Staff has monthly calls with Peché & Associates since September 2019 and the other members of the Financing Teams as necessary.

Staff authorized the Financing Team to begin work on the Private Placement solar equipment lease financing (the "Lease Financing") for the Energy Project. Brandis Tallman prepared a request for proposal (the "Term Sheet") that was reviewed by Staff and the Financing Team, requesting bids to finance the Energy Project that had the following terms:



Security and structure for the issue would be an equipment lease (the “Equipment Lease”) repayable by legally available funds of the District and have a 15-year maturity with level debt service and an average life of approximately 8.6 years. On March 16th Brandis Tallman sent out a Term Sheet to request bids for financing the Energy Project to the following banks and received comments as noted:

1. Academy Bank
2. American River Bank
3. Banc of California
4. BB&T - **Not submitting bids right now. Not until markets stabilize.**
5. BBVA Compass – **Not submitting bids right now. Not until markets stabilize.**
6. Bank of America – **Requires a minimum size of \$2,000,000.**
7. Banner Bank
8. BCI Capital Management
9. California Bank and Trust
10. Capital One – **Too small. Would require asset other than the equipment to secure the financing.**
11. F&M Bank – **Too far South. Slightly out of their geographic range.**
12. Five Star Bank
13. First Foundation - **Not submitting bids right now. Not until markets stabilize.**
14. First Internet Bank
15. Flagstar Bank
16. JP Morgan – **Doesn't do solar equipment financing anymore. In order to entertain submitting a proposal, Chase would require an asset other than the equipment.**
17. Key Bank
18. Morgan Stanley – **10-year limit.**
19. Municipal Asset Management
20. Municipal Finance Corp - **Saturated**
21. Opus Bank – **Bank was recently purchased and is no longer active in lending to public agencies.**
22. Orix Bank
23. Pacific Premier Bank – **No longer in public lending.**
24. Pacific Western Bank
25. Pinnacle Public Finance – **Not competitive right now. Their rates have been very high and credit has been pushing back on their energy deals.**
26. River City Bank
27. Signature Public Funding
28. Sterling National Bank – **Ended up passing due to District's size and tenor of the transaction.**
29. Umpqua – **Not submitting bids right now.**
30. Westamerica Bank
31. Western Alliance Bank – **Submitted Proposal**

Western Alliance Bank (“Western Alliance”) was the only bank that submitted a proposal on the deadline date of March 30<sup>th</sup>. Comments as to why other banks did not submit a

proposal are noted next to the bank. Banks with no comments did not provide any feedback as to why they did not bid.

Western Alliance initially bid a proposed interest rate of 3.17% on their response to the Term Sheet (Attachment A). The interest rate is based on the 9-year LIBOR Swap Rate which was 0.65% on the date of the bid, plus a spread of 3.50% which is then multiplied by the tax-exempt multiplier of 76.4%. The interest rate will be set once Western Alliance gives final credit approval. As of Tuesday, April 8<sup>th</sup>, the rate was 3.30% and that is the interest rate we are using for illustrative purposes in the numbers described below.

The par amount of the Lease Financing is estimated to be \$1,707,000. This will provide an Energy Project fund of \$1,600,000. There will also be capitalized interest in the amount of approximately \$51,949.70 that will cover the one year of interest on October 1, 2020 and April 1, 2021. The interest and principal payment dates will be April 1<sup>st</sup> and October 1<sup>st</sup> with the final payment on April 1, 2035. The estimated costs of issuance are as follows:

<u>Cost of Issuance</u>	<u>Amount</u>
Municipal Advisor	15,000.00
Placement Agent	15,000.00
Bond Counsel	15,000.00
Lender's Legal	8,500.00
CDIAC	426.75
Miscellaneous	1,000.00
	<u>54,926.75</u>

The estimated cost of issuance of \$54,926.75 is approximately 3.22% of the estimated par amount of the \$1,707,000 of the Lease Financing. The cost of issuance is therefore at the lower range of 3% to 5% that is typical for this size of transaction.

As described above, some banks gave various reasons as to why they did not bid on the Lease Financing. According to Brandis Tallman, in general there have been less bids from banks on other private placements that have been held since March 30<sup>th</sup>. The current economic conditions due to the coronavirus impact to the economy have caused a disruption in the financial markets, including the municipal markets and banks that usually lend for similar Private Placements. However, the Western Alliance bid is in-line with other bids seen by Brandis Tallman.

Brandis Tallman received a bid from Western Alliance on April 1<sup>st</sup> for a water district for \$4.6 million with a 12-year average life with a tax-exempt rate of 3.32%. Peché & Associates was Co-Municipal Advisor to a city that was taking bids for a \$1.07 million with 11-year average life and the bid received from Western Alliance on March 13<sup>th</sup> was for a rate of 3.14%. Although Western Alliance was not the ultimate winner for these projects, it shows that the bid received for the District's Lease Financing of 3.17% is not out of line with other bids that Western Alliance provided although they were not the winning bidder.

## **Discussion**

The Board can elect to turn down the Western Alliance bid and decide to go out to bid in the future. The District will have to continue to finance the Energy Project until such time as Brandis Tallman sees more banks bidding on municipal issues. Given the current disruption in the municipal markets and less banks bidding on such projects, this may not be until June or later. The District will continue to finance the Energy Project until such time as it can be reimbursed from a future bank bid that would finance the Energy Project.

The risks are that banks may not be in a better position to bid due to economic conditions and may face liquidity conditions of their own. In addition, the recent COVID-19 Economic Relief Plan ("Cares Act") that was signed on March 27<sup>th</sup> has a provision for Small Business Association ("SBA") Loans to keep businesses going to minimize jobs loss. The Cares Act seems to make SBA loans a priority. Western Alliance and other banks are gearing up to make these loans and these loans will likely be their focus in the next few months.

Brandis Tallman's experience with going out to bid after rejecting an initial bid is that less bids are received when going out the second time. Also, it is unlikely that Western Alliance would bid a second time after being rejected on the first bid.

## **Fiscal Impact**

Although the Lease Financing will be obligation of the District to repay from any legally available sources through annual appropriations, the Water Enterprise and the Wastewater Enterprise will be respectively responsible for approximately 74.7% and 25.3% of the debt service for the Lease Financing.

Assuming an interest rate of 3.30%, total debt service is estimated to be \$2,197,008.20 which is comprised of \$1,707,000 of principal and \$490,008.20 of interest. Interest for October 1, 2020 and April 1, 2021 in the estimated amount of \$51,949.70 will be capitalized and payable from proceeds of the loan. Staff will internally charge the respective funds to pay debt service starting with the October 1, 2021 payment.

Although estimates are given in this staff report, and a not-to-exceed interest rate and true interest cost were provided in the Resolution, the final interest rate will be provided by Western Alliance once they give final credit approval. It is hoped that credit approval will be given by Tuesday, April 14<sup>th</sup>. Brandis Tallman and Peché & Associates will give a brief presentation to the Board that should include the final interest rate and corresponding debt service results.

Attachments: Resolution 20-06  
Western Alliance Bid  
Lease Agreement

File: Projects\_PVS

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
RESOLUTION NO. 20-06**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE HERITAGE RANCH  
COMMUNITY SERVICES DISTRICT APPROVING A LEASE AGREEMENT;  
MAKING CERTAIN DETERMINATIONS RELATING THERETO; AND  
AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH**

**WHEREAS**, the Heritage Ranch Community Services District (the “District”) is a community services district duly organized and existing under the laws of the State of California; and

**WHEREAS**, the District is authorized to sell and purchase its property to finance and refinance public capital improvements, including certain solar and energy efficient improvements to be located within the District (the “Energy Project”); and

**WHEREAS**, in order to provide funds for the Energy Project, the District will enter into a Lease Agreement, currently dated as of April 1, 2020 (the “Lease Agreement”) with Western Alliance Business Trust, a wholly-owned affiliate of Western Alliance Bank, an Arizona corporation (the “Corporation”); and

**WHEREAS**, there have been presented at this meeting a form of the Lease Agreement; and

**WHEREAS**, pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), under certain circumstances, certain obligations the interest on which is exempt from federal income tax under Section 103 of the Code may be designated by the issuer thereof as “qualified tax-exempt obligations,” thereby allowing certain financial institutions that are holders of such qualified tax exempt obligations to deduct for federal income tax purposes a portion of such institution’s interest expense that is allocable to such qualified tax-exempt obligations, all as determined in accordance with Sections 265 and 291 of the Code; and

**WHEREAS**, the Board of Directors of the District (the “Board”) wishes to designate the Lease Agreement as a “qualified tax-exempt obligation” within the meaning of Section 265(b)(3) of the Code; and

**WHEREAS**, Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) (“SB 450”) requires that the Board obtain from an underwriter, municipal advisor or private lender and disclose, prior to authorization of the issuance of bonds, including debt instruments such as the Lease Agreement, with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the lease payments made pursuant to the Lease Agreement (the “Lease Payments”), (b) the sum of all fees and charges paid to third parties with respect to the Lease Agreement, (c) the amount of proceeds of the Lease Agreement expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Lease Agreement, and (d) the sum total of all Lease Payments with respect to the Lease Agreement calculated to the final Lease Payment Date defined under the Lease Agreement (the “Lease

Payment Date”) plus the fees and charges paid to third parties not paid with the proceeds of the Lease Agreement; and

**WHEREAS**, in compliance with SB 450, the Board obtained from A. M. Peché & Associates LLC, the District’s municipal advisor, the required good faith estimates and such estimates are disclosed and set forth on Exhibit A attached hereto.

**NOW, THEREFORE, BE IT RESOLVED DETERMINED AND ORDERED** by the Board of Directors of the Heritage Ranch Community Services District as follows:

**Section 1.** Approval of Lease Agreement. The form of Lease Agreement, as presented to the District at this meeting is hereby approved. A District Representative as defined in the Lease Agreement is hereby authorized and directed, for and on behalf of the District, to execute, acknowledge and deliver the Lease Agreement, in substantially the form presented to the District at this meeting, with such changes therein as such District Representative may require or approve, with the advice and approval of the District’s General Counsel and Kutak Rock LLP, Special Counsel, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the aggregate principal component of the portion of the Lease Payments (as defined in the Lease Agreement) due under the Lease Agreement shall not exceed \$1,800,000, the scheduled term of the financing does not exceed April 1, 2035 (though such term may be extended as set forth in the Lease Agreement), the interest rate is not greater than 3.60%, and the true interest cost is not greater than 3.600288%.

**Section 2.** SB 450 Good Faith Estimates. In accordance with SB 450, good faith estimates of the following have been obtained from the District’s municipal advisor and are set forth on Exhibit A attached hereto: (a) the true interest cost of the lease payments made pursuant to the Lease Agreement, (b) the sum of all fees and charges paid to third parties with respect to the Lease Agreement, (c) the amount of proceeds of the Lease Agreement expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Lease Agreement, and (d) the sum total of all Lease Payments with respect to the Lease Agreement calculated to the final Lease Payment Date under the Lease Agreement plus the fees and charges paid to third parties not paid with the proceeds of the Lease Agreement.

**Section 3.** Bank Qualified. The Lease Agreement is hereby designated as a “qualified tax-exempt obligation” within the meaning of Section 265(b)(3) of the Code. The Board hereby finds and determines that the aggregate face amount of all tax-exempt obligations (other than private activity bonds) issued by the District (and all subordinate entities thereof) during calendar year 2020 is not expected to exceed \$10,000,000.

**Section 4.** Official Actions. The District Representatives are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions which they, or any of them, may deem necessary or advisable in order to consummate the transactions as described herein in connection with the financing of the Energy Project, including but not limited to, entering into a purchase agreement or similar agreement with the Corporation and a paying agency agreement or custodian agreement with a financial institution to be selected by the District.

**Section 5.** Ratification of Prior Actions. All actions heretofore taken (not inconsistent with the provisions of this Resolution) by the Board or by the officers, employees and agents of the District directed toward the financing of the Energy Project for the purposes herein set forth are hereby ratified, approved and confirmed.

**Section 6.** Effective Date. This Resolution shall take effect immediately upon adoption and the Secretary shall certify to its adoption.

**PASSED, APPROVED AND ADOPTED** by the Board of Directors of the Heritage Ranch Community Services District on the 16<sup>th</sup> day of April 2020, by the following roll call vote:

**AYES:**

**NOES:**

**ABSTAIN:**

**ABSENT:**

**APPROVED:**

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**Dan Burgess, President**  
**Board of Directors**

**ATTEST:**

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**Kristen Gelos**  
**Board Secretary**

## EXHIBIT A

### GOOD FAITH ESTIMATES

The following information was obtained from the District's municipal advisor and is provided in compliance with Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) with respect to the Lease Agreement:

1. *True Interest Cost of the Lease Agreement.* A good faith estimate of the true interest cost of the lease payments made pursuant to the Lease Agreement (the "Lease Payments"), which means the rate necessary to discount the amounts allocable as principal and interest components and payable on the respective Lease Payment Dates, as described under the Lease Agreement to the purchase price received for Lease Agreement, is 3.30024%.

2. *Finance Charge of the Lease Agreement.* A good faith estimate of the District's finance charge of the Lease Agreement, which means the sum of all fees and charges paid to third parties (or costs associated with the Lease Agreement), is \$54,926.75.

3. *Amount of Proceeds to be Received by the District.* A good faith estimate of the amount of proceeds expected to be received by the District pursuant to the Lease Agreement less the finance charge of the Lease Agreement described in paragraph 2 above, is \$1,600,000.

4. *Total Payment Amount.* A good faith estimate of the total payment amount, which means the sum total of all Lease Payments the District will make to pay their obligations on the Lease Agreement plus the finance charge of the Lease Agreement described in paragraph 2 above not paid with the proceeds of the Lease Agreement, calculated to the final Lease Payment Date under the Lease Agreement, is \$2,197,008.20.

HERITAGE RANCH COMMUNITY FACILITIES DISTRICT 2020 SOLAR EQUIPMENT LEASE FINANCING (TAX EXEMPT)	
PRELIMINARY LENDING PARAMETERS (AS OF FRIDAY, MARCH 27, 2020)	
<b>Par Amount:</b>	\$1,704,000
<b>Term of Loan:</b>	15 Years
<b>Weighted Average Maturity:</b>	8.621 Years
<b>Interest Rate Pricing:</b> <i>(Interest rate may be locked up to 3 weeks prior to closing)</i>	
Swap Tenor	9 YR
Swap Rate	0.65%
Bank Spread	3.50%
Taxable Rate	4.15%
Tax-Exempt Multiplier	76.4%
Tax-Exempt Rate <sup>(1)</sup>	<b>3.17%</b>
<b>Closing Date:</b>	Wednesday, April 29, 2020
<b>Interest Payments:</b>	April 1 and October 1 commencing October 1, 2020 through April 1, 2035
<b>Principal Payments:</b>	April 1 and October 1 commencing October 1, 2021 through April 1, 2035
<b>Final Maturity Date:</b>	4/1/2035
<b>Prepayment Provisions:</b>	Any date on or after April 1, 2028, plus accrued interest, without premium
<b>Security:</b>	The lease financing will constitute a direct and general obligation of the District and to be repaid by the District's Water Fund (74.72%) and Sewer Fund (25.28%).
<b>Reserve Requirement:</b>	None
<b>Lender's Counsel:</b>	Stradling Yocca Carlson & Rauth / Newport Beach, California
<b>Expenses:</b>	District is responsible for paying Legal Counsel Fee - not to exceed \$8,500. District is responsible for paying costs associated with the loan.
<b>Reporting Requirements:</b>	Audited Financial Statements - 9 Months after fiscal year end Adopted Budget - 45 days after adoption

(1) Preliminary, subject to change. The interest rate calculation is rounded to the nearest one hundredth percentage. Interest rate will be locked upon credit approval.  
Source: Bloomberg Finance L.P.

*This loan is subject to credit approval and is not a commitment or an offer to finance the loan but only describes proposed terms for discussion purposes. No commitment should be construed or implied herein. This does not purport to summarize all terms, conditions, representations, warranties and other provisions that may be contained in any loan documentation. Neither the proposed terms herein nor any oral understandings relating to the financing of the loan are binding until and unless such terms or understandings have been reduced to a written agreement executed by both the Lender and the District.*



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**LEASE AGREEMENT**

by and between

**WESTERN ALLIANCE BUSINESS TRUST,**  
as Lessor

and

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT,**  
as Lessee

Dated as of April 1, 2020

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## LEASE AGREEMENT

**THIS LEASE AGREEMENT** (this “Lease Agreement”), dated as of April 1, 2020, is by and between **WESTERN ALLIANCE BUSINESS TRUST**, a wholly-owned affiliate of Western Alliance Bank, an Arizona corporation, as lessor (the “Corporation”), and the **HERITAGE RANCH COMMUNITY SERVICES DISTRICT**, a community services district organized and existing under and by virtue of the laws of the State of California, as lessee (the “District”);

### WITNESSETH:

WHEREAS, the District has determined that it is necessary and prudent to lease certain public capital improvements, consisting of certain solar and energy efficient improvements described on Exhibit A hereto to be located on the facilities listed on Exhibit A hereto; such solar and energy efficient improvements are collectively known herein as the “Leased Property”; and

WHEREAS, the Corporation proposes to lease the Leased Property to the District pursuant to this Lease Agreement; and

WHEREAS, in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Leased Property during each Rental Period under this Lease Agreement, the District agrees to make certain Lease Payments (as hereinafter defined) to the Corporation; and

WHEREAS, the District and the Corporation have agreed to enter into this Lease Agreement providing for Lease Payments with an aggregate principal component in the amount of [\$1,704,000] for the purpose of implementing the solar and energy efficient improvements described above; and

WHEREAS, the District and the Corporation agree to mutually cooperate now and hereafter, to the extent possible, in order to sustain the intent of this Lease Agreement and the bargain of both parties hereto.

### AGREEMENT

NOW, THEREFORE, for and in consideration of the premises and the covenants hereinafter contained, the parties hereto hereby formally covenant, agree and bind themselves as follows:

### ARTICLE I

#### DEFINITIONS; RULES OF INTERPRETATION

**Section 1.01. Definitions.** All terms defined in this Section 1.01 have the meanings herein specified for all purposes of this Lease Agreement.

“*Additional Payments*” means the amounts specified as such in Section 4.03(c) of this Lease Agreement.

“*Bond Counsel*” means (a) Kutak Rock LLP, or (b) any other attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income under Section 103 of the Tax Code.

“*Business Day*” means a day other than a Saturday, Sunday or legal holiday, on which banking institutions are not closed in the State.

“*Closing Date*” means April \_\_\_\_, 2020.

“*Contract*” means any indenture, trust agreement, contract, agreement (other than this Lease Agreement), other contractual restriction, lease, mortgage or instrument.

“*Corporation*” means Western Alliance Business Trust, a wholly-owned affiliate of Western Alliance Bank, an Arizona corporation, and any other successor or any other entity to whom the rights of the Corporation hereunder are assigned.

“*Default Rate*” means a rate of interest equal to the interest rate with respect to the Lease Payments, plus 3.0%.

“*Determination of Taxability*” means any determination, decision or decree by the Commissioner of Internal Revenue, or any District Director of Internal Revenue, or any court of competent jurisdiction, to the effect that an Event of Taxability shall have occurred; provided, however, that no such Determination of Taxability shall be deemed to have occurred if the District is contesting such determination, decision or decree in good faith and is proceeding with all applicable dispatch to prosecute such contest until the earlier of (a) a final determination from which no appeal may be taken with respect to such determination, decision or decree, (b) abandonment of such appeal by the District or (c) one year from the date of initial determination, decision or decree. A Determination of Taxability also shall be deemed to have occurred on the first to occur of the following:

(a) the date when the District files any statement, supplemental statement, or other tax schedule, return or document, which discloses that an Event of Taxability shall have occurred; or

(b) a sale or other deliberate action within the meaning of Treas. Reg. § 1.141-2(d), occurs with respect to all or a portion of the Leased Property without the District furnishing the Corporation with an opinion of independent counsel nationally recognized in tax exempt finance matters and reasonably acceptable to the Corporation to the effect that such change in use (and accompanying remedial action, if any) will not cause interest component of the Lease Payments to become includable in the gross income of the recipient.

“*District*” means the Heritage Ranch Community Services District, a community services district organized and existing under and by virtue of the laws of the State.

“*District Representative*” means the President, General Manager of the District, or the designee of any such official, or any other person authorized by resolution delivered to the Corporation to act on behalf of the District under or with respect to this Lease Agreement.

“*Event of Default*” means any of the events of default as defined in Section 8.01.

“*Event of Taxability*” means, with respect to this Lease Agreement: (a) the application of the proceeds provided by the Corporation pursuant to this Lease Agreement in such manner that this Lease Agreement becomes an “arbitrage bond” within the meaning of Tax Code Sections 103(b)(2) and 148, and with the result that interest component of the Lease Payments is or becomes includable in a recipient’s gross income (as defined in Tax Code Section 61); or (b) if as the result of any act, failure to act or use of the proceeds of the advance rental payment or any misrepresentation or inaccuracy in any of the representations, warranties or covenants contained in this Lease Agreement by the District or the enactment of any federal legislation or the promulgation of any federal rule or regulation after the date of this Lease Agreement, the interest component of Lease Payments is or becomes includable in a recipient’s gross income (as defined in Tax Code Section 61); and (c) with respect to (a) and (b), the District does not undertake any remedial action afforded to it by the Internal Revenue Service.

“*Federal Securities*” means any direct general non-callable obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the timely payment of principal of and interest on which are directly guaranteed by the United States of America.

“*Fiscal Year*” means each twelve-month period during the Term of this Lease Agreement commencing on July 1 in any calendar year and ending on June 30 in the next succeeding calendar year, or any other twelve-month period selected by the District as its fiscal year period.

“*Governmental Authority*” means any governmental or quasi-governmental entity, including any court, department, commission, board, bureau, agency, administration, central bank, service, city or other instrumentality of any governmental entity or other entity exercising executive, legislative, judicial, taxing, regulatory, fiscal, monetary or administrative powers or functions of or pertaining to government, or any arbitrator, mediator or other person with authority to bind a party at law.

“*Gross Up Rate*” means, an interest rate equal to the interest component of Lease Payments applicable to this Lease Agreement plus a rate sufficient such that the total interest to be paid on any Lease Payment Date would, after such interest was reduced by the amount of any federal income tax and state personal income tax (including any interest or penalties) actually payable thereon, equals the amount of interest due with respect to this Lease Agreement.

“*Lease Agreement*” means this Lease Agreement, dated as of April 1, 2020, between the Corporation and the District.

“*Lease Payment Date*” means April 1 and October 1 in each year, commencing October 1, 2020, and continuing to and including the date on which the Lease Payments are paid in full.

“*Lease Payments*” means all payments required to be paid by the District under Section 4.03, including any prepayment thereof under Sections 9.02 or 9.03.

“*Leased Property*” means, collectively, the solar and energy efficient improvements more particularly described on Exhibit A attached hereto.

“*Material Adverse Effect*” means an event or occurrence which adversely affects in a material manner (a) the assets, liabilities, condition (financial or otherwise), business, facilities or operations of the District, (b) the ability of the District to carry out its business in the manner conducted as of the date of this Lease Agreement or to meet or perform its obligations under this Lease Agreement on a timely basis, (c) the validity or enforceability of this Lease Agreement, or (d) the exclusion of the interest component of the Lease Payments from gross income for federal income tax purposes or the exemption of such interest for state income tax purposes.

“*Material Litigation*” means any action, suit, proceeding, inquiry or investigation against the District in any court or before any arbitrator of any kind or before or by any Governmental Authority, which (i) if determined adversely to the District, may have a Material Adverse Effect, (ii) seeks to restrain or enjoin any of the transactions contemplated by this Lease Agreement, or (iii) may adversely affect (A) the exclusion of the interest component of the Lease Payments from gross income for federal income tax purposes or the exemption of such interest for state income tax purposes or (B) the ability of the District to perform its obligations under this Lease Agreement.

“*Net Proceeds*” means any insurance paid with respect to the Leased Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

“*Prior Lease Payments*” means a payment of interest component of Lease Payments made on or prior to the date of any Determination of Taxability.

“*Rental Period*” means each period during the Term of the Lease commencing on and including October 2 in each year and extending to and including the next succeeding October 1. The first Rental Period begins on the Closing Date and ends on October 1, 2020.

“*State*” means the State of California.

“*Tax Code*” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Tax Code.

“*Term of this Lease Agreement*” or “*Term*” means the time during which this Lease Agreement is in effect, as provided in Section 4.02.

## **Section 1.02. Interpretation.**

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

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

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

## ARTICLE II

### COVENANTS, REPRESENTATIONS AND WARRANTIES

**Section 2.01. Covenants, Representations and Warranties of the District.** The District makes the following covenants, representations and warranties to the Corporation as of the date of the execution and delivery of this Lease Agreement:

(a) ***Due Organization and Existence.*** The District is a community services district, organized and existing under and by virtue of the laws of the State, has full legal right, power and authority under the laws of the State to enter into this Lease Agreement and to carry out and consummate all transactions on its part contemplated hereby and thereby, and by proper action the District has duly authorized the execution and delivery by the District of this Lease Agreement.

(b) ***Due Execution.*** The District Representative executing this Lease Agreement has been fully authorized to execute the same by a resolution duly adopted by the Board of Directors of the District.

(c) ***Valid, Binding and Enforceable Obligations.*** This Lease Agreement has been duly authorized, executed and delivered by the District and constitutes the legal, valid and binding agreement of the District enforceable against the District in accordance with its terms.

(d) ***No Conflicts.*** The execution and delivery of this Lease Agreement, the consummation of the transactions therein and herein contemplated and the fulfillment of or compliance with the terms and conditions thereof and hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the District is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the District, which conflict, violation, breach, default, lien, charge or encumbrance would have a Material Adverse Effect.

(e) ***Consents and Approvals.*** No consent or approval of any trustee or holder of any indebtedness of the District or of the voters of the District, and no consent,



permission, authorization, order or license of, or filing or registration with, any Governmental Authority is necessary in connection with the execution and delivery this Lease Agreement, or the consummation of any transaction therein and herein contemplated, except as have been obtained or made and as are in full force and effect.

(f) ***No Litigation.*** There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other Governmental Authority pending and notice of which has been served on the District or, to the knowledge of the District after reasonable investigation, threatened against or affecting the District or the assets, properties or operations of the District which, if determined adversely to the District or its interests, would have a Material Adverse Effect, and the District is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other Governmental Authority, which default might have consequences that would have a Material Adverse Effect.

(g) ***Sufficient Funds.*** The District reasonably believes that sufficient funds can be obtained to make all Lease Payments and all other amounts required to be paid pursuant to this Lease Agreement.

(h) ***No Defaults.*** The District has never defaulted under any of its payment or performance obligations or covenants, either under any financing lease of the same general nature as this Lease Agreement, or under any of its bonds, notes, or other debt obligations.

(i) ***Use of the Leased Property, Essentiality.*** During the Term of this Lease Agreement, the Leased Property will be used by the District only for the purpose of performing one or more governmental functions of the District consistent with the permissible scope of the District's authority. The Leased Property is essential to the District's efficient and economic operations and the lease thereof for use by the District is in the best interest of the District. The District does not intend to sell or otherwise dispose of the Leased Property or any interest therein prior to the last Lease Payment scheduled to be paid hereunder.

(j) ***Value of Leased Property.*** The value of the Leased Property is not less than [\$1,704,000].

(k) ***Financial Statements.*** The statement of financial position of the District as of June 30, 2019, and the related statement of activities and statement of cash flows and changes in financial position for the year then ended and the auditors' reports with respect thereto, are complete and correct and fairly present the financial condition, changes in financial position and results of operations of the District at such date and for such period, and were prepared in accordance with generally accepted accounting principles. Since the period of such statements, there has been no (i) change which would have a Material Adverse Effect and (ii) no material increase in the indebtedness of the District.

(l) ***No Material Adverse Change.*** Since the most current date of the information, financial or otherwise, supplied by the District to the Corporation:

(i) There has been no change in the assets, liabilities, financial position or results of operations of the District which might reasonably be anticipated to cause a Material Adverse Effect.

(ii) The District has not incurred any obligations or liabilities which might reasonably be anticipated to cause a Material Adverse Effect.

(iii) The District has not (A) incurred any material indebtedness, other than the Lease Payments, and trade accounts payable arising in the ordinary course of the District's business and not past due, or (B) guaranteed the indebtedness of any other person.

(m) ***Accuracy of Information.*** All information, reports and other papers and data furnished by the District to the Corporation were, at the time the same were so furnished, complete and accurate in all material respects and insofar as necessary to give the Corporation a true and accurate knowledge of the subject matter and were provided in expectation of the Corporation's reliance thereon in entering into the transactions contemplated by this Lease Agreement. No fact is known to the District which has had or, so far as the District can now reasonably foresee, may in the future have a Material Adverse Effect, which has not been set forth in the financial statements previously furnished to the Corporation or in other such information, reports, papers and data or otherwise disclosed in writing to the Corporation prior to the Closing Date. Any financial, budget and other projections furnished to the Corporation by the District or its agents were prepared in good faith on the basis of the assumptions stated therein, which assumptions were fair and reasonable in light of the conditions existing at the time of delivery of such financial, budget or other projections, and represented, and as of the date of this representation, represent the District's best estimate of its future financial performance. No document furnished nor any representation, warranty or other written statement made to the Corporation in connection with the negotiation, preparation or execution of this Lease Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state (as of the date made or furnished) any material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were or will be made, not misleading.

**Section 2.02. Covenants, Representations and Warranties of the Corporation.** The Corporation makes the following covenants, representations and warranties to the District as of the date of the execution and delivery of this Lease Agreement:

(a) ***Due Organization and Existence.*** The Corporation has been duly organized and is validly existing as a corporation under the laws of the State of Arizona with full corporate power to enter into and undertake its duties and obligations hereunder and has sufficient knowledge and experience in financial and business matters, including purchase and ownership of tax-exempt municipal obligations, to be able to evaluate the economic risks and merits of the investment represented by this Lease Agreement.

(b) **Due Execution.** The execution, delivery and performance of this Lease Agreement have been duly authorized by all necessary corporate actions on the part of the Corporation and do not require any further approvals or consents.

(c) **Due Inquiry.** The Corporation has made its own inquiry and analysis with respect to this Lease Agreement and the security therefor, and other material factors affecting the security and payment of the Lease Payments.

(d) **Ability to Bear Risks.** The Corporation is aware that the operations of the District involve certain economic variables and risks that could adversely affect the security for this Lease Agreement and the Corporation is able and willing to bear such risks.

(e) **Knowledge and Experience.** The Corporation has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations of a nature similar to this Lease Agreement and is able to evaluate the risks and merits of the investment represented by entering into this Lease Agreement.

(f) **No Sale.** The Corporation is entering into this Lease Agreement for its own account and not with a view to, or for sale in connection with, any distribution of this Lease Agreement of any part thereof. The Corporation has not offered to sell, solicited offers to buy, or agreed to sell this Lease Agreement of any part thereof, and has no present intention of reselling or otherwise disposing of this Lease Agreement; provided, however, that the Corporation retains the right to transfer or assign its rights, title and interests in and to this Lease Agreement pursuant to the terms hereof.

(g) **Registration.** The Corporation acknowledges that this Lease Agreement has not been registered with any federal or state securities agency or commission.

### ARTICLE III

#### DEPOSIT AND APPLICATION OF FUNDS

**Section 3.01. Deposit of and Application of Funds.** On the Closing Date, the Corporation shall deposit or cause to be deposited with the District the amount of \$\_\_\_\_\_ in the Project Fund established pursuant to Section 3.03 of this Lease Agreement (representing \$\_\_\_\_\_ to be applied to finance the acquisition of the Leased Property and \$\_\_\_\_\_ representing capitalized interest to be used for the payment of the interest component of the Lease Payments on October 1, 2020 and April 1, 2021. The District hereby directs the Corporation to pay certain transaction costs associated with this Lease Agreement on the Closing Date in an amount equal to \$\_\_\_\_\_ relating to the fees and expenses of counsel to the Corporation, the fees and expenses of the District's municipal advisor and placement agent and the fees and expenses of Bond Counsel. The District covenants and agrees to pay any other costs incurred by the District associated with this Lease Agreement including, without limitation, the fees of the California Debt and Investment Advisory Commission.

**Section 3.02. Acquisition of Leased Property.** The Corporation hereby appoints the District as its agent to carry out all phases of the acquisition of the Leased Property under and in accordance with the provisions hereof. The District hereby accepts such appointment and assumes all rights, liabilities, duties and responsibilities of the Corporation regarding the acquisition of the Leased Property. As agent of the Corporation hereunder, the District shall enter into, administer and enforce all purchase orders or other contracts relating to the acquisition and delivery of the Leased Property. Payment of costs of the Leased Property shall be made by the District from amounts held in the Project Fund in accordance with the provisions of this Lease Agreement. If and to the extent the amounts on deposit in the Project Fund are insufficient to enable the District to complete the construction and acquisition of the Leased Property, the District has the sole responsibility for the balance of amount so required to construct the Leased Property and the District will finance such construction and acquisition from any source of legally available funds of the District.

The District hereby agrees with due diligence to supervise and provide for, or cause to be supervised and provided for, the construction and acquisition of the Leased Property in accordance with the purchase orders and other documents relating thereto and approved by the District under all applicable requirements of law. All purchase orders relating to the construction and acquisition of the Leased Property are subject to all applicable provisions of law relating to the construction and acquisition of property by the District. The District has the right to specify the exact scope, nature and identification of the Leased Property and the respective components thereof, and, with the written consent of the Corporation, which consent shall not be unreasonably withheld, to modify the description of the Leased Property or any component thereof.

**Section 3.03. Project Fund.** The District shall establish and hold a fund or account to be known as the “Project Fund” which shall be separate and apart from all other funds and accounts of the District. The District shall deposit, or cause to be deposited, the proceeds received hereunder from the Corporation into the Project Fund as provided in Section 3.01, and all earnings on the investment of amounts held in the Project Fund shall be retained therein and used for the purposes of the Project Fund. The District shall expend amounts held in the Project Fund for the sole purpose of paying costs of the Leased Property, including capitalized interest and other costs related to obtaining financing for the Leased Property. The District shall invest proceeds in the Project Fund in investments authorized by State law and the District’s investment policy. Any unexpended proceeds in the Project Fund upon the completion of the construction and acquisition of the Leased Property shall be applied by the District towards the payment of Lease Payments.

## ARTICLE IV

### LEASE OF LEASED PROPERTY; LEASE PAYMENTS

**Section 4.01. Lease of Leased Property by the Corporation to the District.** The Corporation hereby leases the Leased Property to the District, and the District hereby leases the Leased Property from the Corporation, upon the terms and conditions set forth in this Lease Agreement.

**Section 4.02. Term.** The Term of this Lease Agreement commences on the Closing Date and ends on April 1, 2035, or the date on which all of the Lease Payments have been paid in full. If on April 1, 2035, the Lease Payments payable hereunder shall have been abated at any time and for any reason and not otherwise paid from insurance proceeds or other sources, or the District shall have defaulted in its payment of Lease Payments hereunder or any Event of Default has occurred and continues without cure by the District, then the Term of this Lease Agreement shall be extended for the actual period of abatement or for so long as the default remains uncured, as necessary to accommodate the final payment of all Lease Payments due hereunder, not to exceed 10 years.

**Section 4.03. Lease Payments.**

(a) ***Obligation to Pay.*** Subject to the provisions of Sections 6.01 and 6.02 and the provisions of Article IX, the District agrees to pay to the Corporation, its successors and assigns, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in Exhibit B attached hereto (including any supplements thereto) and by this reference incorporated herein, to be due and payable in immediately available funds on each of the respective Lease Payment Dates specified in Exhibit B; provided, however, that if any Lease Payment Date is not a Business Day, such Lease Payment shall be due on the next succeeding Business Day with the same force and effect as if such Lease Payment was made on the Lease Payment Date. The Lease Payments payable in any Rental Period with respect to the Leased Property shall be for the use of the Leased Property during such Rental Period. The Lease Payments shall consist of separately stated principal and interest components. The interest components of the Lease Payments have been calculated based on an interest rate of \_\_\_\_\_% per annum, on the basis of a 360-day year of twelve 30-day months.

(b) Upon the occurrence of a Determination of Taxability, with respect to this Lease Agreement, the District shall, with respect to future payments of the Lease Payments, begin making Lease Payments calculated at the Gross-Up Rate, but in no event shall the present value of such Lease Payments at the Gross-Up Rate exceed the fair rental value of the Leased Property. In addition, the District shall make immediately upon demand of the Corporation a payment to the Corporation sufficient to indemnify the Corporation and supplement Prior Lease Payments with respect to such obligation to the Gross-Up Rate, and such obligation shall survive the termination of this Lease Agreement.

(c) ***Additional Payments.*** In addition to the Lease Payments set forth herein, the District agrees to pay as Additional Payments all of the following:

(i) all taxes and assessments of any nature whatsoever, including but not limited to excise taxes, sales taxes and gross receipts taxes, if any, levied upon or attributable to the Leased Property or upon any interest of the Corporation therein or in this Lease Agreement; provided, however, the District may, at the District's expense and in its name, in good faith contest any such taxes and assessments and, in the event of such contest, may permit such taxes and assessments to remain unpaid during the period of such contest and appeal

therefrom unless the Corporation shall notify the District that, in the opinion of Bond Counsel, by nonpayment of any such items, the interest of the Corporation in the Leased Property will be materially endangered or the Leased Property, or any portion thereof, will be subject to loss or forfeiture, in which event the District shall promptly pay such taxes and assessments or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation;

(ii) insurance premiums, if any, on all insurance required under the provisions of Article V hereof;

(iii) any other reasonable fees, costs or expenses incurred by the Corporation in connection with the execution, performance or enforcement of this Lease Agreement or any of the transactions contemplated hereby or related to the Leased Property, including, without limitation, any amounts which may become due; provided, however, the District shall not be responsible for any costs incurred by the Corporation associated with any assignment of this Lease Agreement; and

(iv) any amounts required to be paid as rebate to the United States pursuant to the Tax Certificate.

Amounts constituting Additional Payments payable hereunder shall be paid by the District directly to the person or persons to whom such amounts shall be payable. The District shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 10 days after notice in writing from the Corporation to the District stating the amount of Additional Payments then due and payable and the purpose thereof.

(d) ***Effect of Prepayment.*** If the District prepays all Lease Payments in full under Section 9.02 or 9.03, the District's obligations under this Section will thereupon cease and terminate. If the District prepays the Lease Payments in part but not in whole under Section 9.02 or 9.03, the principal components of the remaining Lease Payments will be reduced on a pro rata basis; and the interest component of each remaining Lease Payment will be reduced on a pro rata basis.

(e) ***Rate on Overdue Payments.*** If the District fails to make any of the payments required in this Section 4.03 within 10 days of the due date thereof, the payment in default will continue as an obligation of the District until the amount in default has been fully paid, and the District agrees to pay the same with interest thereon, from the date of default to the date of payment at the Default Rate.

(f) ***Fair Rental Value.*** The Lease Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and will be paid by the District in each Rental Period for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The parties hereto have agreed and

determined that the total Lease Payments due during each Rental Period are not in excess of the fair rental value of the Leased Property during such Rental Periods. In making this determination, consideration has been given to the estimated fair market value of the Leased Property, the estimated replacement cost of the Leased Property, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the District and the general public.

(g) ***Source of Payments; Budget and Appropriation.*** The Lease Payments are payable from any source of legally available funds of the District, subject to the provisions of Sections 6.01, 6.02 and 9.01. The District covenants to take such action as may be necessary to include all Lease Payments and Additional Payments in each of its annual budgets during the Term of this Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and Additional Payments. The covenants on the part of the District herein contained constitute duties imposed by law and it is the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in this Lease Agreement agreed to be carried out and performed by the District.

(h) ***Allocation of Lease Payments.*** All Lease Payments received shall be applied first to the interest components of the Lease Payments due hereunder, then to the principal components of the Lease Payments due hereunder, but no such application of any payments that are less than the total rental due and owing shall be deemed a waiver of any default hereunder.

(i) ***No Offsets.*** Notwithstanding any dispute between the Corporation and the District, the District shall make all Lease Payments when due without deduction or offset of any kind and shall not withhold any Lease Payments pending the final resolution of such dispute.

(j) ***Payments under this Lease Agreement.*** The Corporation hereby directs the District, and the District hereby agrees, to pay to the Corporation (or to its assignees as directed pursuant to Section 7.04 hereof) all payments payable by the District under this Section 4.03 and all amounts payable by the District under Article IX. Lease Payments shall be paid to the Corporation pursuant to the written instructions provided from time to time by the Corporation to the District.

(k) ***Payments Due on Non-Business Days.*** Whenever any payment to be made hereunder shall be stated to be due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or the fees hereunder, as the case may be.

**Section 4.04. Quiet Enjoyment.** Throughout the Term of this Lease Agreement, the Corporation will provide the District with quiet use and enjoyment of the Leased Property and the District will peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Corporation, except as expressly set forth in this Lease

Agreement. The Corporation will, at the request of the District and at the District's cost, join in any legal action in which the District asserts its right to such possession and enjoyment to the extent the Corporation may lawfully do so. Notwithstanding the foregoing, the Corporation has the right to inspect the Leased Property as provided in Section 7.02.

**Section 4.05. Title.** At all times during the Term of this Lease Agreement, the District shall hold title to the Leased Property, subject to the provisions of Section 7.02. As further described in Section 4.06, the Corporation shall, during the Term of this Lease Agreement, have a continuing security interest in and lien on the Leased Property and the District shall take all necessary actions to reflect the Corporation as a lienholder on the Certificate of Title for the Leased Property acquired with the proceeds of the financing provided by the Corporation. The Corporation may, at any time and from time to time, at its option (but shall have no duty to), sign, file, authenticate, and authorize the signing, filing and authentication of, such financing statements and other documents respecting any right of the Corporation in the Leased Property. The District authorizes the Corporation and its counsel to file financing statements in form and substance satisfactory to the Corporation, describing the District as the debtor and the collateral as the Lease Property.

Upon the termination of this Lease Agreement (other than under Section 8.02(b) hereof), all right, title and interest of the Corporation in and to the Leased Property shall be transferred to and vested in the District. Upon the payment in full of all Lease Payments allocable to the Leased Property, or upon the deposit by the District of security for such Lease Payments as provided in Section 9.01, all right, title and interest of the Corporation in and to the Leased Property shall be transferred to and vested in the District. The Corporation agrees to take any and all steps and execute and record any and all documents reasonably required by the District to consummate any such transfer.

**Section 4.06. Grant of Security Interest; the UCC Collateral.** The District grants to Corporation: (i) a first lien on the District's leasehold interest in all of the Leased Property, whether now owned or hereafter acquired and wherever located, together with all replacements and substitutions therefor and all cash and non-cash proceeds (including insurance proceeds and any title insurance proceeds) and products thereof, and, in the case of tangible UCC collateral, together with all additions, attachments, accessions, parts, equipment and repairs now or hereafter attached or affixed thereto or used in connection therewith, excluding, however, any and all "consumer goods"; (ii) the Leased Property described in Exhibit A hereto and all proceeds of the Leased Property; and (iii) a first priority security interest in all moneys and investments held from time to time in the Project Fund, if any (collectively, the "UCC Collateral").

## ARTICLE V

### MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

**Section 5.01. Maintenance, Utilities, Taxes and Assessments.** Throughout the Term of this Lease Agreement, as part of the consideration for the rental of the Leased Property, all repair and maintenance of the Leased Property are the sole responsibility of the District, and the District will pay for or otherwise arrange for the payment of the cost of the repair and



replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Lease Payments herein provided, the Corporation agrees to provide only the Leased Property, as hereinbefore more specifically set forth. The District waives the benefits of subsections 1 and 2 of Section 1932 and Section 1933(4) of the California Civil Code, but such waiver does not limit any of the rights of the District under the terms of this Lease Agreement.

The District will pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Corporation or the District affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District is obligated to pay only such installments as are required to be paid during the Term of this Lease Agreement as and when the same become due.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation shall notify the District that, in its reasonable opinion, by nonpayment of any such items the interest of the Corporation in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the District will promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation. The District shall promptly notify the Corporation of any tax, assessment, utility or other charge it elects to contest.

**Section 5.02. Modification of Leased Property.** The District has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of this Lease Agreement. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under this Section, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

**Section 5.03. Public Liability Insurance.** The District shall maintain or cause to be maintained upon acquisition of the Leased Property and throughout the Term of this Lease Agreement a standard comprehensive general liability insurance policy or policies in protection of the District, the Corporation and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the ownership or operation of the Leased Property. Such policy or policies must provide coverage with limits of at least \$2,500,000 per occurrence, and in all events in form and amount (including any deductibles) satisfactory to the Corporation. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation

by the District in a joint powers authority or other program providing pooled insurance. The District will apply the proceeds of such liability insurance toward extinguishment or satisfaction of the liability with respect to which such proceeds have been paid.

**Section 5.04. Casualty Insurance; [Rental Interruption Insurance].**

(a) The District will procure and maintain, or cause to be procured and maintained, upon the acquisition of the Leased Property and throughout the Term of this Lease Agreement, casualty insurance against loss, theft or damage to the Leased Property, in an amount at least equal to the greater of the replacement value of the Leased Property and the aggregate principal amount of the Lease Payments outstanding, with a lender's loss payable endorsement. Such insurance shall be subject to a deductible of not to exceed \$5,000. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance. The District will apply the Net Proceeds of such insurance as provided in Section 6.01.

(b) [The District will procure and maintain, or cause to be procured and maintained, upon the acquisition of the Leased Property and throughout the Term of this Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Leased Property, in an amount at least equal to the maximum Lease Payments coming due and payable during any future 24 month period. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance; provided that such rental interruption insurance shall not be self-insured by the District. The District will apply the Net Proceeds of such insurance as provided in Section 6.01.]

**Section 5.05. Insurance Net Proceeds; Form of Policies.** All insurance policies (or riders) required by this Article V and provided by third party insurance carriers shall be taken out and maintained with responsible insurance companies organized under the laws of one of the states of the United States and qualified to do business in the State, and shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to the insured parties at least ten (10) days before the cancellation or revision becomes effective. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District and may be maintained in whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance. Each insurance policy or rider required by Sections 5.03 and 5.04 and provided by third party insurance carriers shall name the District and the Corporation as insured parties and the Corporation as loss payee and shall include a lender's loss payable endorsement for the benefit of the Corporation. In the case of coverage pursuant to Section 5.03, the Corporation shall be added as an additional insured. The District will deposit with the Corporation policies (and riders and endorsements, if applicable) evidencing any such insurance procured by it, or a certificate or certificates of the respective insurers stating that such insurance is in full force and effect. Before the expiration of any such policy (or rider), the District will furnish to the

Corporation evidence that the policy has been renewed or replaced by another policy conforming to the provisions of this Article V unless such insurance is no longer obtainable, in which event the District shall notify the Corporation of such fact.

**Section 5.06. Liens.** The District will not, directly or indirectly, create, incur, assume or suffer to exist any pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than as herein contemplated. Except as expressly provided in this Article V, the District will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The District will reimburse the Corporation for any expense incurred by it in order to discharge or remove any such pledge, lien, charge, encumbrance or claim.

**Section 5.07. Advances.** If the District fails to perform any of its obligations under this Article V, the Corporation may take such action as may be necessary to cure such failure, including the advancement of money, and the District shall be obligated to repay all such advances as additional rental hereunder, with interest at the Default Rate.

**Section 5.08. Personal Property.** The District agrees that, as and to the extent permitted by law, the Leased Property is deemed to be and will remain personal property, and will not be deemed to be affixed to or a part of the real estate on which it may be situated, notwithstanding that the Leased Property or any part thereof may be or hereafter become in any manner physically affixed or attached to real estate or any building thereon.

**Section 5.09. Risk of Loss.** Whether or not covered by insurance or self-insurance, the District hereby assumes all risk of loss of, or damage to and liability related to injury or damage to any persons or property arising from the Leased Property from any cause whatsoever, and no such loss of or damage to or liability arising from the Leased Property shall relieve the District of the obligation to make the Lease Payments or to perform any other obligation under this Lease Agreement, except as otherwise provided in Section 4.02 or Section 6.02 hereof.

**Section 5.09. Surety Bonds; District to Pursue Remedies.** The District shall secure from each vender directly employed by the District in connection with the acquisition, construction, installation, improvement or equipping of the Leased Property, a payment and performance bond (“Surety Bond”) executed by a surety company authorized to do business in the State, having a financial strength rating by A.M. Best Company of “A-” or better, and otherwise satisfactory to the Corporation and naming the Corporation as a co-obligee in a sum equal to the entire amount to become payable under each vendor agreement. Each bond shall be conditioned on the completion of the work in accordance with the plans and specifications for the Leased Property and upon payment of all claims of subcontractors and suppliers. The District shall cause the surety company to add the Corporation as a co-obligee on each Surety Bond, and shall deliver a certified copy of each Surety Bond to the Corporation promptly upon receipt thereof by the District. Any proceeds from a Surety Bond shall be applied first to amounts due Lessor under this Lease Agreement, and any remaining amounts shall be payable to the Corporation

In the event of a material default of any vendor under any vendor agreement in connection with the acquisition, construction, maintenance and/or servicing of the Leased Property or in the event of a material breach of warranty with respect to any material workmanship or performance guaranty with respect to the Leased Property, the District will promptly proceed to exhaust its remedies against the vendor in default. The District shall advise the Corporation of the steps it intends to take in connection with any such default. Any amounts received by the District in respect of damages, refunds and adjustments or otherwise in connection with the foregoing shall be paid to the Corporation and applied against the District's obligations hereunder.

## ARTICLE VI

### USE OF NET PROCEEDS

#### Section 6.01. Application of Net Proceeds.

(a) *From Insurance Award.*

(i) Any Net Proceeds of insurance against loss, theft or damage to the Leased Property collected by the District in the event of any such loss, theft or damage shall be deposited by the District promptly upon receipt thereof in a special fund with the Corporation designated as the "Insurance Fund."

(ii) Within 90 days following the date of such deposit, the District shall determine and notify the Corporation in writing of its determination either (A) that the replacement or repair of the Leased Property is not economically feasible or in the best interest of the District and the Net Proceeds, together with other moneys available therefor, are sufficient to cause the prepayment of the principal components of all unpaid Lease Payments pursuant to Section 9.03 hereof, or (B) that all or a portion of such Net Proceeds are to be applied to the prompt replacement or repair of the lost, stolen or damaged Leased Property and the fair rental value of the Leased Property following such repair or replacement will at least equal the unpaid principal component of the Lease Payments.

(iii) In the event the District's determination is as set forth in clause (A) of subparagraph (ii) above, such Net Proceeds shall be promptly applied to the prepayment of Lease Payments and other amounts pursuant to Section 9.03 of this Lease Agreement; provided, however, that in the event of loss, theft or damage of the Leased Property in full, such Net Proceeds may be so applied only if sufficient, together with other moneys available therefor, to cause the prepayment of the principal components of all unpaid Lease Payments, all accrued and unpaid interest, Prepayment Premiums described in Section 9.03, and all other costs related to such prepayments pursuant to Section 9.03 of this Lease Agreement and otherwise such Net Proceeds shall be applied to the prompt replacement or repair of the Leased Property; provided further, however, that in the event of damage or destruction of the Leased Property in part, such Net Proceeds may be applied to the prepayment of Lease Payments only if the resulting Lease Payments following

such prepayment from Net Proceeds represent fair consideration for the remaining portions of the Leased Property and otherwise such Net Proceeds shall be applied to the prompt replacement or repair of the Leased Property, evidenced by a certificate signed by a District Representative.

(iv) In the event the District's determination is as set forth in clause (B) of subparagraph (ii) above, such Net Proceeds shall be applied to the prompt replacement or repair of the lost, stolen or damaged Leased Property by the District, and until the Leased Property has been restored to their prior condition, the District shall not place any lien or encumbrance on the Leased Property that is senior to this Lease Agreement without the prior written consent of the Corporation, at its sole discretion.

**Section 6.02. Abatement of Lease Payments in the Event of Damage or Destruction.**

Lease Payments shall be abated during any period in which, by reason of loss or damage, there is substantial interference with the use and possession by the District of the Leased Property or any portion thereof to the extent to be agreed upon by the District and the Corporation. The parties agree that the amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid Lease Payments as are then set forth in Exhibit B, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Leased Property not lost or damaged, based upon an appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such loss or damage and ending with the substantial completion of the work of repair or replacement as evidenced by a certificate of a District Representative to the Corporation. In the event of any such loss or damage, this Lease Agreement shall continue in full force and effect and the District waives any right to terminate this Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments under this Section 6.02 to the extent that amounts in the Insurance Fund are available to pay Lease Payments which would otherwise be abated under this Section 6.02, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

**ARTICLE VII**

**OTHER COVENANTS OF THE DISTRICT**

**Section 7.01. Disclaimer of Warranties.** THE CORPORATION MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE DISTRICT OF THE LEASED PROPERTY OR ANY PORTION THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE LEASED PROPERTY OR ANY PORTION THEREOF. THE DISTRICT ACKNOWLEDGES THAT THE DISTRICT LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE DISTRICT. In no event is the Corporation liable for incidental, indirect, special or consequential damages, in connection with

or arising out of this Lease Agreement for the existence, furnishing, functioning or use of the Leased Property by the District.

**Section 7.02. Access to the Leased Property; Grant and Conveyance of Right of Entry.** The District agrees that the Corporation, and the Corporation's successors or assigns, has the right at all reasonable times, following at least five Business Days written notice provided to the District, to enter upon and to examine and inspect (to the extent permitted by law and public policy) the Leased Property or any part thereof. The District further agrees that the Corporation, and the Corporation's successors or assigns shall have such rights of access to the Leased Property or any component thereof, following at least two Business Days written notice provided to the District, as may be reasonably necessary to cause the proper maintenance of the Leased Property if the District fails to perform its obligations hereunder. Neither the Corporation nor any of its assigns has any obligation to cause such proper maintenance.

The District further grants, conveys and confirms to the Corporation, for the use, benefit and enjoyment of the Corporation, its successors in interest to the Leased Property, including the Corporation, and its sublessees, and their respective employees, invitees, agents and independent contractors, a right of entry which shall be irrevocable for the Term of this Lease Agreement over, across and under the property of the District for the purpose of acquiring access to the Leased Property.

**Section 7.03. Release and Indemnification Covenants.** To the extent permitted by law, the District hereby indemnifies the Corporation, and its directors, officers, agents, employees, successors and assigns against all claims, losses and damages, including reasonable legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the District or the District's employees, agents, contractors, invitees or licensees, (b) any breach or default on the part of the District in the performance of any of its obligations under this Lease Agreement, (c) any negligence or willful misconduct of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property, (d) any intentional misconduct or negligence of any sublessee of the District with respect to the Leased Property, and (e) the acquisition and delivery of the Leased Property. No indemnification is made under this Section 7.03 or elsewhere in this Lease Agreement for willful misconduct or gross negligence under this Lease Agreement by the Corporation, or its respective officers, agents, employees, successors or assigns. The indemnification hereunder shall continue in full force and effect notwithstanding the full payment of all obligations under this Lease Agreement or the termination of the Term of this Lease Agreement for any reason. The District and the Corporation each agree to promptly give notice to each other and the Corporation of any claim or liability hereby indemnified against following learning thereof.

**Section 7.04. Assignment by the Corporation.** The Corporation may assign its rights, title and interests herein, including but not limited to an assignment to a trustee or custodian for the benefit of owners of certificates of participation, custody, receipts or similar instruments representing multiple ownership interests in this Lease Agreement. No such assignment under this Section 7.04 will be effective as against the District unless and until the Corporation has filed with the District at least five Business Days' prior written notice thereof. The District shall pay all Lease Payments hereunder to the Corporation, as provided in Section 4.03(j) hereof, or

under the written direction of the assignee named in the most recent assignment or notice of assignment filed with the District. During the Term of this Lease Agreement, the District will keep a complete and accurate record of all such notices of assignment.

**Section 7.05. Assignment Agreement and Subleasing by the District.** This Lease Agreement may not be assigned, mortgaged, pledged or transferred by the District. The District may sublease the Leased Property, or any portion thereof, with the prior written consent of the Corporation, which consent shall not be unreasonably withheld, subject to all of the following conditions:

(a) This Lease Agreement and the obligation of the District to make Lease Payments hereunder shall remain obligations of the District, and any sublease shall be subject and subordinate to this Lease Agreement.

(b) The District shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation a true and complete copy of such sublease.

(c) No such sublease by the District may cause the Leased Property to be used for a purpose other than as may be authorized under the provisions of the laws of the State.

(d) The District shall furnish the Corporation with a written opinion of Bond Counsel stating that such sublease does not cause the interest components of the Lease Payments to become includable in gross income for purposes of federal income taxation or to become subject to personal income taxation by the State.

(e) Any such sublease shall be subject and subordinate in all respects to this Lease Agreement.

Notwithstanding the foregoing, in connection with any sublease entered into for financing purposes, the principal component of the then remaining Lease Payments plus the principal component of the sublease payments shall not exceed the fair market value of the Leased Property.

**Section 7.06. Amendment of Lease Agreement.** This Lease Agreement may be amended in writing by the parties hereto.

**Section 7.07. Tax Covenants.**

(a) **Generally.** The District will not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, the interest components of the Lease Payments to become includable in gross income of the Corporation for federal income tax purposes.

(b) **Private Activity Bond Limitation.** The District will ensure that the proceeds of the Lease Payments are not so used as to cause the District's obligations hereunder to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(c) ***Federal Guarantee Prohibition.*** The District will not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Lease Payments to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

(d) ***No Arbitrage.*** The District will not take, or permit or suffer to be taken, any action with respect to the proceeds of the Lease Payments which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Lease Payments to be “arbitrage bonds” within the meaning of Section 148(a) of the Tax Code.

(e) ***Arbitrage Rebate.*** The District will take any and all actions necessary to assure compliance with Section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Lease Payments.

**Section 7.08. Financial Statements.** Within two hundred seventy (270) days following the end of each Fiscal Year of the District during the Term of this Lease Agreement, the District will provide the Corporation with a copy of its audited financial statements for such Fiscal Year. Such audited financial statements shall include such information as is required by applicable Government Accounting Standards Board pronouncements and applicable State law. Additionally, within forty-five (45) days following the approval of the District’s budget, the District will provide the Corporation a copy said budget. The District hereby agrees to provide the Corporation with such other information as may be reasonably requested by the Corporation.

**Section 7.09. Records and Accounts.** The District covenants and agrees that it shall keep proper books of record and accounts of its operations, in which complete and correct entries shall be made of all transactions relating to the District. Said books and records shall at all reasonable times be subject to the inspection of the Corporation upon three Business Days prior notice.

**Section 7.10. Observance of Laws and Regulations.** The District will well and truly keep, observe and perform or cause to be kept, observed and performed all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired and enjoyed by the District, including the District’s right to exist and carry on business as a municipal corporation, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

**Section 7.11. Notices.** During the Term of this Lease Agreement, the District shall provide to the Corporation:

(a) immediate notice by telephone, promptly confirmed in writing, of any event, action or failure to take any action which constitutes an Event of Default under this



Lease Agreement, together with a detailed statement by a District Representative of the steps being taken by the District to cure the effect of such Event of Default;

(b) prompt written notice of any Material Litigation, or any investigation, inquiry or similar proceeding by any Governmental Authority;

(c) prompt written notice of any event which would reasonably be expected to have a Material Adverse Effect; and

(d) with reasonable promptness, such other information respecting the District, and the operations, affairs and financial condition of the District as the Corporation may from time to time reasonably request.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

**Section 8.01. Events of Default Defined.** Any one or more of the following events constitutes an Event of Default hereunder:

(a) Failure by the District to pay any Lease Payment or other payment required to be paid hereunder at the time specified herein.

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder, other than as referred to in the preceding clause (a) of this Section, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation. However, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 30-day period, the Corporation shall not unreasonably withhold their consent to an extension of such time (for a period not to exceed 60 days) if corrective action is instituted by the District within such 30-day period and diligently pursued until the default is corrected.

(c) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar federal or State act now existing or which may hereafter be enacted.

(d) Any statement, representation or warranty made by the District in or pursuant to this Lease Agreement or its execution, delivery or performance shall have been false, incorrect, misleading or breached in any material respect on the date when made.

(e) Any court of competent jurisdiction shall find or rule that this Lease Agreement is not valid or binding against the District.

- (f) Any Material Adverse Effect shall exist.
- (g) A Determination of Taxability.

**Section 8.02. Remedies on Default.** Whenever any Event of Default has happened and is continuing, the Corporation may exercise any and all remedies available under law or granted under this Lease Agreement; provided, however, that notwithstanding anything herein to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant hereof to be kept and performed by the District is expressly made a condition and upon the breach thereof the Corporation may exercise any and all rights granted hereunder; provided, that no termination of this Lease Agreement shall be effected either by operation of law or acts of the parties hereto, except only in the manner herein expressly provided. Upon the occurrence and during the continuance of any Event of Default, the Corporation may exercise any one or more of the following remedies:

(a) ***Enforcement of Payments without Termination.*** If the Corporation does not elect to terminate this Lease Agreement in the manner hereinafter provided for in subparagraph (b) hereof, the District agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions herein contained and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Leased Property, or, if the Corporation is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of this Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Corporation. The District hereby irrevocably appoints the Corporation as the agent and attorney-in-fact of the District to take possession of the Leased Property and release the Leased Property upon the occurrence and continuation of an Event of Default, and the District hereby exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such possession and re-leasing of the Leased Property by the Corporation or its duly authorized agents in accordance with the provisions herein contained. The District agrees that the terms of this Lease Agreement constitute full and sufficient notice of the right of the Corporation to repossess and re-lease the Leased Property, and further agrees that no acts of the Corporation in effecting such repossession and re-leasing shall constitute a surrender or termination of this Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the District the right to terminate this Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) hereof. The District agrees to surrender and quit possession of the Leased Property upon demand of the Corporation for the purpose of enabling the Leased Property to be re-let under this paragraph. Any rental obtained by the Corporation in excess of the sum of Lease Payments plus the reasonable costs and

expenses incurred by the Corporation for its services in re-leasing the Leased Property shall be paid to the District.

(b) ***Termination of Lease.*** If an Event of Default occurs and is continuing hereunder, the Corporation at its option may terminate this Lease Agreement and take possession of, and sell the Leased Property. If the Corporation terminates this Lease Agreement at its option and in the manner hereinafter provided due to a default by the District, the District nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Lease Payments and Additional Payments. Neither notice to pay Lease Payments or to deliver up possession of the Leased Property given under law shall of itself operate to terminate this Lease Agreement, and no termination of this Lease Agreement on account of default by the District shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the District of the election on the part of the Corporation to terminate this Lease Agreement. The District covenants and agrees that no surrender of the Leased Property, or of the remainder of the Term hereof or any termination of this Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

(c) ***Proceedings at Law or In Equity.*** If an Event of Default occurs and continues hereunder, the Corporation may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce any other of its rights hereunder.

**Section 8.03. No Remedy Exclusive.** No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in this Article VIII it shall not be necessary to give any notice, other than such notice as may be required in this Article VIII or by law.

**Section 8.04. Agreement to Pay Attorneys' Fees and Expenses.** If either party to this Lease Agreement defaults under any of the provisions hereof and the non-defaulting party should employ attorneys (including in-house legal counsel) or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the non-defaulting party the reasonable fees of such attorneys (including allocable costs and expenses of in-house legal counsel, if any) and such other reasonable expenses so incurred by the non-defaulting party.

**Section 8.05. No Additional Waiver Implied by One Waiver.** If any agreement contained in this Lease Agreement is breached by either party and thereafter waived by the other

party, such waiver is limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

## ARTICLE IX

### PREPAYMENT OF LEASE PAYMENTS

**Section 9.01. Security Deposit.** Notwithstanding any other provision of this Lease Agreement, the District may on any date secure the payment of the Lease Payments in whole or in part by depositing with the Corporation or a fiduciary reasonably satisfactory to the Corporation, in trust, an amount of cash, which shall be held in a segregated trust or escrow fund under a trust or escrow agreement that is in form and content acceptable to the Corporation, which cash so held is either (a) sufficient to pay such Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in Exhibit B, or (b) invested in whole in non-callable Federal Securities maturing not later than the dates such funds will be required to make Lease Payments or any prepayment in an amount which is sufficient, in the opinion of an independent certified public accountant (which opinion must be in form and substance, and with such an accountant, acceptable to the Corporation and addressed and delivered to the Corporation), together with interest to accrue thereon and without reinvestment and together with any cash which is so deposited, to pay such Lease Payments when due under Section 4.03(a) or when due on any optional prepayment date under Section 9.02, as the District instructs at the time of said deposit; provided, however, that at or prior to the date on which any such security deposit is established, the District shall deliver to the Corporation an opinion of Bond Counsel (in form and substance acceptable to the Corporation) to the effect that any such security deposit will not adversely affect the excludability of the interest component of Lease Payments from gross income of the Corporation for federal income tax purposes. In the event of a security deposit under this Section with respect to all unpaid Lease Payments, (i) the Term of this Lease Agreement shall continue, (ii) all obligations of the District under this Lease Agreement, and all security provided by this Lease Agreement for said obligations, shall thereupon cease and terminate, excepting only (A) the obligation of the District to make, or cause to be made, all of the Lease Payments from such security deposit and, to the extent of any deficiency, as rent payable from other legally available funds of the District, and (B) the release and indemnification obligations of the District under Section 7.03, and (iii) under Section 4.05, the Corporation's leasehold interest in the Leased Property will vest in the District on the date of said deposit automatically and without further action by the District or the Corporation. The District hereby grants a first priority security interest in and the lien on said security deposit and all proceeds thereof in favor of the Corporation. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of this Lease Agreement and, notwithstanding anything to the contrary herein, Lease Payments therefrom shall not be subject to abatement under Section 6.02 hereof to the extent payable from the funds held by the Corporation or the fiduciary as described in the first sentence of this Section 9.01.

**Section 9.02. Optional Prepayment.** Upon thirty (30) days' prior written notice to the Corporation, unless such notice is otherwise waived by the Corporation, the District may prepay this Lease Agreement in full on any date on or after April 1, 2028 from any lawfully available source of funds, by depositing with the Corporation immediately available funds equal to a

prepayment price equal to 100% of the unpaid principal components of the Lease Payments, together with the principal and interest components of such Lease Payments to be paid on the prepayment date, plus the amount of any principal and interest components of the Lease Payments that were abated and that have not been otherwise paid from rental interruption insurance or other sources or paid during an extension of the lease Term.

If the District gives notice to the Corporation of its intention to exercise such option but fails to deposit the required amount with the Corporation on or prior to the prepayment date, the District will continue to pay the Lease Payments as if no such notice had been given. The District agrees that, if following such prepayment the Leased Property is lost, stolen or damaged, it is not entitled to, and by such prepayment waives the right of abatement of such prepaid Lease Payments.

**Section 9.03. Mandatory Prepayment from Net Proceeds of Insurance.** To the extent the District elects not to apply the Net Proceeds in accordance with the provisions of Section 6.01(a)(ii)(B) of this Lease Agreement, the District shall be obligated to prepay the Lease Payments in whole or in part on any date, from and to the extent of any Net Proceeds or other moneys theretofore deposited with the Corporation (at least 30 days prior to the date fixed for prepayment). The District and the Lessor hereby agree that such Net Proceeds or other moneys shall be credited towards the District's obligations hereunder (except in the case of such prepayment of the Lease Payments in whole) pro rata among Lease Payments so that following prepayment, the remaining annual Lease Payments will be proportional to the initial annual Lease Payments.

## ARTICLE X

### MISCELLANEOUS

**Section 10.01. Notices.** Any notice, request, complaint, demand or other communication under this Lease Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below. Notice shall be effective either (a) 48 hours after deposit in the United States of America first class mail, postage prepaid, or (b) in the case of personal delivery to any person, upon actual receipt. The Corporation and the District may, by written notice to the other party, from time to time, modify the address to which communications are to be given hereunder.

If to the District:	Heritage Ranch Community Services District 4870 Heritage Road Paso Robles, California 93446 Attention: General Manager Phone: (805) 227-6230
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If to the Corporation:	Western Alliance Business Trust, a wholly-owned affiliate of Western Alliance Bank, an Arizona corporation One East Washington Street, Suite 1400
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Phoenix, Arizona 85004  
Attention: Municipal Finance  
(602) 389-3500

**Section 10.02. Binding Effect.** This Lease Agreement inures to the benefit of and is binding upon the Corporation, the District and their respective successors and assigns.

**Section 10.03. Severability.** If any provision of this Lease Agreement is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

**Section 10.04. Net-net-net Lease.** This Lease Agreement is a “net-net-net lease” and the District hereby agrees that the Lease Payments are an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

**Section 10.05. Further Assurances and Corrective Instruments.** The Corporation and the District agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be or for carrying out the expressed intention of this Lease Agreement.

**Section 10.06. Execution in Counterparts.** This Lease Agreement may be executed in several counterparts, each of which is an original and all of which constitutes one and the same instrument.

**Section 10.07. Applicable Law.** This Lease Agreement is governed by and construed in accordance with the laws of the State.

**Section 10.08. Captions.** The captions or headings in this Lease Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or section of this Lease Agreement.

IN WITNESS WHEREOF, the Corporation and the District have caused this Lease Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

**WESTERN ALLIANCE BUSINESS TRUST**

By \_\_\_\_\_  
Authorized Signatory

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**

By \_\_\_\_\_  
District Representative

Attest:

By \_\_\_\_\_  
Board Secretary

## EXHIBIT A

### DESCRIPTION OF THE LEASED PROPERTY

The Leased Property consists of solar and energy efficient improvements, including but not limited to:

Solar energy generation facilities including two primary solar arrays, 1) approximately 162 kWDC in size to be located at 4870 Heritage Road to offset energy used by the Wastewater Treatment Plant and Administration Building; and 2) approximately 385 kWDC in size to be located at Well Road to offset energy used by the Water Treatment Plant, Pump Station 1, and Pump Station 4.

The Lease Property is located on the following District facilities (such District facilities not being part of the Leased Property):

Facility	Address
Wastewater Treatment Plant	4870 Heritage Road, Paso Robles, CA 93446
Water Treatment Plant	Well Road, Paso Robles, CA 93446



**EXHIBIT B**

**SCHEDULE OF LEASE PAYMENTS**

<b>Date</b>	<b>Principal</b>	<b>Interest</b>	<b>Total P+I</b>	<b>Fiscal Total</b>
10/1/2020				
4/1/2021				
10/1/2021				
4/1/2022				
10/1/2022				
4/1/2023				
10/1/2023				
4/1/2024				
10/1/2024				
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10/1/2031				
4/1/2032				
10/1/2032				
4/1/2033				
10/1/2033				
4/1/2034				
10/1/2034				
4/1/2035				
<b>Total</b>				

# HERITAGE RANCH COMMUNITY SERVICES DISTRICT

## MEMORANDUM

**TO:** Board of Directors

**FROM:** Scott Duffield, General Manager

**DATE:** April 16, 2020

**SUBJECT:** Submittal for approval Resolution 20-07 approving the adoption of a District Debt Management Policy in accordance with SB 1029.

### **Recommendation**

It is recommended that the Board of Directors adopt Resolution 20-07 approving a debt management policy in accordance with SB 1029 for local agencies wishing to enter into debt financing transactions.

### **Background**

Local agencies in California that wish to enter into debt financing transactions must have a debt management policy that is compliant with SB 1029 (2016), which became effective on January 1, 2017. Resolution 20-07 provides for the District to adopt a SB 1029-compliant debt management policy.

### **Discussion**

In order to raise funds for the acquisition and installation of solar equipment, the District is planning to enter into a private placement equipment lease. Prior to entering into this transaction, the District will need to submit to the California Debt and Investment Advisory Commission (CDIAC) a preliminary report of debt issuance which will include a certification that the District has adopted a debt policy that meets the requirements of SB 1029, which became effective on January 1, 2017, and which are found in California Government Code 8855. Adoption of the debt policy by the Board is required for compliance with the legislation.

In accordance with Government Code 8855, a local debt policy must include all the following:

- (A) The purposes for which the debt proceeds may be used.
- (B) The types of debt that may be issued.
- (C) The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.

- (D) Policy goals related to the issuer's planning goals and objectives.
- (E) The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

The contemplated debt management policy meets all these requirements.

### **Fiscal Considerations**

Adoption of the debt management policy will have no financial impact, as it is simply a policy governing future debt financing transactions.

### **Results**

Approval of the recommended action will allow the District to have a Debt Management Policy in place in compliance with SB 1029.

Attachments: Resolution 20-07

File: Policies and Procedures

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
RESOLUTION NO. 20-07**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE HERITAGE RANCH  
COMMUNITY SERVICES DISTRICT ADOPTING A DEBT MANAGEMENT POLICY**

**WHEREAS**, the Board of Directors (the “Board”) of the Heritage Ranch Community Services District (the “District”) recognizes that cost-effective access to the capital markets depends on prudent management of the District’s debt program; and

**WHEREAS**, Government Code section 8855(i) requires any issuer of public debt to provide to California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the sale of any debt issue a report of the proposed issuance (the “Report of Proposed Debt Issuance”), and must certify on the Report of Proposed Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed debt issuance is consistent with those policies (the “CDIAC Requirements”); and

**WHEREAS**, the Board wishes to set parameters for issuing debt, managing the debt portfolio and providing guidance to decision makers; and

**WHEREAS**, the Board finds and determines that adoption of the attached Debt Management Policy (the “Debt Management Policy”) will help ensure that debt is issued and managed prudently in order to maintain sound fiscal policy, and is in compliance with the CDIAC Requirements; and

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Directors of the Heritage Ranch Community Services District hereby orders and determines as follows:

**Section 1. Recitals.** The Board hereby specifically finds and declares that each of the recitals set forth above are true and correct and are hereby incorporated in conjunction with the respective staff report.

**Section 2. Approval of the Debt Management Policy.** This Board hereby declares that the proposed Debt Management Policy attached hereto, is hereby approved as the Heritage Ranch Community Services District Debt Management Policy to be effective on the date of approval.

**Section 3. Authorization to Manage Debt Issuance Functions.** The General Manager, or a designee thereof, is hereby authorized to manage debt issuance functions for the District in accordance with the Debt Management Policy.

**Section 4. Effective Date.** This Resolution shall take effect from and after the date of its passage and adoption.

**PASSED, APPROVED AND ADOPTED** by the Board of Directors of the Heritage Ranch Community Services District on the 16<sup>th</sup> day of April 2020, by the following roll call vote:

**AYES:**

**NOES:**

**ABSTAIN:**

**ABSENT:**

**APPROVED:**

---

**Dan Burgess, President**  
**Board of Directors**

**ATTEST:**

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**Kristen Gelos**  
**Board Secretary**

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**DEBT MANAGEMENT POLICY**

This Debt Management Policy (the “Debt Policy”) of the Heritage Ranch Community Services District (the “District”) was approved by the Board of Directors of the District (the “Board”) on April 16, 2020. The Debt Policy may be amended by the Board as it deems appropriate from time to time in the prudent management of the debt of the District. This Debt Policy shall also apply to any improvement districts formed by the District.

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the District and is intended to comply with Government Code Section 8855, effective on January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the District's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the District.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the District's effort to allocate limited resources to provide the highest quality of service to the public. The District understands that poor debt management can have ripple effects that hurt other areas of the District. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the District for its residents and businesses.

**1. FINDINGS**

Unless waived by the District, this Debt Policy shall govern all debt undertaken by the District. The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the District's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the District.
- Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budget, as applicable.
- Encourage those that benefit from a facility/improvement to pay the cost of that facility/improvement without the need for the expenditure of limited general fund resources.

**2. POLICIES**

**A. Purposes For Which Debt May Be Issued**

The District will consider the use of debt financing for capital improvement projects (“CIP”) primarily when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this section’s focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes and conduit financing, as described below.

- i. Long-Term Debt. To the extent permitted by law, long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the District.
- (a) Long-term debt financings are appropriate when the following conditions exist:
    - When the project to be financed will provide benefit to constituents over multiple years.
    - When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
  - (b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.
  - (c) The District may use long-term debt financings subject to the following conditions:
    - The project to be financed has been or will be approved by the Board.
    - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not cause the District to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
    - The District estimates that sufficient income or revenues will be available to service the debt through its maturity.
    - The District determines that the issuance of the debt will comply with the applicable requirements of state and federal law.
    - The District considers the improvement/facility to be of vital, time-sensitive need of the community and there are no plausible alternative financing sources
  - (d) Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve District objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) or negative savings will be considered on a case-by-case basis and are subject to Board approval.

- ii. Short-Term Debt. To the extent permitted by law, short-term borrowing may be issued to generate funding for cash flow needs in the form of Tax and Revenue Anticipation Notes (TRAN).

To the extent permitted by law, other types of short-term borrowings, such as commercial paper, and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the Board determines that extraordinary circumstances exist, must not exceed seven (7) years.

Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.

## **B. Types of Debt**

In order to maximize the financial options available to benefit the public, it is the policy of the District to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

- General Obligation (GO) Bonds: General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large. Examples of projects include but, are not limited to: street improvements, libraries, parks, and public safety facilities. All GO bonds shall be authorized by the requisite number of voters in order to pass.
- Lease-Backed Debt/Certificates of Participation (COP): Issuance of lease-backed debt is a commonly used form of debt that allows a District to finance projects where the debt service is secured via a lease, lease/purchase agreement or installment agreement. Further, the District may enter into installment sale agreements or installment purchase contracts payable from revenues of the District's water enterprise or wastewater enterprise.

The District may from time to time find that other forms of debt to, the extent permitted by law, would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

To maintain a predictable debt service burden, the District will only issue debt that carries a fixed interest rate.

## **C. Relationship Of Debt To Capital Improvement Program And Budget**

The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and the capital improvement plan.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes. The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.



**D. Policy Goals Related To Planning Goals And Objectives**

The District is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's annual operating budget.

It is a policy goal of the District to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

**E. Internal Control Procedures**

When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The District will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12;
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues;
- any required reporting to be filed with the California Debt and Investment Advisory Commission (CDIAC); and
- the District's investment policies as they relate to the investment of bond proceeds.

The General Manager or designee can recommend future changes to the Debt Management Policy as deemed necessary.

# HERITAGE RANCH COMMUNITY SERVICES DISTRICT

## MEMORANDUM

**TO:** Board of Directors

**FROM:** Scott Duffield, General Manager

**DATE:** April 16, 2020

**SUBJECT:** Request to receive and file Photovoltaic System Project updates.

### **Recommendation**

It is recommended that the Board of Directors receive and file Photovoltaic System Project updates.

### **Background**

Your Board approved the Photovoltaic System Project (Project) at the January 16, 2020 meeting and selected Stockman's Energy, Inc. as the most qualified proposer.

### **Discussion**

#### Project Scope

The contractor is working on the design submittals, permits, and interconnection agreement. The layout of the panels at both sites will need to be adjusted slightly to accommodate existing District infrastructure, specifically water and utility lines that can not be moved or impacted. The contractor will be submitting the layout adjustments to staff for consideration and comment.

The contractor was given a work directive to provide a land survey and set property corners for the Water Treatment Plant parcel.

#### Project Schedule

The overall project is on schedule. The initial project schedule dated 03/25/2020 is included in the attachment. Staff intends to provide an updated schedule to the Board moving forward. Some tasks of interest and their status are:

- Pull testing – completed
- Solar panels delivered – completed

## Project Budget

The contractor has submitted their request for progress payment for March 2020 in the amount of \$444,542.94, which includes the cost for the solar panels (\$375,705.43). This first progress payment is 36% of the total contract price but is not indicative of the overall progress because it includes a significant line item cost, that being the solar panels.

## **Fiscal Considerations**

The FY 2019/20 Budget includes \$79,868 for project management costs for this fiscal year. Additional needs will be included in the FY2020/21 Budget request.

Proportionate cash reserves will need to be transferred from the sewer and water funds to fund construction of the Project this fiscal year or until a private placement loan is funded. The FY 2020/21 budget will be prepared accordingly to include the Project.

Substantial energy cost savings will also be realized.

## **Results**

Receipt and file of this report keeps the Board formally informed on progress of the Project.

Attachments: Powerpoint Presentation dated April 16, 2020

File: Projects\_PVS



Photovoltaic System Project Updates  
Board of Directors Meeting  
April 16, 2020  
Agenda Item No. 5b

[www.heritageranchcsd.ca.gov](http://www.heritageranchcsd.ca.gov)

# Project Scope

- Current tasks generally consist of design submittals, permits, and interconnection agreement.
- Panels layout at both sites will need to be adjusted slightly to accommodate existing District infrastructure, specifically water and utility lines that can not be moved or impacted.
- The contractor was given a work directive to provide a land survey and set property corners for the Water Treatment Plant parcel.









Heritage Ranch Community Services District

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Heritage Ranch Community Services District

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# Project Schedule

- The overall project is on schedule. The initial project schedule is on the next slide.
- Some tasks of interest and their status are:
  - Pull testing – completed
  - Solar panels delivered – completed



Task Name	Duration	Start	Finish	Feb	Mar	Qtr 2, 2020 Apr	May	Jun	Qtr 3, 2020 Jul	Aug	Sep	Qtr 4, 2020 Oct	Nov	Dec	Qtr 1, 2021 Jan
Utility Locate 811	27 days	Thu 2/20/20	Fri 3/27/20												
Gather and Present Submittals to District for Approval	14 days	Tue 3/3/20	Fri 3/20/20												
Solar Panels Ordered	1 day	Fri 3/6/20	Fri 3/6/20												
Create Permit Packages and Submit to County	15 days	Mon 3/9/20	Fri 3/27/20												
Survey Water Treatment Plant	2 days	Tue 3/24/20	Wed 3/25/20												
Pull Testing and Geotech	1 day	Tue 3/24/20	Tue 3/24/20												
Solar Panels Delivered	1 day	Fri 3/27/20	Fri 3/27/20												
Submit Documents to Initiate Interconnection Process	1 day	Fri 3/27/20	Fri 3/27/20												
PG&E Interconnection Process: Initial Review	10 days	Mon 3/30/20	Fri 4/10/20												
District Permit Review	10 days	Mon 3/30/20	Fri 4/10/20												
County Permit Review Process	25 days	Fri 4/10/20	Thu 5/14/20												
PG&E Interconnection Process: Engineering Review	20 days	Mon 4/13/20	Fri 5/8/20												
PG&E Interconnection Process: Estimating Process	40 days	Mon 5/11/20	Fri 7/3/20												
Order Racking and Balance of System	1 day	Fri 5/15/20	Fri 5/15/20												
Mobilize	1 day	Mon 5/18/20	Mon 5/18/20												
Site Preparation	16 days	Mon 5/18/20	Sun 6/7/20												
Trenching and Conduit Installation	10 days	Mon 6/15/20	Fri 6/26/20												
District Reviews & Executes Contract with PG&E	1 day	Mon 7/6/20	Mon 7/6/20												
PG&E Service Upgrades	6 mons	Tue 7/7/20	Mon 12/21/20												
Racking Delivered	1 day	Fri 7/10/20	Fri 7/10/20												
Balance of System Delivery Date	1 day	Fri 7/10/20	Fri 7/10/20												
Solar Racking Installation	15 days	Mon 7/13/20	Fri 7/31/20												
Install Solar Panels and Mount Electrical Equipment	10 days	Mon 8/3/20	Fri 8/14/20												
Finish Remaining Wiring Connections	5 days	Mon 8/10/20	Fri 8/14/20												
Fence Installation at Water Treatment Plant	15 days	Mon 8/17/20	Fri 9/4/20												
County Final Inspections: Date of Substantial Completion	10 days	Mon 8/17/20	Fri 8/28/20												
Submit Final Documents for Interconnection with PG&E	1 day	Mon 8/31/20	Mon 8/31/20												
Commissioning of System	5 days	Mon 12/28/20	Fri 1/1/21												

Heritage Ranch CSD  
Solar Project 2020  
Wed 3/25/20

Task		Project Summary		Manual Task		Start-only		Deadline	
Split		Inactive Task		Duration-only		Finish-only		Progress	
Milestone		Inactive Milestone		Manual Summary Rollup		External Tasks		Manual Progress	





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This item is receive and file.

Questions?

[www.heritageranchcsd.ca.gov](http://www.heritageranchcsd.ca.gov)

## HERITAGE RANCH COMMUNITY SERVICES DISTRICT

### Manager Report For the Month of April 2020

In addition to normal operations and administrative duties, below are updates for several areas of work:

#### Administration

- COVID-19 has obviously effected District operations as it has life.
  - The office is closed to the public.
  - Customer and other administrative business are being done via mail, email, website, and telephone.
  - Staff is being briefed regularly on COVID related news, how to effectively protect themselves and others, and are practicing physical distancing.
  - The Manager is working in the office Monday – Friday.
  - The Office Supervisor is currently working in the office on Mondays and any special need days and telecommuting the rest of the week.
  - The Operations Staff are working normal shifts typically Monday – Friday with well checks on the weekends.
  - The US Department of Labor established the Families First Coronavirus Response Act (FFCRA) that requires certain employers to provide employees with paid sick leave and expanded family and medical leave for specified reasons related to COVID-19. Those provisions will apply from April 1- December 31, 2020.
  - The District is currently staffed and fully operational.
  - The supply chain for the District needs appears to be normal at this point. Staff is very aware of this and is continuously monitoring.
  - There are daily briefings and surveys managed by the County to help communicate agency needs and resources.
  - All water and wastewater operations still need to be maintained and meet regulatory requirements.
  - Monthly bills are being processed and sent as normal. Some processing and late fees may be waived as needed; however, the charges for the services will not.
  - There will be no discontinuation of services for nonpayment during this emergency.

## Operations

- The Manager and staff completed additional requirements of the citation we received from the Division of Drinking Water for exceeding the haloacetic acids maximum contaminant level for the first calendar quarter of 2020.
- MKN has submitted a draft testing plan (enhanced coagulation) for District review. Staff is also researching granular activated carbon and is gathering information from two different vendors as well as the City of Paso Robles who has a similar system and treats the same (mostly) water with it. Staff has received data from the city and is also reviewing that.
- With COVID-19 and other changes the Operations & Engineering Committee has not convened.
- Additional updates regarding operations can be found in the Operations Report.

## Solid Waste

- The Household Hazardous Waste facility hosted by the District is closed until further notice due to COVID-19.

## Reservoir Status

- As reported by Monterey County Water Resources Agency (MCWRA), as of April 9, 2020, the reservoir was at approximately 765 feet in elevation, 55% of capacity, or 208,050-acre feet of storage. MCWRA water releases were shown as 300 cfs.
- The Manager contacted MCWRA and was informed that the projected reservoir elevation on September 1, 2020 could be about 730'.

## Capital Improvement Program (current FY)

Projects / equipment replacement planned for this fiscal year and their status include:

- WTP Actuator Replacement: This project is continued from the previous FY and is in progress.
- Vertical Intake: The design phase is in progress. Cleath-Harris Geologists has completed the field survey using HVSR passive seismic survey technology which essentially maps the bedrock. The final siting recommendation will be incorporated into the specifications for construction.
- Lift Station 5 connection to Lift Station 10: No activity
- Lift Station 1-5 rehabilitation design phase: Development of contract documents underway by the District Engineer.
- VOiP System: Complete.

## Development

- There has been no new activity for Tract 2879 nor Tract 3110, for which your Board has issued a conditional will serve.
- There has been no new activity for the RV / boat storage facility (DRC2019-00099) for which your Board has issued a conditional will serve.

## Public Relations and Community

- Nothing significant to report.

## Human Resources

- The term of the Memorandum of Understanding with the employee's association is through June 30, 2020. The Board should anticipate entering negotiations for renewal of the MOU in the next couple of months.

## Board Member & Staff Information and Learning Opportunities

- The calendar of events for CSDA is published and online. There are many different training opportunities for Directors and Staff including on-demand webinars.

\* \* \*

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
MARCH 2020 OFFICE REPORT**

**Water & Sewer**

On April 1<sup>st</sup>, we processed 1,918 bills for a total dollar amount of \$129,578 for water and sewer user fees for the month of March. The number of Automatic Drafts processed was 553 for a total dollar amount of \$35,493. On March 26<sup>th</sup> we processed 233 Late Notices.

**San Miguel Garbage Franchise Fees**

Each month, the District receives franchise fees from the previous month. The breakdown is as follows:

Month of February

Garbage Collection (10%) - \$ 5,444.79

Roll-Off Collection (10%) - \$ 137.40

Total Franchise Fees Collected - \$ 5,582.19

**Service Orders Completed**

Staff completed a total of 38 service orders for the month of March. Below is a breakdown by job code.

Lock Meter	1	Call Out	5
Occupant Change	12	Unlock	3
AMR Data Log	1	Connect	1
USA	11	Leak	1
Sewer Problem	2	Service Change	1

## **Heritage Ranch Community Services District Operations Report March 2020**

### Water treatment

- Installed chemical pumps for plate settler pilot study
- Isolated gallery wells and backwashed too improve river water intake
- Filled reservoir tank in preparation for covid-19 situation

### Water distribution

- Rebuilt pressure reducing valves on water mains through cla-val
- Adjusted pressure reducing valves to improve chlorine residuals
- Repaired dead end connection water leak on bonanza water main
- Repaired leak in service line on pretty doe lane

### Wastewater collections

- Fluid resource management jetted 1/3 of the collections system gravity mains and problematic locations.
- Jetted and snaked a customer's lateral on tumbleweed in response to a sewage blockage
- Fluid resource management vac'd out all main sewage lift stations
- Replaced damaged transducer inside of lift station 1

### Wastewater treatment

- Increased aeration in pond 2 to improve ph and chlorine demand
- Disinfected effluent collection well
- Lowered pond 3 holding pond to prepare for covid-19 situation

### Vehicles and equipment

- Repaired momentary switches on Vermeer vac trailer
- Replaced coolant in cat backhoe