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## CAMBRIA COMMUNITY SERVICES DISTRICT

CALL BY THE PRESIDENT AND FINAL AGENDA

FOR SPECIAL MEETING OF THE BOARD OF DIRECTORS

I, James Bahringer, President of the Cambria Community Services District Board of Directors, hereby call a Special Meeting of the Board of Directors pursuant to California Government Code Section 54956. The Special Meeting will be held: **Monday, August 04, 2014, 12:30 PM, 1000 Main Street Cambria, CA**. The purpose of the special meeting is to discuss or transact the following business:

**AGENDA**  
**SPECIAL MEETING OF THE CAMBRIA COMMUNITY SERVICES DISTRICT**  
**BOARD OF DIRECTORS**  
**MONDAY, AUGUST 04, 2014, 12:30 PM**  
**1000 Main Street**  
**Cambria, CA**

**1. OPENING**

- A. Call to Order
- A. Pledge of Allegiance
- B. Establishment of Quorum

**2. PUBLIC COMMENT** Members of the public wishing to address the Board on any item described in this Notice may do so when recognized by the Board President. Public comment on this agenda will be limited to 3 minutes per person.

**3. SPECIAL MEETING BUSINESS**

- A. Consider Adoption of Resolution 33-2014 Authorizing the Installment Sale Financing of an Emergency Water Supply Project in the Aggregate Principal Amount of Not to Exceed \$9,000,000 and Approving Related Documents
- B. Discussion and Consideration to Review Distribution and Usage of Non Potable Water from the SR1 Well

**4. PUBLIC HEARING**

- A. Public Hearing to Consider Adoption of the Cambria Emergency Water Supply Project Title 22 Engineering Report
- B. Public Hearing to Consider Adoption of the Cambria Emergency Water Supply Project Initial Study/Mitigated Negative Declaration Related to the CCSD's Application for a Regular Coastal Development Permit

**5. ADJOURN**

Notice of this special meeting shall be delivered to each member of the Board of Directors and to each local newspaper of general circulation and radio or television station who have requested such notice. Notice must be received at least twenty-four (24) hours before the time set for the special meeting.

Monday, August 01, 2014

CAMBRIA COMMUNITY SERVICES DISTRICT

TO: Board of Directors

AGENDA NO. **3. A.**

FROM: Jerry Gruber, General Manager  
Tracy Fuller, Interim Finance Manager

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Meeting Date: August 4, 2014      Subject: Consider Adoption of Resolution  
33-2014 Authorizing the Installment  
Sale Financing of an Emergency Water  
Supply Project in the Aggregate  
Principal Amount of Not to Exceed  
\$9,000,000 and Approving Related  
Documents

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**RECOMMENDATIONS:**

Receive presentation by the CCSD's Municipal Advisor Mark Northcross, NHA Advisors, and Special Counsel Chick Adams, Jones Hall.

Adopt Resolution 33-2014 authorizing the installment sale financing of an Emergency Water Supply Project ("EWS Project") in the aggregate principal amount of not to exceed \$9,000,000, and approving related documents.

**FISCAL IMPACT:**

The term of the debt is 20 years with an estimated fixed interest rate of 4.09% for that period. The principal amount of the debt is estimated to be \$8,939,000. The cost of issuance is \$139,000.00, providing net proceeds to fund the EWS Project of \$8,800,000. The estimated total interest is \$4,226,532.40. The estimated total debt service is \$13,165,532.40. The interest rate will not be locked in prior to Board approval; therefore the estimated figures are subject to change based upon changes in the LIBOR interest rate index.

If the debt is never refinanced, the last debt service payment will be due 8/1/2034.

The proposed Board Resolution shows a not-to-exceed amount of \$9,000,000 in the event there are unforeseen last minute expenses between the date of adoption of the Resolution and closing on August 7, 2014.

No financial liability to pay service providers has been incurred to date. The Financial Advisor, Placement Agent, and Special Counsel are paid only after successful placement of the debt: execution of the Installment Sale Agreement and the District's receipt of proceeds of the debt from the lender. The Financial Advisor, Placement Agent, and Special Counsel have spent considerable time preparing the credit review package, negotiating the deal points, structuring the agreement, and drafting the documents.

## **DISCUSSION:**

The Board has considered the need for an emergency water supply on several occasions since its action on January 30, 2014 to declare a Stage 3 Water Shortage Emergency, and has, through four separate actions, authorized the expenditure of up to \$2,094,181 to fund an Emergency Water Supply Project:

- January 30, 2014:
  - Declared a Stage 3 Water Shortage Emergency.
  - Authorized up to \$500,000 to develop and complete an Emergency Water Supply Project, to enter into agreements related thereto, and to loan funds from the General Fund to the Water Fund.
  - Authorized up to \$174,495 to enter into an agreement with CDM Smith for consulting services in support of an Emergency Water Supply Project, and to loan funds from the General Fund to the Water Fund.
  
- April 24, 2014:
  - Authorized up to \$919,686 to complete Task Order 2, permitting and preconstruction, by CDM Smith.
  
- May 22, 2014
  - Authorized up to \$500,000 to be used for the purchase of emergency water supply equipment and authorized execution of a design/build agreement with CDM Constructors, Inc. subject to approval of terms and conditions by the General Manager and District Counsel.

In response to this policy direction and these actions, the District has been designing an Emergency Water Supply Project comprised of a brackish water desalination plant and related equipment, and planning for its construction.

The Emergency Water Supply Project is projected to cost \$8,800,000. (This is inclusive of the amounts authorized by the Board that are mentioned in previous sections of this staff report.)

The Board will be asked to authorize execution of a proposed design/build contract at a meeting in the near future. As of this writing, that meeting is being scheduled for August 7, 2014.

## **Financing**

Public agencies typically finance major capital improvement projects when sufficient cash is not available. In this case, the cost of the EWS Project far outstrips the District's resources; the District must finance the EWS Project if it wishes to proceed forward with construction in the near term.

Providing financing for the 2014 Emergency Water Supply Project Installment Sale Agreement has been a joint effort by NHA Advisors and Southwest Securities. NHA Advisors serves as "municipal advisor" under the Dodd Frank Federal securities law, and solely represents the District in structuring the transaction. Southwest Securities serves as placement agent under Dodd Frank and has primary responsibility for contacting potential bank lenders.

NHA Advisors strongly recommended a private placement with a bank to fund the Emergency Water Supply Project because of:

1. the special debt security concerns of potential lenders posed by the risk that the District could run out of potable water before the EWS Project is completed, and
2. the very short time-frame available to secure funding.

The District and its municipal finance advisor, NHA Advisors, prepared a credit review package which was sent to over seven banks, including the loan offices of the two banks which maintain local Cambria branch offices: Heritage Oaks Bank and Rabobank. Please see the credit review package as attachment 4.

That credit review package elicited two serious inquiries, and one actual written offer. That written offer was from Western Alliance Bank. Sourced from the Western Alliance Bancorp website: <http://www.westernalliancebancorp.com/2.cfm>

#### Corporate Profile

Western Alliance Bancorporation (NYSE:WAL) is a leading bank holding company providing comprehensive business banking and related financial services through its primary subsidiary, Western Alliance Bank. With local teams of experienced bankers, the bank provides a superior level of capabilities, products and service, to assist the growth of local businesses and the quality of life in the markets it serves. In addition to a national platform of specialized financial service units, the bank operates full service banking divisions in its local markets as Alliance Bank of Arizona, Bank of Nevada, First Independent Bank and Torrey Pines Bank. Western Alliance Bancorporation is publicly traded on the New York Stock Exchange.

The primary deal points are summarized below.

- The net proceeds of the debt are equal to the Emergency Water Supply construction costs of \$8,800,000 plus the loan's closing costs or costs of issuance of \$139,000, for a total debt amount of **\$8,939,000**.
- The loan is in the form of an Installment Sale Agreement.
- The True Interest Cost is estimated to be 4.090075%.
- The All-In True Interest Cost is estimated to be 4.270436%
- The term of the loan is 20 years.
- The total interest over the life of the loan is estimated to be \$4,226,532.40.
- The total debt service over the life of the loan is estimated to be \$13,165,532.40.
- The financing can close on August 7, 2014 with Board approval.

The interest rate amount in Section 4.3. Installment Payments. (a) Obligation to Pay. of the Installment Sale Agreement is blank, or has not been filled in, in the draft document. The 4.09% interest rate is an indicative rate which is subject to changes in conditions in the overall municipal bond market before closing. The municipal bond market has been stable and the District's finance team does not expect any significant changes between now and closing. The bank's interest rate proposal is "65% of the sum of the 10-year LIBOR swap rate plus 3.70%". Which would be (2.6% + 3.7%) x 65%. A 10-year LIBOR Swap Rate Chart for the past month is below.

Sourced from [https://ycharts.com/indicators/10\\_year\\_swap\\_rate](https://ycharts.com/indicators/10_year_swap_rate)

### 10 Year Swap Rate Summary

- 
- **Last Value:** 2.60%
  - **Latest Period:** Jul 28 2014
  - **Updated:** Jul 29, 2014, 4:28 PM EDT
  - **Next Release:** Jul 30, 2014, 2:30 PM EDT
  - **Frequency:** Market Daily
  - **Unit:** Percent
  - **Adjustment:** N/A
  - **Long Term Average:** 4.17%
  - **Value Previously:** 2.61%
  - **Change From Previous:** -0.38%
  - **Value One Year Ago:** 2.77%
  - **Change From One Year Ago:** -6.14%
  - **First Period:** Jul 3 2000
  - **First Value:** 7.24%
- 

|               |       |
|---------------|-------|
| July 28, 2014 | 2.60% |
| July 25, 2014 | 2.61% |
| July 24, 2014 | 2.63% |
| July 23, 2014 | 2.59% |
| July 22, 2014 | 2.60% |
| July 21, 2014 | 2.57% |
| July 18, 2014 | 2.60% |
| July 17, 2014 | 2.62% |
| July 16, 2014 | 2.65% |
| July 15, 2014 | 2.68% |
| July 14, 2014 | 2.65% |
| July 11, 2014 | 2.62% |
| July 10, 2014 | 2.63% |

|               |       |
|---------------|-------|
| July 9, 2014  | 2.68% |
| July 8, 2014  | 2.67% |
| July 7, 2014  | 2.72% |
| July 4, 2014  |       |
| July 3, 2014  | 2.75% |
| July 2, 2014  | 2.71% |
| July 1, 2014  | 2.66% |
| June 30, 2014 | 2.62% |
| June 27, 2014 | 2.62% |
| June 26, 2014 | 2.63% |
| June 25, 2014 | 2.65% |
| June 24, 2014 | 2.70% |

The proposed instrument of private placement is an Installment Sale Agreement. The agreement is with a private lender, in this case a bank: TPB INVESTMENTS, INC., a wholly owned subsidiary of Western Alliance Bank. The debt will be held as an investment in the bank's investment portfolio. TPB Investments, Inc. is Torrey Pines Bank.

The bank has asked the District to pledge three sources of revenues as security for the loan:

1. Net Revenues after Operating Expenses of the District's Water Utility
2. Emergency Water Supply Capital Surcharges\*
3. Ad Valorem Property Taxes

\* The Emergency Water Supply Project Surcharges are comprised of three elements:

- Fixed Meter Charge
- Water Quantity Charge
- Emergency Water Supply Operating Charge

The Fixed Meter Charge and the Water Quantity Charge are the portion of Emergency Water Supply Project Surcharges designed to fund the Capital Project component. They are pledged to the proposed debt in the Installment Sale Agreement and must be used to pay debt service first; any remainder can be used for other lawful purposes consistent with the water rates public notice mailed on June 6, 2014. The Emergency Water Supply Operating Charge is only to be "charged during billing periods of anticipated facility operation." It was structured to provide funding for the cost of operations, which was assumed to be primarily electricity. As such, the Operating Charge is not pledged to the proposed debt.

The proposed Installment Sale Agreement has been written to contain call provisions to accommodate the possibility of the District receiving grant funds. Prepayment terms are:

- Up to \$3,750,000 may be prepaid from grant proceeds before August 1, 2015 with a 5% penalty.
- The entire loan may be prepaid after ten years (August 1, 2024) with no penalty.
- The entire loan may be prepaid prior to August 1, 2024, but with penalties equal to the cost to Western Alliance to unwind the interest rate swaps they executed to hedge their 20-year fixed interest rate commitment.

The District makes debt payments directly to the bank, without a third party trustee. Typically, hiring a third party to serve in this roll can cost \$3,500 per year. Western Alliance Bank's willingness to provide this service represents a cost saving to the District.

Western Alliance Bank will not require that the District fund a debt service reserve fund equal to one year's debt service. The District's 2006 loan agreement has such a requirement. This relieves the District of an onerous burden.

Contained within Background Section 4. of the Installment Sale Agreement is a provision to pay off the Loan Agreement dated February 17, 2006, between the District, Municipal Finance Corporation, and Citizens Business Bank. The last loan payment on this debt is due by May 1, 2015. The total payment is:

|                        | Principal       | Interest       | Total           |
|------------------------|-----------------|----------------|-----------------|
| <b>Water Fund</b>      | \$41,665        | \$1,875        | \$43,540        |
| <b>Wastewater Fund</b> | \$22,435        | \$1,010        | \$23,445        |
| <b>Total</b>           | <b>\$64,100</b> | <b>\$2,885</b> | <b>\$66,985</b> |

Retirement of this 2006 debt simplifies the legal structure for the proposed Emergency Water Supply Project debt.

The Installment Sale Agreement has been prepared by Charles "Chick" Adams, Managing Partner, with Jones Hall. Mr. Adams has prepared all of the financial documents to carefully insure that they comply with all State and Federal regulations regarding tax exempt and public financing. Mr. Adams served as the District's Special Counsel for private placements or Bond Counsel for the issuance of bonds in all of the District's last several debt issuances. Specifically, Mr. Adams and Jones Hall assisted the District with refinancing its 1995 COPs in 2006 and refinancing its wastewater debt in 2010. NHA Advisors is represented by Mark Northcross, who has been serving as financial advisor to water utilities and other public agencies since 1983.

The Installment Sale Agreement and Resolution have also been reviewed by District Counsel. District Counsel will be providing the required Opinion Letter to the Bank.

The District's municipal advisor, NHA Advisors, believes that the offer from Western Alliance Bank is the best offer the District could reasonably expect to receive under these circumstances. Another offer was received from Capital One. However this offer had a higher interest rate (4.75%) and required a Debt Service Reserve Fund to be funded from the District's own cash reserves. All other banks contacted by the placement agent were not able



to meet the basic conditions of the District to (1) fully fund the Emergency Water Supply Project by early August and (2) provide 20-year fixed rate financing. Only Western Alliance Bank and Capital One were able to meet these two critical objectives.

Mr. Northcross and Mr. Adams will both be available at the Board meeting to provide information and answer questions.

Attachments:

1. Resolution 33-2014
2. 2014 Installment Sale Agreement
3. Summary of Financing Terms for the Emergency Water Supply Project
4. Credit Review Package titled Credit Summary for Cambria CSD Emergency Water Supply Loan (dated July 9, 2014)
5. Web-search information on Western Alliance Bank
6. LIBOR definition and ICE: Frequently Asked Questions

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BOARD ACTION:    Date \_\_\_\_\_ Approved: \_\_\_\_\_ Denied: \_\_\_\_\_

UNANIMOUS: \_\_\_ BAHRINGER \_\_\_ ROBINETTE \_\_\_ CLIFT \_\_\_ THOMPSON \_\_\_ RICE \_\_\_

**RESOLUTION NO. 33-2014  
AUGUST 4, 2014**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CAMBRIA  
COMMUNITY SERVICES DISTRICT AUTHORIZING THE  
INSTALLMENT SALE FINANCING OF AN EMERGENCY WATER  
SUPPLY PROJECT IN THE AGGREGATE PRINCIPAL AMOUNT OF  
NOT TO EXCEED \$9,000,000,  
AND APPROVING RELATED DOCUMENTS**

**WHEREAS**, the Cambria Community Services District (the "District") owns and operates a system for the supply, treatment and distribution of water within the service area of the District (the "Water System"), and the District is proceeding to construct improvements to the Water System, consisting generally of emergency water supply improvements to provide treatment for brackish water in the lower San Simeon Creek aquifer (the "Project"); and

**WHEREAS**, the District has received a proposal from TPB Investments, Inc., a wholly owned subsidiary of Western Alliance Bank, an Arizona corporation (the "Lender"), to provide financing for the Project on an installment sale basis as described in this Resolution; and

**WHEREAS**, pursuant to such financing proposal, the Lender and the District will enter into an Installment Sale Agreement under which the Lender provides funds to finance the Project and under which the Lender agrees to sell the completed Project to the District on an installment basis in consideration of the payment by the District of semiannual installment payments (the "Installment Payments"); and

**WHEREAS**, the Installment Payments will be secured by a pledge of and lien on the net revenues of the Water System, emergency water supply surcharges and *ad valorem* property tax revenues which are allocated and paid to the District; and

**WHEREAS**, the District is authorized to enter into the Installment Sale Agreement under the laws of the State of California, including 61060(d) of the Government Code of the State of California, which authorizes community services districts to acquire or contract to acquire improvements to their water systems; and

**WHEREAS**, the Board of Directors approves all of said transactions in furtherance of the public purposes of the District, and the Board of Directors wishes at this time to authorize all proceedings relating to the financing for the Project as described herein;

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Cambria Community Services District as follows:

**Section 1. Approval of Financing; Installment Sale Agreement.** The Board of Directors hereby approves the financing of the Project on an installment sale basis under an Installment Sale Agreement between the District and the Lender, under which the

Lender makes financing available for construction of the Project in the aggregate principal amount of not to exceed \$9,000,000, and under which the District agrees to purchase the completed Project in consideration of the payment of Installment Payments which are secured by a pledge of the net revenues of the Water System, emergency water supply surcharges and *ad valorem* property tax revenues of the District. The interest components of the Installment Payments shall be calculated at the rate of not to exceed 4.25% per annum, to be determined in accordance with the financing proposal which has been provided to the District by the Lender. The Board of Directors hereby approves the proposal by the Lender to provide financing for the Project and directs the General Manager or the Interim Finance Manager to execute and accept such proposal on behalf of the District.

The Board of Directors hereby approves the Installment Sale Agreement in substantially the form on file with the District Clerk together with any changes therein or additions thereto deemed advisable by the General Manager. The Board of Directors hereby authorizes and directs the President or the General Manager to execute, and the District Clerk to attest, the final form of the Installment Sale Agreement for and in the name of the District.

**Section 2. Professional Services.** The firm of NHA Advisors is hereby designated to serve as financial advisor to the District, and the firm of Jones Hall, A Professional Law Corporation, is hereby designated to serve as Special Counsel to the District, in connection with the financing transactions described in this Resolution. Compensation to said firms shall be paid from a portion of the proceeds of the financing. The Board of Directors hereby authorizes the execution by the General Manager or the Interim Finance Manager of an agreement with each of said firms, in the respective forms on file with the District Clerk.

**Section 3. Official Actions.** The President, the General Manager, the Interim Finance Manager, the District Clerk and all other officers of the District, are authorized and directed in the name and on behalf of the District to make any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution. Whenever in this Resolution any officer of the District is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

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

The foregoing Resolution was duly and regularly introduced, passed, and adopted by the Board of Directors of the Cambria Community Services District at a special meeting thereof held on the 4<sup>th</sup> day of August, 2014, by the following called vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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James Bahringer President  
Board of Directors

Attest:

APPROVED AS TO FORM:

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Monique Madrid  
District Clerk

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Timothy J. Carmel  
District Counsel

## INSTALLMENT SALE AGREEMENT

This INSTALLMENT SALE AGREEMENT (this "Agreement"), dated for convenience as of August 7, 2014, is between TPB INVESTMENTS, INC., a wholly owned subsidiary of Western Alliance Bank, an Arizona corporation (the "Lender"), and the CAMBRIA COMMUNITY SERVICES DISTRICT, a community services district duly organized and existing under the laws of the State of California (the "District").

### BACKGROUND:

1. The District owns and operates certain facilities and property for the supply, treatment and distribution of water (the "Water System") and in order to provide funds to finance improvements to the Water System, consisting generally of emergency water supply improvements to provide treatment for brackish water in the lower San Simeon Creek aquifer (the "Project"), the Lender has proposed to enter into this Agreement, under which the Lender will provide funds for that purpose and will agree to sell the Project to the District in consideration of the agreement by the District to pay the purchase price of the Project in semiannual installments (the "Installment Payments").

2. Funds required to finance the Project will be provided by the Lender.

3. The Installment Payments will be payable from, and secured by a pledge of and lien on, (a) the net revenues of the Water System, (b) amounts derived from the emergency water supply operating charges which have been adopted by the Board of Directors of the District, and (c) all *ad valorem* property taxes which are allocated and paid to the District.

4. Concurrent with the execution and delivery of this Agreement, the District has caused to be prepaid and retired all of its installment payment obligations under that certain Loan Agreement dated as of February 17, 2006, between the District and Municipal Finance Corporation, as a result of which said installment payments have ceased to be payable from and secured by a pledge of the net revenues of the Water System.

5. The District is authorized to enter into this Agreement and to purchase the Project from the Lender under the laws of the State of California, including Section 61060(d) of the Government Code of the State of California.

### AGREEMENT:

In consideration of the foregoing and the material covenants hereinafter contained, the District and the Lender formally covenant, agree and bind themselves as follows:

# ARTICLE I

## DEFINITIONS AND APPENDICES

SECTION 1.1. *Definitions.* All terms defined in this Section shall for all purposes of this Agreement have the meanings herein specified.

“Agreement” means this Installment Sale Agreement dated as of August 7, 2014, between the Lender and the District.

“Annual Net Water System Debt Service” means, for any Fiscal Year, the sum of (a) the Installment Payments coming due in such Fiscal Year, to the extent such Installment Payments exceed the aggregate amount of Emergency Water Surcharge Revenues received by the District in the immediately preceding Fiscal Year, and (b) the principal of and interest on any outstanding Parity Debt coming due during such Fiscal Year.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, 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.

“Closing Date” means the date of execution and delivery of this Agreement by the parties hereto, being August 7, 2014.

“District” means the Cambria Community Services District, a community services district formed under the Community Services District Law of the State of California (constituting Division 3 of Title 6 of the California Government Code, commencing with Section 61000).

“District Representative” means the General Manager, Finance Manager or any other person designated as a District Representative by a written certificate of signed by the General Manager and filed with the Lender.

“Emergency Water Supply Fund” means the fund or funds established and held by the District with respect to the Water System for the receipt and deposit of Emergency Water Surcharge Revenues.

“Emergency Water Surcharge Revenues” means all amounts received by the District from the emergency water supply surcharges which are levied and imposed pursuant to Resolution No. 32-2014 adopted by the Board of Directors of the District on July 24, 2014; excluding, however, amounts received from the charge which is identified therein as the “Emergency Water Supply Operating Charge”.

“Event of Default” means any of the events of default as defined in Section 6.1.

“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 Consultant” means any consultant or firm of such consultants appointed by the District and who, or each of whom: (a) is judged by the District to have experience in matters relating to the financing of water system enterprises; (b) is in fact independent and not under domination of the District; (c) does not have any substantial interest, direct or indirect, with the District other than as purchaser of any Parity Debt; and (d) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

“Fiscal Year” means each twelve-month period during the Term of this 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.

“General Fund” means the general fund of the District.

“Governmental Authority” means any governmental or quasi-governmental entity, including any court, department, commission, board, bureau, agency, administration, central bank, service, District 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.

“Installment Payment Date” means February 1 and August 1 in each year, commencing February 1, 2015, and continuing to and including the date on which the Installment Payments are paid in full.

“Installment Payments” means all payments required to be paid by the District under Section 4.3, including any prepayment thereof under Sections 7.2 or 7.3.

“Lender” means TPB Investments, Inc., a wholly owned subsidiary of Western Alliance Bank, an Arizona corporation, its successor and assigns.

“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 Agreement or to meet or perform its obligations under this Agreement on a timely basis, or (c) the validity or enforceability of this Agreement.

“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, (a) if determined adversely to the District, may have a Material Adverse Effect, (b) seek to restrain or enjoin any of the transactions contemplated by this Agreement, or (c) may adversely affect the ability of the District to perform its obligations under this Agreement.

“Net Installment Payments” means, with respect to the issuance of any Parity Debt, the principal and interest components of the Installment Payments which would be

payable in the current or any future Fiscal Year from the Net Water Revenues and the Tax Revenues, after applying all of the Emergency Water Surcharge Revenues to the payment of the Installment Payments.

“Net Water Revenues” means, for any period, an amount equal to all of the Water Revenues received during such period, minus the amount required to pay all Operation and Maintenance Costs coming payable during such period.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Water System, including but not limited to the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and including but not limited to administrative costs of the District attributable to the Water System and the financing thereof. “Operation and Maintenance Costs” do not include (a) depreciation, replacement and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, (c) payments of principal of and interest on any Parity Debt or other obligations of the District, and (d) costs of capital additions, replacements or improvements which are chargeable to a capital account.

“Parity Debt” means any bonds, notes or other obligations of the District payable from and secured by a pledge of and lien upon any of the Net Water Revenues and Tax Revenues on a parity with the Installment Payments.

“Parity Debt Documents” means, collectively, the indenture of trust, trust agreement, installment sale agreement or other document authorizing the issuance of any Parity Debt or any securities which evidence Parity Debt.

“Pledged Revenues” means, collectively, all of the Net Water Revenues, Emergency Water Surcharge Revenues and Tax Revenues.

“Pro Rata Share” means, with respect to the Tax Revenues for any Fiscal Year, the amount of such Tax Revenues multiplied by the fraction which is obtained by dividing (a) the aggregate amount of debt service remaining to be paid on all outstanding obligations of the Water System which are secured by a pledge of Tax Revenues, by (b) the aggregate amount of debt service remaining to be paid on all obligations of the District (including but not limited to obligations relating to the Water System and the wastewater system of the District) which are secured by a pledge of Tax Revenues.

“Project” means the facilities, improvements and other property described more fully in Appendix B attached hereto, as that Appendix may be amended from time to time in accordance with Section 3.2.

“Project Costs” means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Project;



- (b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;
- (d) all preliminary costs of the Project, including but not limited to design, environmental, engineering and architectural services, costs for testing, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and costs for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;
- (e) any sums required to reimburse the District for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;
- (f) all costs incurred in connection with the execution and delivery of this Agreement and the financing of the Project, including but not limited to costs of bond counsel and other attorneys, financial advisor and other professional engaged by the District in connection with the financing of the Project; and
- (g) the interest components of the Installment Payments during the period of acquisition, construction and installation of the Project.

“Project Fund” means the fund by that name established and held by the District under Section 3.3.

“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.

“Tax Revenues” means all *ad valorem* property taxes which are allocated and paid to the District.

“Term of this Agreement” or “Term” means the time during which this Agreement is in effect, as provided in Section 4.2.

“2010 Loan” means the loan made to the District in the aggregate principal amount of \$1,585,000 under the 2010 Loan Agreement.

“2010 Loan Agreement” means the Loan Agreement dated as of September 23, 2010, between the District and Municipal Finance Corporation, as amended from time to time in accordance with its terms.

“Water Revenues” means all gross charges received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to (a) connection charges, (c) earnings on the investment of the foregoing; but excluding the Emergency Water Surcharge Revenues.

“Water Fund” means the fund or funds established and held by the District with respect to the Water System for the receipt and deposit of Water Revenues.

“Water System” means the entire system of the District for the supply, storage, treatment and distribution of water within the service area of the District, including but not limited to all facilities, properties, lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the District. The Project shall constitute a part of the Water System for all purposes of this Agreement.

SECTION 1.2. *Appendices.* The following Appendices are attached to, and by reference made a part of, this Agreement:

Appendix A: The schedule of Installment Payments to be paid by the District hereunder, showing the date and amount of each such Installment Payment.

Appendix B: The description of the Project.

## ARTICLE II

### REPRESENTATIONS, COVENANTS AND WARRANTIES

SECTION 2.1. *Representations, Covenants and Warranties of the District.* The District represents, covenants and warrants to the Lender as follows:

- (a) Due Organization and Existence. The District is a community services district and political subdivision of the State of California, duly organized and existing under the Community Services District Law of the State of California.
- (b) Authorization and Enforceability. The laws of the State of California authorize the District to enter into this Agreement, to enter into the transactions contemplated hereby and to carry out its obligations hereunder, and the Governing Board of the District has duly authorized the execution and delivery of this Agreement. This Agreement constitutes the legal, valid and binding agreement of the District enforceable against the District in accordance with its terms.
- (c) No Violations. Neither the execution and delivery of this Agreement, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions

or provisions of any restriction or any agreement or instrument to which the District is now a party or by which the District is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrances whatsoever upon any of the property or assets of the District, other than as set forth herein.

- (d) 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 of this Agreement, or the consummation of any transaction herein contemplated, except as have been obtained or made and as are in full force and effect.
- (e) No Litigation. To the best knowledge of the undersigned, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, educational or other governmental authority pending or, to the knowledge of the District, 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 and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement or upon the financial condition, assets, properties or operations of the District, 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, educational or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement or the financial conditions, assets, properties or operations of the District.
- (f) No Defaults. To the best knowledge of the District, the District has never not appropriated or defaulted under any of its payment or performance obligations or covenants, either under any financing lease of the same general nature as this Agreement, or under any of its bonds, notes, or other debt obligations.
- (g) Fee Title. The District is the owner in fee of title to the property where the Project will be installed. No lien or encumbrance on the property materially impairs the District's use of the property for the purposes for which it is, or may reasonably be expected to be, held.
- (h) Flooding Risk. The Project is not located in a 100-year flood zone.
- (i) Value of Project. The value of the Project (replacement cost) is not less than the aggregate principal amount of the Installment Payments.

- (j) Change in Financial Condition. The District has experienced no material change in its financial condition since the adoption of its mid-year budget for the Fiscal Year ending June 30, 2014, which has been provided to the Lender.
- (k) Financial Statements. The statement of financial position of the District as of June 30, 2013, 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, copies of which have heretofore been furnished to the Lender, 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 Lender: (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 Installment 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 Lender were, at the time the same were so furnished, complete and accurate in all material respects and insofar as necessary to give the Lender a true and accurate knowledge of the subject matter and were provided in expectation of the Lender's reliance thereon in entering into the transactions contemplated by this 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 Lender or in other such information, reports, papers and data or otherwise disclosed in writing to the Lender prior to the Closing Date. Any financial, budget and other projections furnished to the Lender by the District or its or their 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

Lender in connection with the negotiation, preparation or execution of this 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, accurate and complete in all respects.

## ARTICLE III

### DEPOSIT OF FUNDS; CONSTRUCTION OF PROJECT

SECTION 3.1. *Amount of Financing; Deposit of Amounts.* On the Closing Date, the Lender shall deposit or cause to be deposited the amount of \$8,800,000 in the Project Fund. Amounts so deposited in the Project Fund shall be applied to finance the acquisition, construction and installation of the Project as provided herein. In addition, the Lender shall disburse the amount of \$139,000 to the District for payment of costs of issuance relating to the financing, to be paid pursuant to written requisitions which are executed by a District Representative. The Lender shall have no liability for payments made pursuant to such written requisitions of the District.

SECTION 3.2. *Construction of Project.* The Lender hereby appoints the District as its agent to carry out all phases of the acquisition, construction and installation of the Project under and in accordance with the provisions hereof. The District hereby accepts such appointment and assumes all rights, liabilities, duties and responsibilities of the Lender regarding the acquisition, construction and installation of the Project. As agent of the Lender hereunder, the District shall enter into, administer and enforce all purchase orders or other contracts relating to the Project. Payment of Project Costs shall be made by the District from amounts held in the Project Fund in accordance with the provisions of this Agreement. If and to the extent the amounts on deposit in the Project Fund are insufficient to enable the District to complete the Project in full, the District has the sole responsibility for completing the Project and the District will finance such completion 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 acquisition, construction and installation of the Project in accordance with the plans and specifications, purchase orders, construction contracts and other documents relating thereto and approved by the District under all applicable requirements of law. All contracts for, and all work relating to, the acquisition, construction and installation of the Project are subject to all applicable provisions of law relating to the acquisition and construction of public works by the District. With the prior written consent of the Lender, the District has the right to specify the exact scope, nature and identification of the Project and the respective components thereof, and to modify the description of the Project or any component thereof.

The District represents and warrants that the Project will be substantially completed no later than January 1, 2015. However, the failure to complete the Project by its estimated completion date does not constitute an Event of Default hereunder or a grounds for termination hereof, nor will any such failure result in the diminution,

abatement or extinguishment of the obligations of the District hereunder to pay the Installment Payments when due.

SECTION 3.3. *Project Fund.* The District shall establish and hold a fund 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 the proceeds of the financing into the Project as provided in Section 3.1, 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 Project Costs. The District shall invest proceeds in the Project Fund in investments authorized by California law and the District's investment policy. Any unexpended proceeds in the Project Fund upon the completion of the Project shall be applied by the District towards the payment of Installment Payments.

## ARTICLE IV

### INSTALLMENT SALE OF PROJECT

SECTION 4.1. *Sale of Project to the District.* The Lender hereby sells the Project to the District, and the District hereby purchases the Project from the Lender, upon the terms and provisions hereof.

SECTION 4.2. *Term.* The Term of this Agreement commences on the date of execution and delivery of this Agreement and ends on the date on which all of the Installment Payments have been paid in full.

SECTION 4.3. *Installment Payments.*

(a) Obligation to Pay. The District hereby agrees to pay the purchase price of the Project in the aggregate principal amount of \$8,939,000, together with interest (calculated at the rate of 4.09% per annum on the basis of a 360-day year of twelve 30-day months) on the unpaid principal balance thereof, payable in semiannual Installment Payments in the respective amounts and on the respective Installment Payment Dates specified in Appendix A. The District shall pay all Installment Payments when due directly to the Lender, in accordance with such payment instructions as the Lender shall provide to the District from time to time.

(b) Effect of Prepayment. If the District prepays the Installment Payments in full under Article VII, the District's obligations under this Agreement shall thereupon cease and terminate, including but not limited to the District's obligation to pay Installment Payments under this Section; subject, however, to the provisions of Section 7.1 in the case of prepayment by application of a security deposit. If the District prepays the Installment Payments in part but not in whole under Sections 7.2 or 7.3, the principal components of the remaining Installment Payments shall be reduced on a pro rata basis.

(c) Rate on Overdue Payments. If the District fails to make any of the payments required in this Section, the payment in default shall 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, to the extent permitted by law, from the Installment

Payment Date to the applicable date of payment at the rate set forth in subsection (a) of this Section plus 5.00% per annum.

(d) Increase in Interest Rate Upon Event of Taxability. If the interest components of the Installment Payments become includable in the gross income of the Lender for federal income tax purposes under the Tax Code, due to the failure by the District to observe and perform its obligations under Section 5.16 in any respect, based upon a final determination thereof by the Internal Revenue Service, the District shall pay to the Lender, within thirty days of such determination, the amount which, with respect to Installment Payments previously paid and taking into account all penalties, fines, interest and additions to tax (including all federal, state and local taxes imposed on the interest portion paid on the Installment Payments due through the date of such determination) that are imposed on the Lender as a result of the loss of the exclusion, will restore the Lender to the same after-tax yield on the transaction evidenced by this Agreement (assuming tax at the actual marginal corporate rate) that it would have realized had the tax exemption not been lost. Furthermore, the District agrees that upon the occurrence of such an event, it shall pay additional amounts to the Lender on each succeeding Installment Payment Date as will maintain such after-tax yield to the Lender.

(e) Budget and Appropriation of Installment Payments. The District covenants to take all actions required to include the Installment Payments in each of its budgets during the Term of this Agreement and to make the necessary appropriations for all Installment Payments. The District shall furnish to the Lender a copy of its budget for each Fiscal Year during the Term of this Agreement, within 30 days following the adoption thereof by the Board of Directors of the District.

#### SECTION 4.4. *Nature of District's Obligations.*

(a) Special Obligation. The District's obligation to pay the Installment Payments is a special obligation of the District limited solely to the Pledged Revenues. Under no circumstances is the District required to advance moneys derived from any source of income other than the Pledged Revenues and other sources specifically identified herein for the payment of the Installment Payments, and no other funds or property of the District are liable for the payment of the Installment Payments. Notwithstanding the foregoing provisions of this Section, however, nothing herein prohibits the District voluntarily from making any payment hereunder from any source of available funds of the District.

(b) Obligations Absolute. The obligations of the District to pay the Installment Payments from the Pledged Revenues, and the obligations of the District to perform and observe the other agreements contained herein, are absolute and unconditional and are not subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District or the Lender of any obligation to the District or otherwise with respect to the Water System, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the District by the Lender. Until such time as all of the Installment Payments have been fully paid or prepaid, the District:

- (i) will not suspend or discontinue payment of any Installment Payments,

- (ii) will perform and observe all other agreements contained in this Agreement, and
- (iii) will not terminate this Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water System, sale of the Water System, the taking by eminent domain of title to or temporary use of any component of the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or the State of California or any political subdivision of either thereof or any failure of the Lender to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement.

(c) Protection of Rights. If the Lender fails to perform any such agreements on its part, the District may institute such action against the Lender as the District deems necessary to compel performance so long as such action does not abrogate the obligations of the District contained in the preceding subsection (b). The District may, however, at the District's own cost and expense and in the District's own name or in the name of the Lender prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to secure or protect the District's rights hereunder, and in such event the Lender will cooperate fully with the District and to take such action necessary to effect the substitution of the District for the Lender in such action or proceeding if the District shall so request.

#### SECTION 4.5. *Pledge and Application of Pledged Revenues.*

(a) Pledge. All of the Pledged Revenues are hereby irrevocably pledged to the punctual payment of the Installment Payments, on a parity with the pledge which secures any Parity Debt (and in the case of the Tax Revenues, on a parity with the pledge which secures the 2010 Loan). Such pledge constitutes a first and exclusive lien on the Pledged Revenues for the payment of the Installment Payments in accordance with the terms hereof.

(b) Deposit of and Application of Pledged Revenues. The District shall deposit all of the Water Revenues immediately upon receipt in the Water Fund, which has previously been established by the District and which the District will maintain throughout the Term of this Agreement. The District shall deposit all of the Emergency Revenues immediately upon receipt in the Emergency Water Supply Fund, which the District shall establish and maintain throughout the Term of this Agreement. The District shall deposit all of the Tax Revenues immediately upon receipt in its General Fund, which has previously been established by the District and which the District will maintain throughout the Term of this Agreement. The District hereby grants a pledge of and lien on the Emergency Water Supply Fund and all amounts therein, for the benefit of the Lender.

On or before each Installment Payment Date, the District shall withdraw from the Water Fund, the Emergency Water Supply Fund and the General Fund, and transfer to the Lender, the full amount of the Installment Payment then coming due and payable.



Amounts for that purpose shall be derived from the following funds in the following order of priority:

- (i) *first*, from Emergency Water Surcharge Revenues on deposit in the Emergency Water Supply Fund;
- (ii) *second*, from Net Water Revenues on deposit in the Water Revenue Fund; and
- (iii) *third*, from Tax Revenues on deposit in the General Fund.

(c) Other Uses Permitted. The District shall manage, conserve and apply the Pledged Revenues in such a manner that all deposits required to be made under this Section will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing hereunder, the District may at any time and from time to time use and apply Water Revenues and Tax Revenues for (i) the payment of administrative costs of the District, (ii) the payment of the costs of providing other services by the District, (iii) the prepayment of any outstanding obligations of the District which are payable from Water Revenues or Tax Revenues, or (iv) any other lawful purpose of the District.

Notwithstanding the foregoing provisions of this subsection (c), so long as the Installment Payments remain unpaid, the Emergency Water Surcharge Revenues, and all amounts at any time on deposit in the Emergency Water Supply Fund, shall be used by the District either (i) for the purpose of paying or prepaying the Installment Payments, or (ii) in the event any Emergency Water Surcharge Revenues are not required for payment of the Installment Payments next coming due and payable, for any lawful purposes for which the Emergency Water Surcharge Revenues have been levied.

SECTION 4.6. *Security Interest in the Project*. The District hereby grants to the Lender a security interest of first priority in the Project. The District shall execute and deliver all financing statements and other lien documents as may be reasonably requested by the Lender to perfect such security interests in favor of the Lender. In the event that the District receives additional financing for the Project from the State of California or any other party, and the State of California or such other party requires a security interest in the Project on a parity with the security interest which is granted under this Section, the Lender shall execute and deliver such agreements or other documentation to effectuate such requirement as shall be requested by the District and approved by the Lender and its counsel.

## ARTICLE V

### COVENANTS OF THE DISTRICT

SECTION 5.1. *Disclaimer of Warranties.* THE LENDER MAKES NO 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 PROJECT OR ANY COMPONENT THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO PROJECT OR ANY COMPONENT THEREOF. THE LENDER IS NOT LIABLE FOR INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT FOR THE EXISTENCE, FURNISHING, FUNCTIONING OR USE OF THE PROJECT.

SECTION 5.2. *Release and Indemnification Covenants.* The District agrees to indemnify the Lender and its officers, agents, successors and assigns, against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on or about the Water System by the District, (b) any breach or default on the part of the District in the performance of any of its obligations under this Agreement, (c) any act or omission of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Water System, and (d) any act or omission of any lessee of the District with respect to the Water System. No indemnification is made under this Section or elsewhere in this Agreement for willful misconduct or gross negligence under this Agreement by the Lender or its members, officers, agents, employees, successors or assigns. The provisions of this Section shall survive the expiration of the Term of this Agreement.

SECTION 5.3. *Sale or Eminent Domain of Water System.* Except as provided herein, the District covenants that the Water System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the Installment Payments or the principal of or interest on any Parity Debt, or would materially adversely affect its ability to comply with the terms of this Agreement or any Parity Debt Documents. The District shall not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Water Revenues to pay the Installment Payments or any Parity Debt, or which otherwise would impair the rights of the Lender with respect to the Net Water Revenues. If any substantial part of the Water System is sold, the payment therefor will either (a) be used for the acquisition or construction of improvements and extensions to or replacement of the Project or (b) be applied to prepay or prepay the Installment Payments or any Parity Debt.

Any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, will either (a) be used for the acquisition or construction of improvements and extension of the Water System, or (b) be applied to prepay or prepay the Installment Payments or any Parity Debt.

SECTION 5.4. *Liability and Property Damage Insurance.* The District shall maintain or cause to be maintained throughout the Term of this Agreement a standard commercial general liability insurance policy or policies in protection of the District and its 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 operation of the Water System. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the District deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which paid.

SECTION 5.5. *Casualty Insurance.* The District shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Agreement, casualty insurance against loss or damage to the Project, in an amount at least equal to the lesser of (a) 100% of the replacement value of the Project, or (b) 100% of the aggregate principal amount of the unpaid Installment Payments. Such insurance shall, as nearly as practicable, cover loss or damage by such hazards as are normally covered by such insurance. Such insurance may be subject to such deductibles as the District deems adequate and prudent. 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 agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Water System will be used, at the option of the District, either (a) to repair or rebuild such damaged or destroyed portion of the Water System, or (b) be applied to prepay or prepay the Installment Payments or any Parity Debt.

Each policy of insurance maintained under this Section shall name the Lender as loss payee so as to provide that all proceeds thereunder are payable to the Lender.

SECTION 5.6. *Records and Accounts.* The District will keep proper books of record and accounts of the Water System in which complete and correct entries shall be made of all transactions relating to the Water System. Said books shall, upon prior request, be subject to the reasonable inspection of the Lender, or their representatives authorized in writing, upon not less than two Business Days' prior notice to the District.

The District will cause the books and accounts of the Water System to be audited annually by an independent certified public accountant or firm of certified public accountants, and shall file a copy of such report with the Lender within 210 days of the close of each Fiscal Year or as soon thereafter as is practicable. Such report may be part of a combined financial audit or report covering all or part of the District's finances.

SECTION 5.7. *Notices to the Lender.* During the Term of this Agreement, the District shall provide to the Lender:

- (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 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) with reasonable promptness (but not later than ten business days), such other information respecting the District, and the operations, affairs and financial condition of the District as the Lender may from time to time reasonably request;
- (d) notice of filings with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system; other than regular annual filings; and
- (e) notice of an event that could have a Material Adverse Effect.

SECTION 5.8. *Rates and Charges.* The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which (together with a Pro Rata Share of the Tax Revenues, the Emergency Water Surcharge Revenues and together with existing unencumbered fund balances which are maintained in the form of cash or cash equivalents, and which are lawfully available to the District for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (i) all Operation and Maintenance Costs of the Water System estimated by the District to become due and payable in such Fiscal Year;
- (ii) 110% of the Installment Payments and all principal and interest coming due and payable on any Parity Debt which is outstanding during such Fiscal Year, without preference or priority; and
- (iii) all payments required to meet any other obligations of the District which are charges, liens, encumbrances upon or payable from the Water Revenues during such Fiscal Year.

SECTION 5.9. *Preservation of Emergency Water Surcharge Revenues.* The District shall not (a) amend or revise the resolution which establishes the Emergency Water Surcharge Revenues, if such amendment or revision reduces or eliminates the amount of Emergency Water Surcharge Revenues in any Fiscal Year during the Term of this Agreement, or (b) otherwise take any action or permit any action within its control to be taken which would have the effect of reducing or eliminating the amount of Emergency Water Surcharge Revenues in any Fiscal Year during the Term of this Agreement. Notwithstanding the foregoing provisions of this Section, in the event the District prepays the Installment Payments under Section 7.2(a) from the proceeds of any federal or state grant with respect to the Project, the District shall be permitted to take any action which reduces the Emergency Water Surcharge Revenues by an amount which is proportionate to the principal amount of the Installment Payments which are so

prepaid; *provided, however*, that the District shall not approve any reduction in the Emergency Water Surcharge Revenues unless it files a written certificate with the Lender stating that the District is then in compliance with the provisions of Section 5.8, and that the reduction of Water Surcharge Revenues will not cause the District to fail to comply with the provisions of Section 5.8.

SECTION 5.10. *Superior and Subordinate Obligations.* The District shall not issue or incur any additional bonds or other obligations during the Term of this Agreement having any priority in payment of principal or interest out of the Pledged Revenues over the Installment Payments. Nothing herein limits or affects the ability of the District to issue or incur (a) Parity Debt under Section 5.11, or (b) obligations which are either unsecured or which are secured by an interest in the Water Revenues and the Tax Revenues which is junior and subordinate to the pledge of and lien upon the Net Water Revenues and the Tax Revenues established hereunder. Notwithstanding anything herein to the contrary, so long as the Installment Payments remain unpaid the District shall not issue or incur any additional bonds or other obligations which are payable from or secured by the Emergency Water Surcharge Revenues.

SECTION 5.11. *Issuance of Parity Debt.* Except for obligations incurred to prepay or post a security deposit for the Installment Payments in whole, the District shall not issue or incur any Parity Debt unless:

- (a) The District is not then in default under the terms of this Agreement or any Parity Debt Documents.
- (b) The amount of Net Water Revenues and a Pro Rata Share of the Tax Revenues as shown by the books of the District for the latest Fiscal Year for which audited financial statements are available, or as shown by the books of the District for any more recent 12-month period selected by the District, are at least equal to 110% of the maximum amount of Annual Net Water System Debt Service coming due and payable in the current or any future Fiscal Year.

For purposes of determining the amount of Net Water Revenues under this subsection (b), such amount may be increased by an allowance for Net Water Revenues arising from any increase in the charges made for service from the Water System which has become effective prior to the incurring of such Parity Debt but which, during all or any part of the latest Fiscal Year or such 12-month period, was not in effect, in an amount equal to the total amount by which the Net Water Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of an independent certified public accountant employed by the District.

- (c) All conditions to the issuance of such Parity Debt as set forth in the Parity Debt Documents shall be met, and the District shall file with the Lender a written certificate to such effect, signed on behalf of the District by a duly authorized officer.

SECTION 5.12. *Operation of Water System in Efficient and Economical Manner.* The District covenants and agrees to operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

SECTION 5.13. *Assignment by the Lender.* The Lender has the right to make assignments of its interests herein, but no such assignment will be effective as against the District unless and until the Lender files with the District written notice thereof. The District shall pay all Installment Payments pursuant to the written direction of the Lender named in the most recent assignment or notice of assignment filed with the District. During the Term of this Agreement, the District will keep a complete and accurate record of all such notices of assignment.

SECTION 5.14. *Assignment by the District.* Neither the Installment Payments nor this Agreement may be assigned by the District, other than to a public agency which succeeds to the interests of the District in and to the Water System and which (by operation of law, by contract or otherwise) becomes legally bound to all of the terms and provisions hereof.

SECTION 5.15. *Amendment of this Agreement.* This Agreement may be amended by the District and the Lender, but only with the prior written consent of the Lender (which consent shall not be unreasonably withheld).

SECTION 5.16. *Tax Covenants.*

(a) Generally. The District shall 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 Installment Payments to become includable in gross income for federal income tax purposes.

(b) Private Activity Bond Limitation. The District shall assure that the financing proceeds are not so used as to cause the Installment Payments 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 shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Installment Payments to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(d) No Arbitrage. The District shall not take, or permit or suffer to be taken, any action with respect to the proceeds of the Installment 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 Installment Payments to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

(e) Small Issuer Exemption from Bank Nondeductibility Restriction. The District hereby designates this Agreement for purposes of paragraph (3) of Section 265(b) of the Tax Code and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Tax Code) from gross income for federal income tax purposes (excluding (i)

private activity bonds, as defined in Section 141 of the Tax Code, except qualified 501(c)(3) bonds as defined in Section 145 of the Tax Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including this Agreement, has been or will be issued by the District, including all subordinate entities of the District, during the calendar year 2014.

(f) Rebate Requirement. The District shall 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 Installment Payments.

SECTION 5.17. *Compliance With Prior Financing Documents*. The District shall observe and perform all of the covenants, agreements and conditions on its part required to be observed and performed under the 2010 Loan Agreement. The District shall not take or omit to take any action within its control which would, or which if not corrected with the passage of time would, constitute an event of default under the 2010 Loan Agreement.

## ARTICLE VI

### EVENTS OF DEFAULT AND REMEDIES

SECTION 6.1. *Events of Default Defined*. The following are Events of Default under this Agreement:

- (a) Failure by the District to pay any Installment Payment or other payment required hereunder within three days after the date on which such Installment Payment or other payment becomes due.
- (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 Lender; *provided, 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 Lender shall not unreasonably withhold its consent to an extension of such time 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 acts which may hereafter be enacted.

- (d) The failure by the District to pay the 2010 Loan or any Parity Debt when due and payable, or the occurrence of any event of default under and as defined in the 2010 Loan Agreement or any Parity Debt Documents, respectively.
- (e) Any statement, representation or warranty made by the District in or pursuant to this Agreement or its execution, delivery or performance shall have been false, incorrect, misleading or breached in any material respect on the date when made.
- (f) Any court of competent jurisdiction shall find or rule that this Agreement is not valid or binding against the District.

SECTION 6.2. *Remedies on Default.* Upon the occurrence and during the continuation of an Event of Default, the Lender may, at its option and without any further demand or notice:

- (a) declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the rate set forth in Section 4.3(c) from the immediately preceding Installment Payment Date on which payment was made, to be immediately due and payable, whereupon the same will immediately become due and payable;
- (b) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of this Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under this Agreement;
- (c) the Lender may enter the property where the equipment comprising the Project is located and retake possession of the Project or require District at its expense to promptly return any or all of the Project to the possession of Lender at such place within the United States as Lessor shall specify, to permit the Lender to sell or lease the Project; and
- (d) the Lender may enforce any of District's rights or remedies against any vendor or contractor with respect to the acquisition, installation and construction of the Project, including the recovery or any monies owned to the District pursuant to any warranty or other claims with respect to acquisition, installation and construction the Project.

The provisions of the preceding clause (a) are subject to the condition that if, at any time after the principal components of the unpaid Installment Payments shall have been so declared due and payable under the preceding clause (a), and before any



judgment or decree for the payment of the moneys due shall have been obtained or entered, the District deposits with the Lender a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the rate set forth in Section 4.3(c), and a sum sufficient to pay all reasonable costs and expenses incurred by the Lender in the exercise of its rights and remedies hereunder, and any and all other defaults known to the Lender (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) have been made good, then, and in every such case, the Lender may, by written notice to the District, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 6.3. *No Remedy Exclusive.* No remedy herein conferred upon or reserved to the Lender is exclusive, and every such remedy is cumulative and in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default impairs any such right or power or operates as 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 Lender to exercise any remedy reserved to it in this Article VI it is not necessary to give any notice, other than such notice as may be required in this Article VI or by law.

SECTION 6.4. *Agreement to Pay Attorneys' Fees and Expenses.* In the event either party to this Agreement defaults under any of the provisions hereof and the nondefaulting party employs attorneys (including in-house counsel) or incurs 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 will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys (including those of in-house counsel) and such other expenses so incurred by the nondefaulting party.

SECTION 6.5. *No Additional Waiver Implied by One Waiver.* If any agreement contained in this Agreement is breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

## **ARTICLE VII**

### **PREPAYMENT OF INSTALLMENT PAYMENTS**

SECTION 7.1. *Security Deposit.* Notwithstanding any other provision of this Agreement, the District may on any date secure the payment of Installment Payments in whole or in part, by irrevocably depositing with a fiduciary an amount of cash which, together with other available amounts, is either:

- (a) sufficient to pay all such Installment Payments, including the principal and interest components thereof, when due under Section 4.3(a) or upon the prepayment thereof under Section 7.2, or
- (b) invested in whole or in part in Federal Securities in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Installment Payments when due under Section 4.3(a) or, if such amounts are sufficient to prepay the Installment Payments in full under Section 7.2, when due on any optional prepayment date under Section 7.2, as the District instructs at the time of the deposit.

In the event of a security deposit under this Section for the payment of all remaining Installment Payments, (i) the District grants to the Lender a first priority security interest and lien in the security deposit and all proceeds thereof in favor of the Lender, and (ii) all obligations of the District under this Agreement, and the pledge of Net Water Revenues and the Tax Revenues, and all other security provided by this Agreement for said obligations, will cease and terminate, excepting only the obligation of the District to make, or cause to be made, all of Installment Payments from such security deposit. Said security deposit will constitute a special fund, subject to the lien described herein, for the payment of such Installment Payments in accordance with the provisions of this Agreement.

#### SECTION 7.2. *Optional Prepayment.*

(a) Regular Optional Prepayment Provision. The District may prepay the unpaid principal balance of the Installment Payments in whole or in part, on August 1, 2024, or on any date thereafter, by paying a prepayment price equal to the principal amount of the Installment Payments to be prepaid, together with the Installment Payment required to be paid on such Installment Payment Date, without a prepayment premium or penalty.

(b) Extraordinary Prepayment from Grant Proceeds. The District may prepay the unpaid principal balance of the Installment Payments, in a principal amount not exceeding \$3,750,000, on any date to and including August 1, 2015, from the proceeds of any federal or state grant with respect to the Project, by paying a prepayment price equal to the principal amount of the Installment Payments to be prepaid, together with interest accruing on said principal amount to the prepayment date, together with a prepayment premium equal to 5% of the principal amount to be prepaid.

(c) Make-Whole Prepayment at Any Time. The District may prepay the unpaid principal balance of the Installment Payments on any date, by paying a prepayment price equal to the principal amount of the Installment Payments to be prepaid, together with interest accruing on said principal amount to the prepayment date, together with a prepayment premium which is equal to the additional amount, as determined by the Lender, that would be required under then prevailing circumstances to enable the Lender to acquire a security of comparable quality and weighted average maturity, having a yield to the Lender which is equivalent to the yield to maturity of the Installment Payments which are prepaid under this subsection (c). Any such determination by the Lender shall be binding and conclusive, absent manifest error.

(d) Revised Payment Schedule. Upon the prepayment of the Installment Payments in part but not in whole, the Lender shall provide the District with a revised schedule of Installment Payments.

SECTION 7.3. *Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain.* The District shall prepay the unpaid principal balance of the Installment Payments in whole or in part on any date, from and to the extent the District determines to apply any proceeds of insurance award or condemnation award with respect to the Water System for such purpose under Sections 5.3 or 5.4 at a prepayment price equal to the principal amount to be prepaid, without prepayment fee. The District and the Lender hereby agree that such proceeds, to the extent remaining after payment of any delinquent Installment Payments, shall be credited towards the District's obligations under this Section.

## ARTICLE VIII

### MISCELLANEOUS

SECTION 8.1. *Term.* The Term of this Agreement commences on the Closing Date, and ends on the date on which the Installment Payments are paid in full or provision for such payment is made as provided herein.

SECTION 8.2. *Notices.* Any notice, request, complaint, demand or other communication under this Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopier or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by telecopier or other form of telecommunication, (b) 96 hours after deposit in the United States of America first class mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Lender, the District or the Lender may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

*If to the District:* Cambria Community Services District  
1316 Tamsen Street, Suite 201  
P.O. Box 65  
Cambria, California 93428  
Attention: Finance Manager  
Telephone: (805) 927-6223  
Fax: (805) 927-5584

*If to the Lender:* TPB Investments, Inc.  
c/o Western Alliance Bank  
One E. Washington Street  
Attention: Western Alliance Public Finance, Inc.  
Phoenix, Arizona 85004  
Telephone: (602) 797-3617  
Fax: (602) 797-0376

SECTION 8.3. *Binding Effect.* This Agreement inures to the benefit of and is binding upon the Lender and the District and their respective successors and assigns.

SECTION 8.4. *Severability.* In the event any provision of this 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 8.5. *Net-net-net Contract.* This Agreement is a “net-net-net” contract, and the District hereby agrees that the Installment Payments are an absolute net return to the Lender, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 8.6. *Further Assurances and Corrective Instruments.* The Lender and the District shall, 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 carrying out the expressed intention of this Agreement.

SECTION 8.7. *Execution in Counterparts.* This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 8.8. *Applicable Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 8.9. *Captions.* The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Agreement.

IN WITNESS WHEREOF, the Lender has caused this Agreement to be executed in its corporate name by its duly authorized officer and the District has caused this Agreement to be executed in its name by its duly authorized officers, as of the date first above written.

**TPB INVESTMENTS, INC.**

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

**CAMBRIA COMMUNITY SERVICES  
DISTRICT**

By: \_\_\_\_\_  
General Manager

Attest:

\_\_\_\_\_  
District Clerk

## APPENDIX A

### SCHEDULE OF INSTALLMENT PAYMENTS

| Payment Number | Date     | Payment      | Interest     | Principal    | Balance        |
|----------------|----------|--------------|--------------|--------------|----------------|
|                | 8/7/2014 |              |              |              | \$8,939,000.00 |
| 1              | 2/1/2015 | \$326,194.13 | \$176,709.13 | \$149,485.00 | 8,789,515.00   |
| 2              | 8/1/2015 | 332,082.58   | 179,745.58   | 152,337.00   | 8,637,178.00   |
| 3              | 2/1/2016 | 329,138.29   | 176,630.29   | 152,508.00   | 8,484,670.00   |
| 4              | 8/1/2016 | 329,138.50   | 173,511.50   | 155,627.00   | 8,329,043.00   |
| 5              | 2/1/2017 | 329,139.93   | 170,328.93   | 158,811.00   | 8,170,232.00   |
| 6              | 8/1/2017 | 329,137.24   | 167,081.24   | 162,056.00   | 8,008,176.00   |
| 7              | 2/1/2018 | 329,138.20   | 163,767.20   | 165,371.00   | 7,842,805.00   |
| 8              | 8/1/2018 | 329,138.36   | 160,385.36   | 168,753.00   | 7,674,052.00   |
| 9              | 2/1/2019 | 329,138.36   | 156,934.36   | 172,204.00   | 7,501,848.00   |
| 10             | 8/1/2019 | 329,138.79   | 153,412.79   | 175,726.00   | 7,326,122.00   |
| 11             | 2/1/2020 | 329,138.19   | 149,819.19   | 179,319.00   | 7,146,803.00   |
| 12             | 8/1/2020 | 329,138.12   | 146,152.12   | 182,986.00   | 6,963,817.00   |
| 13             | 2/1/2021 | 329,138.06   | 142,410.06   | 186,728.00   | 6,777,089.00   |
| 14             | 8/1/2021 | 329,138.47   | 138,591.47   | 190,547.00   | 6,586,542.00   |
| 15             | 2/1/2022 | 329,138.78   | 134,694.78   | 194,444.00   | 6,392,098.00   |
| 16             | 8/1/2022 | 329,137.40   | 130,718.40   | 198,419.00   | 6,193,679.00   |
| 17             | 2/1/2023 | 329,138.74   | 126,660.74   | 202,478.00   | 5,991,201.00   |
| 18             | 8/1/2023 | 329,138.06   | 122,520.06   | 206,618.00   | 5,784,583.00   |
| 19             | 2/1/2024 | 329,138.72   | 118,294.72   | 210,844.00   | 5,573,739.00   |
| 20             | 8/1/2024 | 329,137.96   | 113,982.96   | 215,155.00   | 5,358,584.00   |
| 21             | 2/1/2025 | 329,138.04   | 109,583.04   | 219,555.00   | 5,139,029.00   |
| 22             | 8/1/2025 | 329,138.14   | 105,093.14   | 224,045.00   | 4,914,984.00   |
| 23             | 2/1/2026 | 329,138.42   | 100,511.42   | 228,627.00   | 4,686,357.00   |
| 24             | 8/1/2026 | 329,138.00   | 95,836.00    | 233,302.00   | 4,453,055.00   |
| 25             | 2/1/2027 | 329,137.97   | 91,064.97    | 238,073.00   | 4,214,982.00   |
| 26             | 8/1/2027 | 329,138.38   | 86,196.38    | 242,942.00   | 3,972,040.00   |
| 27             | 2/1/2028 | 329,138.22   | 81,228.22    | 247,910.00   | 3,724,130.00   |
| 28             | 8/1/2028 | 329,138.46   | 76,158.46    | 252,980.00   | 3,471,150.00   |
| 29             | 2/1/2029 | 329,138.02   | 70,985.02    | 258,153.00   | 3,212,997.00   |
| 30             | 8/1/2029 | 329,138.79   | 65,705.79    | 263,433.00   | 2,949,564.00   |
| 31             | 2/1/2030 | 329,138.58   | 60,318.58    | 268,820.00   | 2,680,744.00   |
| 32             | 8/1/2030 | 329,138.21   | 54,821.21    | 274,317.00   | 2,406,427.00   |
| 33             | 2/1/2031 | 329,138.43   | 49,211.43    | 279,927.00   | 2,126,500.00   |
| 34             | 8/1/2031 | 329,137.93   | 43,486.93    | 285,651.00   | 1,840,849.00   |
| 35             | 2/1/2032 | 329,138.36   | 37,645.36    | 291,493.00   | 1,549,356.00   |
| 36             | 8/1/2032 | 329,138.33   | 31,684.33    | 297,454.00   | 1,251,902.00   |
| 37             | 2/1/2033 | 329,138.40   | 25,601.40    | 303,537.00   | 948,365.00     |
| 38             | 8/1/2033 | 329,138.06   | 19,394.06    | 309,744.00   | 638,621.00     |
| 39             | 2/1/2034 | 329,138.80   | 13,059.80    | 316,079.00   | 322,542.00     |
| 40             | 8/1/2034 | 329,137.98   | 6,595.98     | 322,542.00   | 0.00           |

## **APPENDIX B**

### **DESCRIPTION OF PROJECT**

The Project consists generally of improvements and facilities to provide emergency water supply to the District by providing treatment of brackish water in the lower San Simeon Creek aquifer to remove solids, salt, organic chemicals and other contaminants, and by re-injecting the treated water into the aquifer's freshwater supply. The Project will supply approximately 300 gallons per minute of potable water.

The Project is more fully described in the Cambria Emergency Water Supply Title 22 Engineering Report dated June 2014, which has been prepared by CDM Smith Inc., and which is incorporated herein by reference. As provided in Section 3.2 of this Agreement, the District has the right to specify the exact scope, nature and identification of the Project and the respective components thereof, and to modify the description of the Project or any component thereof.

SOURCES AND USES OF FUNDS

Cambria Community Services District  
2014 Installment Sale Agreement  
(Emergency Water Supply Project)  
\*\*\*

Private Placement - TPB Investments Inc.

Dated Date 08/07/2014  
Delivery Date 08/07/2014

Sources:

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|               |              |
|---------------|--------------|
| ISA Proceeds: |              |
| Par Amount    | 8,939,000.00 |
|               | <hr/>        |
|               | 8,939,000.00 |

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Uses:

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|                         |              |
|-------------------------|--------------|
| Project Fund Deposits:  |              |
| Project Fund            | 8,800,000.00 |
| Delivery Date Expenses: |              |
| Cost of Issuance        | 139,000.00   |
|                         | <hr/>        |
|                         | 8,939,000.00 |

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ISA SUMMARY STATISTICS

Cambria Community Services District  
 2014 Installment Sale Agreement  
 (Emergency Water Supply Project)  
 \*\*\*

Private Placement - TPB Investments Inc.

|                                 |               |
|---------------------------------|---------------|
| Dated Date                      | 08/07/2014    |
| Delivery Date                   | 08/07/2014    |
| Last Maturity                   | 08/01/2034    |
| Arbitrage Yield                 | 4.090075%     |
| True Interest Cost (TIC)        | 4.090075%     |
| Net Interest Cost (NIC)         | 4.090000%     |
| All-In TIC                      | 4.270436%     |
| Average Coupon                  | 4.090000%     |
| Average Life (years)            | 11.560        |
| Duration of Issue (years)       | 8.899         |
| Par Amount                      | 8,939,000.00  |
| ISA Proceeds                    | 8,939,000.00  |
| Total Interest                  | 4,226,532.40  |
| Net Interest                    | 4,226,532.40  |
| Total Debt Service              | 13,165,532.40 |
| Maximum Annual Debt Service     | 658,277.17    |
| Average Annual Debt Service     | 658,825.64    |
| Underwriter's Fees (per \$1000) |               |
| Average Takedown                |               |
| Other Fee                       |               |
| Total Underwriter's Discount    |               |
| Bid Price                       | 100.000000    |

| Component | Par Value    | Price   | Average Coupon | Average Life |
|-----------|--------------|---------|----------------|--------------|
| Term ISA  | 8,939,000.00 | 100.000 | 4.090%         | 11.560       |
|           | 8,939,000.00 |         |                | 11.560       |

|                            | TIC          | All-In TIC   | Arbitrage Yield |
|----------------------------|--------------|--------------|-----------------|
| Par Value                  | 8,939,000.00 | 8,939,000.00 | 8,939,000.00    |
| + Accrued Interest         |              |              |                 |
| + Premium (Discount)       |              |              |                 |
| - Underwriter's Discount   |              |              |                 |
| - Cost of Issuance Expense |              | (139,000.00) |                 |
| - Other Amounts            |              |              |                 |
| Target Value               | 8,939,000.00 | 8,800,000.00 | 8,939,000.00    |
| Target Date                | 08/07/2014   | 08/07/2014   | 08/07/2014      |
| Yield                      | 4.090075%    | 4.270436%    | 4.090075%       |

ISA PRICING

Cambria Community Services District  
 2014 Installment Sale Agreement  
 (Emergency Water Supply Project)  
 \*\*\*

Private Placement - TPB Investments Inc.

| Component | Maturity Date | Amount    | Rate   | Yield  | Price   |
|-----------|---------------|-----------|--------|--------|---------|
| Term ISA: | 08/01/2034    | 8,939,000 | 4.090% | 4.090% | 100.000 |
|           |               | 8,939,000 |        |        |         |

|                         |              |             |  |
|-------------------------|--------------|-------------|--|
| Dated Date              | 08/07/2014   |             |  |
| Delivery Date           | 08/07/2014   |             |  |
| First Coupon            | 02/01/2015   |             |  |
| Par Amount              | 8,939,000.00 |             |  |
| Original Issue Discount |              |             |  |
| Production              | 8,939,000.00 | 100.000000% |  |
| Underwriter's Discount  |              |             |  |
| Purchase Price          | 8,939,000.00 | 100.000000% |  |
| Accrued Interest        |              |             |  |
| Net Proceeds            | 8,939,000.00 |             |  |

DEBT SERVICE

Cambria Community Services District  
 2014 Installment Sale Agreement  
 (Emergency Water Supply Project)  
 \*\*\*

Private Placement - TPB Investments Inc.

| Period Ending | Principal | Coupon | Interest     | Debt Service  | Annual Debt Service |
|---------------|-----------|--------|--------------|---------------|---------------------|
| 08/07/2014    |           |        |              |               |                     |
| 02/01/2015    | 149,485   | 4.090% | 176,709.13   | 326,194.13    |                     |
| 08/01/2015    | 152,337   | 4.090% | 179,745.58   | 332,082.58    | 658,276.71          |
| 02/01/2016    | 152,508   | 4.090% | 176,630.29   | 329,138.29    |                     |
| 08/01/2016    | 155,627   | 4.090% | 173,511.50   | 329,138.50    | 658,276.79          |
| 02/01/2017    | 158,811   | 4.090% | 170,328.93   | 329,139.93    |                     |
| 08/01/2017    | 162,056   | 4.090% | 167,081.24   | 329,137.24    | 658,277.17          |
| 02/01/2018    | 165,371   | 4.090% | 163,767.20   | 329,138.20    |                     |
| 08/01/2018    | 168,753   | 4.090% | 160,385.36   | 329,138.36    | 658,276.56          |
| 02/01/2019    | 172,204   | 4.090% | 156,934.36   | 329,138.36    |                     |
| 08/01/2019    | 175,726   | 4.090% | 153,412.79   | 329,138.79    | 658,277.15          |
| 02/01/2020    | 179,319   | 4.090% | 149,819.19   | 329,138.19    |                     |
| 08/01/2020    | 182,986   | 4.090% | 146,152.12   | 329,138.12    | 658,276.31          |
| 02/01/2021    | 186,728   | 4.090% | 142,410.06   | 329,138.06    |                     |
| 08/01/2021    | 190,547   | 4.090% | 138,591.47   | 329,138.47    | 658,276.53          |
| 02/01/2022    | 194,444   | 4.090% | 134,694.78   | 329,138.78    |                     |
| 08/01/2022    | 198,419   | 4.090% | 130,718.40   | 329,137.40    | 658,276.18          |
| 02/01/2023    | 202,478   | 4.090% | 126,660.74   | 329,138.74    |                     |
| 08/01/2023    | 206,618   | 4.090% | 122,520.06   | 329,138.06    | 658,276.80          |
| 02/01/2024    | 210,844   | 4.090% | 118,294.72   | 329,138.72    |                     |
| 08/01/2024    | 215,155   | 4.090% | 113,982.96   | 329,137.96    | 658,276.68          |
| 02/01/2025    | 219,555   | 4.090% | 109,583.04   | 329,138.04    |                     |
| 08/01/2025    | 224,045   | 4.090% | 105,093.14   | 329,138.14    | 658,276.18          |
| 02/01/2026    | 228,627   | 4.090% | 100,511.42   | 329,138.42    |                     |
| 08/01/2026    | 233,302   | 4.090% | 95,836.00    | 329,138.00    | 658,276.42          |
| 02/01/2027    | 238,073   | 4.090% | 91,064.97    | 329,137.97    |                     |
| 08/01/2027    | 242,942   | 4.090% | 86,196.38    | 329,138.38    | 658,276.35          |
| 02/01/2028    | 247,910   | 4.090% | 81,228.22    | 329,138.22    |                     |
| 08/01/2028    | 252,980   | 4.090% | 76,158.46    | 329,138.46    | 658,276.68          |
| 02/01/2029    | 258,153   | 4.090% | 70,985.02    | 329,138.02    |                     |
| 08/01/2029    | 263,433   | 4.090% | 65,705.79    | 329,138.79    | 658,276.81          |
| 02/01/2030    | 268,820   | 4.090% | 60,318.58    | 329,138.58    |                     |
| 08/01/2030    | 274,317   | 4.090% | 54,821.21    | 329,138.21    | 658,276.79          |
| 02/01/2031    | 279,927   | 4.090% | 49,211.43    | 329,138.43    |                     |
| 08/01/2031    | 285,651   | 4.090% | 43,486.93    | 329,137.93    | 658,276.36          |
| 02/01/2032    | 291,493   | 4.090% | 37,645.36    | 329,138.36    |                     |
| 08/01/2032    | 297,454   | 4.090% | 31,684.33    | 329,138.33    | 658,276.69          |
| 02/01/2033    | 303,537   | 4.090% | 25,601.40    | 329,138.40    |                     |
| 08/01/2033    | 309,744   | 4.090% | 19,394.06    | 329,138.06    | 658,276.46          |
| 02/01/2034    | 316,079   | 4.090% | 13,059.80    | 329,138.80    |                     |
| 08/01/2034    | 322,542   | 4.090% | 6,595.98     | 329,137.98    | 658,276.78          |
|               | 8,939,000 |        | 4,226,532.40 | 13,165,532.40 | 13,165,532.40       |

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COST OF ISSUANCE

Cambria Community Services District  
2014 Installment Sale Agreement  
(Emergency Water Supply Project)  
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Private Placement - TPB Investments Inc.

| Cost of Issuance  | \$/1000  | Amount     |
|-------------------|----------|------------|
| Special Counsel   | 4.36290  | 39,000.00  |
| Counsel Expenses  | 0.17049  | 1,524.00   |
| Financial Advisor | 6.15281  | 55,000.00  |
| Placement Agent   | 2.79673  | 25,000.00  |
| Bank Counsel      | 1.67804  | 15,000.00  |
| CDIAC             | 0.16780  | 1,500.00   |
| Miscellaneous     | 0.22105  | 1,976.00   |
|                   | 15.54984 | 139,000.00 |

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FORM 8038 STATISTICS REPORT

Cambria Community Services District  
 2014 Installment Sale Agreement  
 (Emergency Water Supply Project)  
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Private Placement - TPB Investments Inc.

Dated Date 08/07/2014  
 Delivery Date 08/07/2014

| Component | Date       | Principal    | Coupon | Price   | Issue Price  | Redemption at Maturity |
|-----------|------------|--------------|--------|---------|--------------|------------------------|
| Term ISA: |            |              |        |         |              |                        |
|           | 02/01/2015 | 149,485.00   | 4.090% | 100.000 | 149,485.00   | 149,485.00             |
|           | 08/01/2015 | 152,337.00   | 4.090% | 100.000 | 152,337.00   | 152,337.00             |
|           | 02/01/2016 | 152,508.00   | 4.090% | 100.000 | 152,508.00   | 152,508.00             |
|           | 08/01/2016 | 155,627.00   | 4.090% | 100.000 | 155,627.00   | 155,627.00             |
|           | 02/01/2017 | 158,811.00   | 4.090% | 100.000 | 158,811.00   | 158,811.00             |
|           | 08/01/2017 | 162,056.00   | 4.090% | 100.000 | 162,056.00   | 162,056.00             |
|           | 02/01/2018 | 165,371.00   | 4.090% | 100.000 | 165,371.00   | 165,371.00             |
|           | 08/01/2018 | 168,753.00   | 4.090% | 100.000 | 168,753.00   | 168,753.00             |
|           | 02/01/2019 | 172,204.00   | 4.090% | 100.000 | 172,204.00   | 172,204.00             |
|           | 08/01/2019 | 175,726.00   | 4.090% | 100.000 | 175,726.00   | 175,726.00             |
|           | 02/01/2020 | 179,319.00   | 4.090% | 100.000 | 179,319.00   | 179,319.00             |
|           | 08/01/2020 | 182,986.00   | 4.090% | 100.000 | 182,986.00   | 182,986.00             |
|           | 02/01/2021 | 186,728.00   | 4.090% | 100.000 | 186,728.00   | 186,728.00             |
|           | 08/01/2021 | 190,547.00   | 4.090% | 100.000 | 190,547.00   | 190,547.00             |
|           | 02/01/2022 | 194,444.00   | 4.090% | 100.000 | 194,444.00   | 194,444.00             |
|           | 08/01/2022 | 198,419.00   | 4.090% | 100.000 | 198,419.00   | 198,419.00             |
|           | 02/01/2023 | 202,478.00   | 4.090% | 100.000 | 202,478.00   | 202,478.00             |
|           | 08/01/2023 | 206,618.00   | 4.090% | 100.000 | 206,618.00   | 206,618.00             |
|           | 02/01/2024 | 210,844.00   | 4.090% | 100.000 | 210,844.00   | 210,844.00             |
|           | 08/01/2024 | 215,155.00   | 4.090% | 100.000 | 215,155.00   | 215,155.00             |
|           | 02/01/2025 | 219,555.00   | 4.090% | 100.000 | 219,555.00   | 219,555.00             |
|           | 08/01/2025 | 224,045.00   | 4.090% | 100.000 | 224,045.00   | 224,045.00             |
|           | 02/01/2026 | 228,627.00   | 4.090% | 100.000 | 228,627.00   | 228,627.00             |
|           | 08/01/2026 | 233,302.00   | 4.090% | 100.000 | 233,302.00   | 233,302.00             |
|           | 02/01/2027 | 238,073.00   | 4.090% | 100.000 | 238,073.00   | 238,073.00             |
|           | 08/01/2027 | 242,942.00   | 4.090% | 100.000 | 242,942.00   | 242,942.00             |
|           | 02/01/2028 | 247,910.00   | 4.090% | 100.000 | 247,910.00   | 247,910.00             |
|           | 08/01/2028 | 252,980.00   | 4.090% | 100.000 | 252,980.00   | 252,980.00             |
|           | 02/01/2029 | 258,153.00   | 4.090% | 100.000 | 258,153.00   | 258,153.00             |
|           | 08/01/2029 | 263,433.00   | 4.090% | 100.000 | 263,433.00   | 263,433.00             |
|           | 02/01/2030 | 268,820.00   | 4.090% | 100.000 | 268,820.00   | 268,820.00             |
|           | 08/01/2030 | 274,317.00   | 4.090% | 100.000 | 274,317.00   | 274,317.00             |
|           | 02/01/2031 | 279,927.00   | 4.090% | 100.000 | 279,927.00   | 279,927.00             |
|           | 08/01/2031 | 285,651.00   | 4.090% | 100.000 | 285,651.00   | 285,651.00             |
|           | 02/01/2032 | 291,493.00   | 4.090% | 100.000 | 291,493.00   | 291,493.00             |
|           | 08/01/2032 | 297,454.00   | 4.090% | 100.000 | 297,454.00   | 297,454.00             |
|           | 02/01/2033 | 303,537.00   | 4.090% | 100.000 | 303,537.00   | 303,537.00             |
|           | 08/01/2033 | 309,744.00   | 4.090% | 100.000 | 309,744.00   | 309,744.00             |
|           | 02/01/2034 | 316,079.00   | 4.090% | 100.000 | 316,079.00   | 316,079.00             |
|           | 08/01/2034 | 322,542.00   | 4.090% | 100.000 | 322,542.00   | 322,542.00             |
|           |            | 8,939,000.00 |        |         | 8,939,000.00 | 8,939,000.00           |

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FORM 8038 STATISTICS REPORT

Cambria Community Services District  
2014 Installment Sale Agreement  
(Emergency Water Supply Project)  
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Private Placement - TPB Investments Inc.

|                | Maturity<br>Date | Interest<br>Rate | Issue<br>Price | Stated<br>Redemption<br>at Maturity | Weighted<br>Average<br>Maturity | Yield   | Net<br>Interest<br>Cost |
|----------------|------------------|------------------|----------------|-------------------------------------|---------------------------------|---------|-------------------------|
| Final Maturity | 08/01/2034       | 4.090%           | 322,542.00     | 322,542.00                          |                                 |         |                         |
| Entire Issue   |                  |                  | 8,939,000.00   | 8,939,000.00                        | 11.560                          | 4.0901% | 4.0900%                 |

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## Credit Summary for an Emergency Water Supply Project for the Cambria Community Services District

### **Introduction**

The Cambria Community Services District (“CCSD”) needs to obtain approximately \$8.8 million in funding to construct an emergency water supply project. Due to the ongoing drought in California, without this project, the CCSD will need to severely curtail water consumption, or even terminate service, by November of this year. Due to the urgency of the emergency water supply project, funding must be obtained by early August. The purpose of this memo is to describe both the project and security to potential lenders for a loan.

### **District Overview**

The CCSD was formed in 1977 and provides water supply, wastewater collection and treatment, fire protection, garbage collection, street lighting, and recreation services to the community of Cambria on California's central coast. The current population of the CCSD is about 6,400. However, there are many lodging facilities and second homes in the community, so the summer population is considerably larger. The 2010 Census showed a total of 4,062 dwelling units in Cambria, of which, approximately 1,300 were vacant. Vacant dwelling units in Cambria are generally owned by second homeowners and/or used as vacation rental units.

The District’s potable water is supplied solely from groundwater wells in the San Simeon Creek and Santa Rosa Creek aquifers. Both well fields are near the ocean. Consequently, the drought has resulted in the intrusion of seawater into both aquifers. The District’s engineers, CDM Smith, project that the spreading seawater intrusion will result in both of the CCSD’s well fields becoming too brackish for potable consumption by November.

Table 1 below shows water utility connections and usage by customer class for a recent “normal” water year, 2010:

| <b>Table 1</b>  |                  |                          |
|---|------------------|--------------------------|
| <b>Water Connections and Consumption by Customer Class (2013)</b> |                  |                          |
| <b>Customer Classification</b>                                    | <b>Customers</b> | <b>Consumption (CCF)</b> |
| Single family   | 3,350            | 191,442                  |
| Multi-family  | 133              | 9,761                    |
| Vacation rental units   | 295              | 16,953                   |
| Commercial  | 236              | 74,583                   |
| <b>Total</b>  | <b>4,014</b>     | <b>292,739</b>           |

### **Proposed Project**

The project involves construction of the following elements:

- 1) An extraction well
- 2) Advanced water treatment plant
- 3) 4 injection wells
- 4) An evaporation pond

The advanced water treatment plant will be designed to treat brackish water so it can be used for domestic purposes. The project will provide a total of 250 acre feet of water during the region's typical 6 month dry period. The project has received all necessary permits to begin construction. CDM Smith is finalizing construction drawings and specifications for the project. The project is estimated to cost \$8.8 million. Construction will begin in mid-August and be complete by mid-October. At present, the CCSD has spent more than \$500,000 of its own cash reserves on pre-development costs for the emergency water supply project.

### **District Financials**

Table 2 shows historical financials for the CCSD water utility. The net revenues of the water utility are pledged, at present, to one outstanding loan. This loan is fully amortized on May 1, 2015. Coverage has been strong until the last two fiscal years. Since fiscal year 2013, the combination of reduced revenues due to mandatory water conservation and increased maintenance expenses have reduced coverage from water utility net revenues to below 1 times.

However, as will be explained under the section in this memo titled "Proposed Debt Structure," the District has also pledged all of its ad valorem property tax revenues as security for the water utility debt. As a result, no covenant default has occurred, and overall coverage remains very strong.

The last rate increase for the CCSD was approved in 2009. Water sales revenues have increased significantly since then. Note also that a special water rate for vacant property, called "Standby Availability Charges" in Table 2, is also pledged to the water utility debt.



**Table 2**  
**Historical Water Fund Net Revenues and Debt Coverage as Defined by 2006 Loan Agreement**

| Fiscal Year Ending                                | Actuals          |                  |                  |                  |                  | Estimated Actuals |
|---|------------------|------------------|------------------|------------------|------------------|-------------------|
|   | 2009             | 2010             | 2011             | 2012             | 2013             | 2014              |
| <b>Gross Revenues</b>                             |                  |                  |                  |                  |                  |                   |
| Water sales                                       | 1,654,193        | 1,751,707        | 1,750,606        | 1,822,799        | 1,903,236        | 1,780,058         |
| Other service charges & fees                      | 3,617            | 9,384            | 7,758            | 101,633          | 134,044          | 68,014            |
| Standby Availability charges                      | 175,885          | 177,114          | 177,294          | 177,338          | 176,367          | 125,000           |
| Investment income                                 | -                | 10               | -                | 837              | 1,356            | 848               |
| Other income                                      | -                | -                | -                | 3,892            | 8,444            | 9,241             |
| <b>Total Revenues</b>                             | <b>1,833,695</b> | <b>1,938,215</b> | <b>1,935,658</b> | <b>2,106,499</b> | <b>2,223,447</b> | <b>1,983,161</b>  |
| <b>Operating Expenses</b>                         |                  |                  |                  |                  |                  |                   |
| Salaries and wages                                | 359,099          | 336,704          | 259,501          | 379,652          | 416,370          | 358,451           |
| Payroll taxes and benefits                        | 247,005          | 254,575          | 178,083          | 202,826          | 260,416          | 223,262           |
| Maintenance and repairs                           | 75,875           | 147,859          | 80,873           | 135,820          | 383,370          | 373,293           |
| Professional services                             | 102,749          | 80,113           | 99,234           | 125,323          | 156,699          | 160,302           |
| Utilities   | 136,078          | 131,531          | 133,657          | 132,349          | 136,822          | 137,500           |
| General and administrative overhead               | 480,381          | 459,485          | 450,464          | 483,430          | 509,647          | 432,242           |
| Miscellaneous                                     | 98,698           | 108,465          | 125,516          | 116,034          | 192,649          | 138,450           |
| <b>Total Expenses</b>                             | <b>1,499,885</b> | <b>1,518,732</b> | <b>1,327,328</b> | <b>1,575,434</b> | <b>2,055,973</b> | <b>1,823,500</b>  |
| <b>Net Revenues</b>                               | <b>333,810</b>   | <b>419,483</b>   | <b>608,330</b>   | <b>531,065</b>   | <b>167,474</b>   | <b>159,661</b>    |
| <b>Debt Service on Water portion of 2006 loan</b> | <b>164,639</b>   | <b>184,211</b>   | <b>184,192</b>   | <b>184,228</b>   | <b>184,254</b>   | <b>188,487</b>    |
| <b>Coverage ratio</b>                             | <b>2.03</b>      | <b>2.28</b>      | <b>3.30</b>      | <b>2.88</b>      | <b>0.91</b>      | <b>0.85</b>       |

Since the CCSD's property tax revenues are also pledged to the CCSD's wastewater utility debt, to fully understand the security for the proposed loan, the wastewater utility financials are also necessary to review. These are shown in Table 3 below.

Table 3 shows that the wastewater fund has had moderate coverage over the last six years, with the exception of fiscal year ("FY") 2008-09 and the estimated actuals for FY 2013-14. As with the water utility, the last time wastewater rates were increased was in FY 2008-09. During FY 2013-14, coverage dropped significantly. The main reason was the need to pay a \$113,413 fine to the State Water Quality Control Board for improper discharges which occurred in 2011 from the CCSD wastewater treatment plant. This payment was completed in FY 2013-14.

The wastewater utility net revenues are pledged to three different debts: (1) a 2006 loan agreement, (2) a 2010 loan agreement, and (3) a State Revolving Fund ("SRF") loan. The 2006 loan agreement is also partly secured by the water fund. The 2006 loan is fully amortized, as noted above, in May 2015. The 2010 loan is fully amortized in September 2023. The SRF loan is fully amortized in May 2016.

**Table 3**  
**Historical Wastewater Fund Net Revenues and Debt Coverage as Defined by 2006 and 2010 Loan Agreements**

| Fiscal Year Ending                              | Actuals          |                  |                  |                  |                  | Estimated Actuals |
|---|------------------|------------------|------------------|------------------|------------------|-------------------|
|   | 2009             | 2010             | 2011             | 2012             | 2013             | 2014              |
| <b>Gross Revenues</b>                           |                  |                  |                  |                  |                  |                   |
| Utility sales                                   | 1,710,613        | 1,959,144        | 1,922,623        | 2,004,176        | 1,989,766        | 1,941,582         |
| Other service charges & fees                    | 1,677            | 650              | 16,331           | 2,440            | 824              | -                 |
| Standby Availability charges                    | 114,223          | 114,988          | 115,168          | 115,198          | 116,469          | 115,000           |
| Investment income                               | -                | 187              | 1,166            | 1,278            | 1,290            | 1,265             |
| Other income                                    | -                | -                | 67               | -                | -                | -                 |
| <b>Total Revenues</b>                           | <b>1,826,513</b> | <b>2,074,969</b> | <b>2,055,355</b> | <b>2,123,092</b> | <b>2,108,349</b> | <b>2,057,847</b>  |
| <b>Operating Expenses</b>                       |                  |                  |                  |                  |                  |                   |
| Salaries and wages                              | 359,099          | 335,774          | 347,409          | 287,256          | 309,526          | 337,498           |
| Payroll taxes and benefits                      | 247,005          | 258,914          | 240,605          | 177,073          | 248,189          | 227,332           |
| Maintenance and repairs                         | 75,875           | 168,088          | 250,671          | 394,876          | 275,738          | 254,171           |
| Professional services                           | 102,749          | 12,543           | 12,559           | 53,356           | 62,948           | 80,980            |
| Utilities                                       | 136,078          | 171,679          | 186,990          | 181,755          | 177,641          | 173,091           |
| General and administrative overhead             | 480,381          | 334,538          | 339,287          | 341,181          | 366,677          | 387,722           |
| Miscellaneous                                   | 98,698           | 108,908          | 104,625          | 111,336          | 111,872          | 285,997           |
| <b>Total Expenses</b>                           | <b>1,499,885</b> | <b>1,390,444</b> | <b>1,482,146</b> | <b>1,546,833</b> | <b>1,552,591</b> | <b>1,746,791</b>  |
| <b>Net Revenues</b>                             | <b>326,628</b>   | <b>684,525</b>   | <b>573,209</b>   | <b>576,259</b>   | <b>555,758</b>   | <b>311,056</b>    |
| <b>Debt Service</b>                             |                  |                  |                  |                  |                  |                   |
| Debt Service on Wastewater portion of 2006 loan | 88,652           | 99,191           | 99,180           | 99,200           | 99,213           | 99,213            |
| Debt service on 1999 Bonds or 2010 loan         | 162,240          | 164,082          | 165,582          | 158,116          | 159,975          | 161,562           |
| Debt service on SRF loan                        | 174,057          | 174,057          | 174,057          | 174,057          | 174,057          | 174,057           |
| <b>Total debt service</b>                       | <b>424,949</b>   | <b>437,330</b>   | <b>438,819</b>   | <b>431,372</b>   | <b>433,245</b>   | <b>434,832</b>    |
| <b>Coverage ratio</b>                           | <b>0.77</b>      | <b>1.57</b>      | <b>1.31</b>      | <b>1.34</b>      | <b>1.28</b>      | <b>0.72</b>       |

Table 4 below shows combined coverage for all CCSD debt, including the pledged ad valorem property tax revenues. Because the CCSD water and wastewater utility debts are effectively cross-collateralized by the pledge of the CCSD property tax revenues to both utility's debt, the best way of viewing coverage is to sum all pledged revenues and all debt together for the purposes of calculating coverage. Nevertheless, net water revenues and net wastewater revenues are not directly cross-collateralized. Note that while both the water and wastewater pledges are on a net revenue basis, the property taxes are pledged on a gross revenue basis. Overall coverage has exceeded 4 times since 2009. Because of the property tax pledge, overall coverage has remained very strong despite the negative coverage recently in both the water and wastewater utilities.

**Table 4  
Combined Debt Coverage for Cambria Community Services District Including Property Tax Pledge in 2006,  
2010 and SRF Loans**

| Fiscal Year Ending            | Actuals          |                  |                  |                  |                  | Estimated<br>Actuals |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|----------------------|
|                               | 2009             | 2010             | 2011             | 2012             | 2013             | 2014                 |
| Property taxes                | 1,862,402        | 1,863,642        | 1,857,062        | 1,846,423        | 1,831,809        | 1,883,518            |
| Net Water Revenues            | 333,810          | 419,483          | 608,330          | 531,065          | 167,474          | 159,661              |
| Net Wastewater Revenues       | 326,628          | 684,525          | 573,209          | 576,259          | 555,758          | 311,056              |
| <b>Total Pledged Revenues</b> | <b>2,522,840</b> | <b>2,967,650</b> | <b>3,038,601</b> | <b>2,953,747</b> | <b>2,555,041</b> | <b>2,354,235</b>     |
| Debt Service                  |                  |                  |                  |                  |                  |                      |
| 2006 Loan                     | 253,291          | 283,402          | 283,373          | 283,428          | 283,467          | 283,467              |
| 2010 Loan                     | 162,240          | 164,082          | 165,582          | 158,116          | 159,975          | 161,562              |
| SRF Loan                      | 174,057          | 174,057          | 174,057          | 174,057          | 174,057          | 174,057              |
| <b>Total Debt Service</b>     | <b>589,588</b>   | <b>621,541</b>   | <b>623,012</b>   | <b>615,600</b>   | <b>617,499</b>   | <b>619,086</b>       |
| <b>Coverage ratio</b>         | <b>4.28</b>      | <b>4.77</b>      | <b>4.88</b>      | <b>4.80</b>      | <b>4.14</b>      | <b>3.80</b>          |

**Special Rate Increase for Emergency Water Supply Project**

The CCSD commenced a Proposition 218 process to add a special surcharge to water rates for the emergency water supply project. The surcharge is comprised of two components, a capital surcharge and a operating expense surcharge. The capital charge is a permanent rate increase levied on every water bill year-round. The operating expense surcharge is only levied on water bills during the dry season when the emergency water supply project is operating. The public hearing for final approval of this rate increase is scheduled for July 24<sup>th</sup>. A summary of these rate surcharges and a FAQ mailed to ratepayers are attached as part of this credit review package. The CCSD’s rate consultants, Bartle Wells Associates, projects the capital surcharge to generate \$782,000 per year in revenues. Of this total, 35% will be levied through a fixed charge per meter size, and 65% will be levied on a volumetric basis. The \$782,000 per year revenue increase is based upon the assumption that current water consumption levels will decrease by 20% as a result of water conservation initiatives undertaken by the CCSD.

**Proposed Debt Structure**

The debt for the \$8.8 million loan to fund the emergency water supply project will have three different revenue sources pledged to it:

- 1) Net revenues of the CCSD water utility
- 2) Gross revenues from the capital surcharge for the proposed emergency water supply project
- 3) Ad valorem property taxes received by the CCSD

The net revenue pledge of the water utility will be on a parity with the 2006 loan obligation of the utility. However, this debt is fully amortized or paid off prior to May 2015. The pledge of emergency water supply capital cost surcharges is on a gross revenue basis. There is no parity debt allowed for this pledge. The pledge of property tax revenues is on a parity with the CCSD’s 2006 debt, the 2010 debt, and the SRF loan.

A 20-year amortization period is proposed for the \$8.8 million debt. For purposes of this credit review package, we have assumed that annual debt service on this loan will be \$725,000 per year.

**Projected Coverage**

Table 5 below shows projected coverage for the emergency water supply project loan. The property tax figure is from the County of San Luis Obispo’s estimated revenues for FY 2014-15. The emergency water supply surcharge is from the Bartle Wells Associates rate study estimate. Net water revenues are based on the estimated actuals for FY 2013-14. Net wastewater revenues are also based on the FY 2013-14 estimated actuals. However, this figure has been adjusted upwards to reflect the completion of the \$113,000 State fine payment in FY 2013-14. As noted above, all of the CCSD debt has been summed together for purposes of Table 5, even though the emergency water supply project capital surcharge can only be spent on the proposed loan. Note that Table 5 assumes that the 2006 loan is either fully amortized or paid off by May 2015. On this conservative basis, coverage is projected to be 3.19 times.

| Table 5<br>Projected Debt Service Coverage |                  |   |
|--|------------------|---|
| Pledged Revenues                           |                  | Notes   |
| Property Taxes                             | 1,982,427        | County's FY 2015 estimate of property taxes for CCSD  |
| Emergency Water Supply Surcharge           | 782,000          | Approved special purpose water rate surcharge for capital costs of emergency water supply   |
| Net Water Revenues                         | 150,000          | Net revenues from FY 2013-14  |
| Net Wastewater Revenues                    | 460,000          | Net revenues from FY 2013-14 adjusted upwards by \$113,000 for FY 2015 completion of payment of fines to State  |
| <b>Combined Pledged Revenue</b>            | <b>3,374,427</b> | Property Taxes and Emergency Water Supply surcharge are gross revenue pledges. Net Water Revenues and Net Wastewater Revenues are net revenue pledges |
| Debt Service                               |                  |   |
| 2010 Loan                                  | 160,000          | 2006 loan is fully amortized in FY 2015, so is not shown going forward. The 2010 loan is fully amortized in FY 2023-24                                |
| SRF Loan                                   | 174,057          | SRF loan is fully amortized in FY 2015-16   |
| 2014 EWS Loan                              | 725,000          | Assumes a 20 year amortization period   |
| <b>Total Debt</b>                          | <b>1,059,057</b> |   |
| <b>Coverage Ratio</b>                      | <b>3.19</b>      |   |

**Credit Summary**

Lender security is very strong for this credit, despite the negative coverage in FY 2013-14 for the water and wastewater funds. Gross property tax revenues and the emergency water supply surcharge provide a combined total of \$2.7 million per year in pledged revenue on approximately \$1.1 million per year in debt service that is not subject to the volatility of utility operating expenses. The emergency water supply project surcharge is subject to the volatility of actual water consumption, since 35% of this rate is levied on a volumetric basis. Combined property taxes and fixed rate charges for the emergency water supply surcharge total \$2.25 million per year in revenue against a combined debt of \$1.06 million per year, a coverage ratio of 2.1 times. This is an extremely conservative coverage ratio, assuming no volumetric sales of water, and no net revenues from either the water, or wastewater utilities.

**Proposed Financing Timetable**

As noted earlier, CCSD needs to begin construction of the emergency water supply project by mid-August. Accordingly, we propose that prospective lenders provide conditional commitment letters for this loan no later than July 23<sup>rd</sup>. We propose a closing date of August 5<sup>th</sup>.

**Other Documents in Credit Review Package**

The following documents are also submitted as part of this credit review package for lenders:

- ✓ 2013 Financial Report
- ✓ 2012 Financial Report
- ✓ 2011 Financial Report
- ✓ 2010 Financial Report
- ✓ 2009 Financial Report
- ✓ 2014 Mid Year Budget
- ✓ 2010 Urban Water Management Plan
- ✓ Cambria Emergency Water Supply Project Description
- ✓ FAQ for Rate Increase
- ✓ Emergency Water Supply Rate Increase Summary



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Sourced from <http://www.investopedia.com/terms/l/libor.asp>

#### Definition of 'LIBOR'

LIBOR or ICE LIBOR (previously BBA LIBOR) is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for IntercontinentalExchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world. LIBOR is administered by the ICE Benchmark Administration (IBA), and is based on five currencies: U.S. dollar (USD), Euro (EUR), pound sterling (GBP), Japanese yen (JPY) and Swiss franc (CHF), and serves seven different maturities: overnight, one week, and 1, 2, 3, 6 and 12 months. There are a total of 35 different LIBOR rates each business day. The most commonly quoted rate is the three-month U.S. dollar rate.

#### Investopedia explains 'LIBOR'

LIBOR (or ICE LIBOR) is the world's most widely-used benchmark for short-term interest rates. It serves as the primary indicator for the average rate at which banks that contribute to the determination of LIBOR may obtain short-term loans in the London interbank market. Currently there are 11 to 18 contributor banks for five major currencies (US\$, EUR, GBP, JPY, CHF), giving rates for seven different maturities. A total of 35 rates are posted every business day (number of currencies x number of different maturities) with the 3-month U.S. dollar rate being the most common one (usually referred to as the "current LIBOR rate").

LIBOR or ICE LIBOR's primary function is to serve as the benchmark reference rate for debt instruments, including government and corporate bonds, mortgages, student loans, credit cards; as well as derivatives such as currency and interest swaps, among many other financial products.

For example, take a Swiss franc-denominated Floating-Rate Note (or floater) that pays coupons based on LIBOR plus a margin of 35 basis points (0.35%) annually. In this case, the LIBOR rate used is the one-year LIBOR plus a 35 basis point spread. Every year, the coupon rate is reset in order to match the current Swiss franc one-year LIBOR, plus the predetermined spread.

If, for instance, the one-year LIBOR is 4% at the beginning of the year, the bond will pay 4.35% of its par value at the end of the year. The spread usually increases or decreases depending on the credit worthiness of the institution issuing debt.

Another prominent trait of LIBOR or ICE LIBOR is that it helps to evaluate the current state of the world's banking system as well as to set expectations for future central bank interest rates.

ICE LIBOR was previously known as BBA LIBOR until February 1, 2014, the date on which the ICE Benchmark Administration (IBA) took over the Administration of LIBOR.





## LIBOR: FREQUENTLY ASKED QUESTIONS

### 1. What is ICE LIBOR and how is it calculated?

#### What is ICE LIBOR?

ICE LIBOR is designed to reflect the short term funding costs of major banks active in London, the world's most important wholesale financial market.

Like many other financial benchmarks, ICE LIBOR<sup>1</sup> (formerly known as BBA LIBOR) is a 'polled' rate. This means that a panel of representative banks submits rates which are then combined to give the ICE LIBOR rate. Panel banks are required to submit a rate in answer to the ICE LIBOR question:

"At what rate could you borrow funds, were you to do so by asking for and then accepting inter-bank offers in a reasonable market size just prior to 11 am?"

Although banks now use transaction data to anchor their submissions, having a polled rate is crucial to ensure the continuous publication of such a systemic benchmark, even in times when liquidity is low and there are few transactions on which to base the rate.

Currently only banks with a significant London presence are on the ICE LIBOR panels, yet transactions with other – non-bank – financial institutions can often inform panel banks' submissions.

'Reasonable market size' is intentionally unquantified. The definition of an appropriate market size depends on the currency and tenor in question, as well as supply and demand. The current wording therefore avoids the need for frequent and confusing adjustments.

11 am was chosen because it falls in the most active part of the London business day. It is also sufficiently early in the day to allow the users of ICE LIBOR to use each day's rates for valuation processes, which may take place in the afternoon.

All ICE LIBOR rates are quoted as an annualised interest rate. This is a market convention. For example, if an overnight Pound Sterling rate from a contributor bank is given as 0.5000%, this does not indicate that a contributing bank would expect to pay 0.5% interest on the value of an overnight loan. Instead, it means that it would expect to pay 0.5% divided by 365<sup>2</sup>.

#### How is ICE LIBOR calculated?

ICE LIBOR is the 'trimmed arithmetic mean' of all of the panel banks' submissions. This means that the highest and lowest 25%<sup>3</sup> are removed and the rest is averaged (the actual number of banks removed depends on the number of submitters for each currency). The resulting rate is then published to the market at approximately 11.45 am London time.

In order to help ensure the integrity of the rate, individual submissions are not published until three months after the submission date. This helps in two ways: firstly, it makes it harder for banks to set their submissions purely in line with other panel banks rather than at their own perceived funding costs; and secondly, it also protects banks from the negative signalling effects that their submissions might have on market perceptions of a bank's financial viability. This credit-signalling or 'stigma-effect' was one of the conflicts of interest which led to attempted manipulation of the rate.

<sup>1</sup> Referred to here as 'ICE LIBOR' or 'LIBOR'

<sup>2</sup> The day count follows normal market convention: 365 days for GBP, 360 days for the other currencies

<sup>3</sup> Indicative – please see ICE LIBOR explained for details

## **2. What is ICE LIBOR used for?**

ICE LIBOR is an essential cog in the financial system. Its importance to the global financial industry and other non-financial companies arises from most corporate debt and interest-rate thinking being “ibor”-based. It is used as the floating rate for many financial contracts, from interest rate swaps to student loans, mortgages and corporate funding instruments. In total, hundreds of trillions of dollars’ worth of interest rate exposure is tied to ICE LIBOR. Given its role as a global funding benchmark, ICE LIBOR is also frequently used for valuing existing positions.

ICE LIBOR determines the settlement prices for some of the most important exchange-traded short-term interest rate futures contracts. These contracts help companies around the world hedge their interest rate exposure. They also provide private sector economists and central bankers with insights into market expectations of economic performance and interest rate developments.

ICE LIBOR is also an important indicator used by some central banks when determining their official interest rate target.

## **3. Why did a new administrator take over LIBOR and why did ICE Benchmark Administration (IBA) take on this responsibility?**

In 2012, the Chancellor of the Exchequer commissioned Martin Wheatley (then managing director of the FSA and Chief Executive-designate of the Financial Conduct Authority (FCA)) to review the framework for setting LIBOR. The Wheatley Review into LIBOR concluded that the existing governance and surveillance frameworks were inadequate to safeguard the integrity of LIBOR. One of the key recommendations of the Wheatley Review was that LIBOR needed to be administered by an independent entity. The Hogg Committee selected IBA to take over (via a competitive tender process), and the FCA gave its authorisation from the 1st February 2014.

As a leading provider of financial markets infrastructure globally, ICE was well placed to help restore credibility, trust and integrity to LIBOR. Specifically, its deep regulatory experience in many jurisdictions as both a front line regulator and a regulated entity, its technology skills and assets, and its long track record of managing other benchmarks, uniquely positioned ICE to restore market confidence in this crucial global benchmark.

## **4. “Administered by IBA, regulated by the FCA” – what does that mean?**

Restoring the integrity of such an important and widely used benchmark as ICE LIBOR requires a combined effort from many organisations, including: the panel banks, the independent administrator (IBA), the regulator and other stakeholders. The FCA now has extensive new powers to supervise panel banks and to take individuals to court for benchmark-related misconduct. This increased regulatory oversight is a welcome development and is mirrored at both the European and the Global levels where the European Commission and the International Organisation of Securities Commissions (IOSCO) have published suggestions for strengthening benchmark governance. Banks have already committed significant resources and capital to improve their LIBOR processes and their internal governance, in line with new regulatory requirements.

As the new, independent administrator, IBA has introduced new surveillance systems and statistical analysis techniques which subject the submissions to much closer scrutiny. These compare the data provided by the panel banks with related markets, their own submission history and that of other panel banks. These tighter checks and controls will enable us to identify potential errors, manipulation and collusion, which will be escalated to the FCA.

We have also instituted an oversight and governance structure that emphasises independence, accountability and transparency for benchmark submitters and the administrator alike. We established an independent Board composed of experienced professionals and experts from the fields of financial

markets, financial law and regulation. The Oversight Committee, which brings together key ICE LIBOR stakeholders from users, benchmark submitters and independent industry experts will regularly review the Code of Conduct. The Code has been approved by the FCA as industry guidance for the market, and will continue to evolve in order to reflect changes in the market and best practices.

## **5. ICE LIBOR Continuity**

ICE LIBOR is a continuation of what was previously known as BBA LIBOR and there are no changes in how the rate is calculated or how the submissions are collected at present.

On 23 January 2014, the Loan Markets Association published two guidance notes discussing the impact of the administration of LIBOR moving to ICE. These are available for their members on their website, <http://www.lma.eu.com/documents.aspx>.

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CAMBRIA COMMUNITY SERVICES DISTRICT

TO: Board of Directors

AGENDA NO. **3. B.**

FROM: Jerry Gruber, General Manager

Meeting Date: August 4, 2014

Subject: Discussion and Consideration to Review Distribution and Usage of Non-Potable Water from the SR1 Well

**RECOMMENDATIONS:**

Staff does not recommend any changes at this time regarding the distribution and usage of non-potable water from the SR1 Well.

**FISCAL IMPACT:**

Funds will no longer be collected on a voluntary basis. Electrical costs are no longer being incurred. Revenues will be received for the District once the SR1 Well becomes a potable source of water for the community.

**DISCUSSION:**

Staff received direction from the CCSD Board of Directors as part of their July 24, 2014 Board meeting to turn off the non-potable water system –SR1 well to help determine if the use of the well was impacting the level in the WBE monitoring well. Since the July 24, 2014 Board meeting several WBE monitoring well levels have been recorded. For trending purposes, I have included the WBE monitoring well levels for July 21, 2014. The levels are as follows:

1. July 21, 2014 WBE monitoring well level = 2.87 feet.
2. July 28, 2014 WBE monitoring well level = 2.87 feet.
3. July 30, 2014 WBE monitoring well level = 2.90 feet.

The Cambria Community Services District has filed an urgency petition with the State of California, State Water Resources Control Board, Division of Water Rights for Permit Number 20387 requesting that the current WBE monitoring well level be temporarily lowered from the permitted 3 foot level to a requested 2 feet level until the tracer study is completed at the San Simeon well field. Due to the extreme drought, fire suppression capabilities, potable water use and sanitation purposes, the State Water Resources Control Board is supportive of the District's request and are in the process of expediting the urgency petition.

The State Water Resources Control Board is fully aware that the CCSD is operating the SR4 Well even though the WBE monitoring well has dropped below three feet, and that the SR4 Well is the only source of water for the community until the tracer study is completed. The Filtronics plant for both the SR1 Well and SR3 Well are fully functional.

Staff also believes that the current closure of community bathrooms and the ability for residents to use their allocation of water as they see fit needs to be the subject of additional discussion. Both of these items would require a noticed public hearing to modify Resolution 19-2014, which was adopted at the May 22, 2014 Board meeting. Staff recommends that this

item be deferred until the August 21, 2014 CCSD Board meeting, and otherwise requests guidance and direction from the Board regarding scheduling such a public hearing.

As indicated in my report to the Board of Directors in June, from April thru June 16, 2014 the total non- potable water produced from the SR1 well was 4.34 acre feet. Additional production from June 16, 2014 thru July 15, 2014 is 2.62 acre feet of water, for a total amount withdrawn from the SR1 well of 6.96 acre feet of water.

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BOARD ACTION:    Date \_\_\_\_\_ Approved: \_\_\_\_\_ Denied: \_\_\_\_\_

UNANIMOUS:    \_\_ BAHRINGER \_\_ ROBINETTE \_\_ THOMPSON \_\_ CLIFT \_\_ RICE\_\_

CAMBRIA COMMUNITY SERVICES DISTRICT

TO: Board of Directors

AGENDA NO. **4. A.**

FROM: Bob Gresens, District Engineer

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Meeting Date: August 4, 2014

Subject: Public Hearing to Consider Adoption of  
the Cambria Emergency Water Supply  
Project Title 22 Engineering Report

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**RECOMMENDATIONS:**

It is recommended that the Board of Directors hold a public hearing and after taking public testimony, direct staff and the CCSD's consultants to further evaluate the comments received and that written comments be allowed up to 4:00 pm on August 18, 2014. All comments received will be forwarded to the project team, the Central Coast Regional Water Quality Control Board (CC-RWQCB), and the Water Board's Division of Drinking Water (formerly known as the California Department of Public Health [DPH]).

**FISCAL IMPACT:**

The Title 22 Engineering report supports a detailed permitting process, which is administered by the CC-RWQCB working in conjunction with the DPH. The cost to review and evaluate the comments is not currently calculable.

**DISCUSSION:**

The Title 22 Engineering report provides a description on the Emergency Water Supply Project, while also providing a broader framework description on the CCSD's plan to comply with the State's 2014 Groundwater Replenishment regulations (DPH-14-003E Groundwater Replenishment Using Recycled Water, effective June 18, 2014). These regulations require the Title 22 report to be submitted to the CC-RWQCB and DPH prior to completion of the new project. Its focus is on the groundwater extraction, treatment facilities, reinjection of advance treated water, and modeled groundwater transmission to the CCSD's existing potable wells along the San Simeon Creek aquifer.

Public noticing of the Title 22 Engineering report occurred on July 3, 2014, with a subsequent newspaper advertisement occurring on Wednesday, July 30, 2014 in the San Luis Obispo Tribune newspaper. In addition, at a special CCSD Board of Directors public meeting that was held on July 14, 2014, the project consultant, CDM Smith, provided a technical overview of the emergency project, which was followed by a question and answer period. The purpose of today's meeting is to receive public comments on the Title 22 report, which will be forwarded to the project team, the CC-RWQCB, and DPH for further consideration.

Staff has coordinated compliance with the public review process with DPH staff. Based on recent discussions with them, it is not necessary for the CCSD board to formally adopt the Title

22 report. In addition, it was recommended by DPH staff to extend receipt of written comments to at least August 15, 2014. In this case, staff is recommending the receipt of any additional Title 22 Engineering report review comments be allowed up until 4:00 pm on Monday, August 18, 2014. Any comments received following today's hearing will be similarly forwarded to the project team, the CC-RWQCB, and DPH for consideration.

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BOARD ACTION: Date \_\_\_\_\_ Approved: \_\_\_\_\_ Denied: \_\_\_\_\_

UNANIMOUS: \_\_\_ BAHRINGER \_\_\_ ROBINETTE \_\_\_ CLIFT \_\_\_ THOMPSON \_\_\_ RICE

CAMBRIA COMMUNITY SERVICES DISTRICT

TO: Board of Directors

AGENDA NO. **4. B.**

FROM: Jerry Gruber, General Manager

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Meeting Date: August 4, 2014

Subject: Public Hearing to Consider Adoption of the Cambria Emergency Water Supply Project Initial Study/Mitigated Negative Declaration related to the CCSD's Application for a Regular Coastal Development Permit

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**RECOMMENDATIONS:**

It is recommended that after taking public testimony, that the Board of Directors continue this item and direct staff and the CCSD's consultants to further evaluate the comments that have been received on the Initial Study/Mitigated Negative Declaration (IS/MND) for the regular Coastal Development Permit for the Emergency Water Supply Project.

**FISCAL IMPACT:**

Staff expects that considerable time will be required by staff and the CCSD's consultants to further evaluate the comments that have been received the cost of which is not currently calculable.

**DISCUSSION:**

As the Board of Directors is aware, on May 15, 2014 San Luis Obispo County issued the CCSD an Emergency Coastal Development Permit for its Emergency Water Supply Project. The Emergency Permit provided that a regular Coastal Development Permit was to be applied for within thirty (30) days. Accordingly, on June 13, 2014 an application for a regular Coastal Development Permit was filed with the County. Thereafter, an Initial Study/Mitigated Negative Declaration was prepared by the CCSD's consultants.

When a Mitigated Negative Declaration is prepared it is subject to public review and comment, as well as review and comment by other public agencies. Any person may submit comments, either orally or in writing in response to a draft mitigated negative declaration, and prior to making a decision to carry out or approve a project, the Board of Directors is required to consider the proposed mitigated negative declaration together with any comments received during the public review process. In order to approve a Mitigated Negative Declaration, the Board would need to determine that, on the basis of the Initial Study and all of the comments received, that there is no substantial evidence that the project will have a significant effect on the environment.



During the review period the CCSD has received a number of letters from both individuals and governmental agencies commenting on the IS/MND. Many of these letters contain extensive, detailed comments that need further study and analysis. Accordingly, staff is recommending that after holding the public hearing and receiving additional testimony, that the Board of Directors continue its consideration of the Initial Study/Mitigated Negative Declaration and direct staff and its consultants to review and provide additional analysis in light of the comments received.

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BOARD ACTION: Date \_\_\_\_\_ Approved: \_\_\_\_\_ Denied: \_\_\_\_\_

UNANIMOUS: \_\_\_ BAHRINGER \_\_\_ CLIFT \_\_\_ THOMPSON \_\_\_ ROBINETTE \_\_\_ RICE \_\_\_