



NOTICE AND CALL OF RESCHEDULED MEETING

Notice is hereby given that I, Ken Petersen, Chair of the Finance and Administration Committee, have called a RESCHEDULED MEETING of the Agency's Finance and Administration Committee.

Said RESCHEDULED MEETING of the Committee to be held on:

MONDAY, SEPTEMBER 25, 2023 AT 5:30 PM

**Santa Clarita Valley Water Agency
27234 Bouquet Canyon Road
Santa Clarita, CA 91350
Rio Vista Water Treatment Plant Boardroom**

OR

Join the meeting from your computer, tablet or smartphone by clicking the link below.

Zoom Webinar <https://scvwa.zoomgov.com/j/1611836917>

Or

**Call in using your phone
(833) 568-8864
Webinar ID: 161 183 6917**

Enclosed with and as part of this Notice and Call is an Agenda for the meeting.

Signed: 
Ken Petersen

Date: 8/21/2023

Posted on September 19, 2023

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RESCHEDULED FINANCE AND ADMINISTRATION COMMITTEE MEETING

**Monday, September 25, 2023
Meeting Begins at 5:30 PM**

Members of the public may attend by the following options:

In Person

SCV Water
Rio Vista Water Treatment Plant
Board Room
27234 Bouquet Canyon Road
Santa Clarita, CA 91350

By Phone

Toll Free:
1-(833) 568-8864
Webinar ID: 161 183 6917

Remotely

Please join the meeting from your
computer, tablet or smartphone:

<https://scvwa.zoomgov.com/j/1611836917>

Have a Public Comment?

Members of the public unable to attend this meeting may submit comments either in writing to edill@scvwa.org or by mail to **Erika Dill, Management Analyst II**, Santa Clarita Valley Water Agency, 27234 Bouquet Canyon Road, Santa Clarita, CA 91350. All written comments received before 3:00 PM the day of the meeting will be distributed to the Committee members and posted on the Santa Clarita Valley Water Agency website prior to the start of the meeting. Anything received after 3:00 PM the day of the meeting will be made available at the meeting, if practicable, and will be posted on the SCV Water website the following day. All correspondence with comments, including letters or emails, will be posted in their entirety. (Public comments take place during Item 2 of the Agenda and before each Item is considered. Please see the Agenda for details.)

This meeting will be recorded and the audio recording for all Committee meetings will be posted to yourscvwater.com within 3 business days from the date of the Committee meeting.

Disclaimer: Attendees should be aware that while the Agency is following all applicable requirements and guidelines regarding COVID-19, the Agency cannot ensure the health of anyone attending a Board meeting. Attendees should therefore use their own

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Date: September 18, 2023

To: **Finance and Administration Committee**
Ken Petersen, Chair
Kathye Armitage
Ed Colley
Maria Gutzeit

From: Rochelle Patterson
Chief Financial and Administrative Officer

The **Rescheduled Finance and Administration Committee** is scheduled for **Monday, September 25, 2023 at 5:30 PM** at **27234 Bouquet Canyon Road, Santa Clarita, CA 91350 in the Board Room and the teleconference site listed below**. Members of the public may attend in person or virtually. To attend this meeting virtually, please see below.

IMPORTANT NOTICES

This meeting will be conducted in person at the address listed above. As a convenience to the public, members of the public may also participate virtually by using the **Agency's Call-In Number 1-(833)-568-8864, Webinar ID: 161 183 6917 or Zoom Webinar by clicking on the link <https://scvwa.zoomgov.com/j/1611836917>**. Any member of the public may listen to the meeting or make comments to the Committee using the call-in number or Zoom Webinar link above. However, in the event there is a disruption of service which prevents the Agency from broadcasting the meeting to members of the public using either the call-in option or internet-based service, this meeting will not be postponed or rescheduled but will continue without remote participation. The remote participation option is being provided as a convenience to the public and is not required. Members of the public are welcome to attend the meeting in person.

Attendees should be aware that while the Agency is following all applicable requirements and guidelines regarding COVID-19, the Agency cannot ensure the health of anyone attending a Committee meeting. Attendees should therefore use their own judgment with respect to protecting themselves from exposure to COVID-19.

Members of the public unable to attend this meeting may submit comments either in writing to edill@scvwa.org or by mail to Erika Dill, Management Analyst II, SCV Water, 27234 Bouquet Canyon Road, Santa Clarita, CA 91350. All written comments received before 3:00 PM the day of the meeting will be distributed to the Committee members and posted on the SCV Water website prior to the start of the meeting. Anything received after 3:00 PM the day of the meeting will be made available at the meeting, if practical, and will be posted on the SCV Water website the following day. All correspondence with comments, including letters or emails, will be posted in their entirety.

MEETING AGENDA

<u>ITEM</u>		<u>PAGE</u>
1.	<u>PLEDGE OF ALLEGIANCE</u>	
2.	* <u>PUBLIC COMMENTS</u> – Members of the public may comment as to items within the subject matter jurisdiction of the Agency that are not on the Agenda at this time. Members of the public wishing to comment on items covered in this Agenda may do so at the time each item is considered. (Comments may, at the discretion of the Committee Chair, be limited to three minutes for each speaker.)	
3.	* Recommend Approval of a Resolution Adopting a Revised Investment Policy	9
4.	* Recommend Approval of the First Addendum to Ground Lease for the Property at 22722 Soledad Canyon Road	29
5.	* Recommend Approval of Purchase of Two (2) Backhoes for Agency Fleet	69
6.	* Recommend Approval of a Revised Customer Service Policy	75
7.	Fleet and Warehouse Update	
8.	* Recommend Receiving and Filing of July 2023 Monthly Financial Report	79
	July 2023 Check Registers Link: https://www.yourscvwater.com/sites/default/files/SCVWA/departments/finance/check-registers/Check%20Register%20-%20July%202023.pdf	
9.	* Committee Planning Calendar	107
10.	Requests for Future Agenda Items	
11.	General Report on Finance and Administration Activities	
12.	Adjournment	
	* Indicates attachments	
	◆ To be distributed	

NOTICES:

Any person may make a request for a disability-related modification or accommodation needed for that person to be able to participate in the public meeting by telephoning **Erika Dill, Management Analyst II** at (661) 297-1600, or writing to SCV Water at 27234 Bouquet Canyon Road, Santa Clarita, CA 91350. Requests must specify the nature of the disability and the type of accommodation requested. A telephone number or other contact information should be included so that Agency staff may discuss appropriate arrangements. Persons requesting a disability-related accommodation should make the request with adequate time before the meeting for the Agency to provide the requested accommodation.

Pursuant to Government Code Section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Committee less than seventy-two (72) hours prior to the meeting will be available for public inspection at SCV Water, located at 27234 Bouquet Canyon Road, Santa Clarita, California 91350, during regular business hours. When practical, these public records will also be made available on the Agency's Internet Website, accessible at <http://www.yourscvwater.com>.

Posted on September 19, 2023.

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COMMITTEE MEMORANDUM

DATE: September 18, 2023

TO: Finance and Administration Committee

FROM: Rochelle Patterson *[Signature]*
Director of Finance and Administration

SUBJECT: Recommend Approval of a Resolution Adopting a Revised Investment Policy

SUMMARY AND DISCUSSION

Pursuant to Government Code Section 53646, the California Legislature mandates that the Agency annually prepare and adopt an Investment Policy. The Agency last adopted its policy in October 2022 and applies to the entire entity of SCV Water.

Staff’s investment advisors, Chandler Asset Management, recommend the following modifications to update the policy to represent code changes, as well as best practices. Section 8.1 has additions and deletions; Section 10.8 is newly added, and an entire Glossary is added to help clarify any terms, which can be seen in its entirety in the attached resolution (Attachment 1).

Underlined red text depicts an addition, whereas struck red text is a deletion. The attached draft resolution includes these revisions as a clean copy. Each modified section is followed by a brief explanation for the change, in italics.

8.0 PORTFOLIO MATURITY LIMITS

8.1 The maximum maturity for any single investment in the portfolio shall not exceed five years, unless the security is a US Treasury, Agency, or Municipal bond, in which case the maximum maturity is 10 years. ~~unless the Board of Directors has by resolution granted authority to make such an investment either specifically or as a part of an investment program it has approved no less than three months prior to the investment, or is otherwise stated in this policy.~~

This updated language reflects the management directive that securities are allowed to have maturities up to 10 years based on the Board’s Resolution SCV-303 approval in October 2022.

10.8 The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

SB 1489 (2022), which became effective January 1, 2023, prohibits the purchase of securities with forward settlement of greater than 45 days. Please note: although the law also extended the optional quarterly reports for up to 45 days, given the policy reflects only the mandatory monthly reports, this code change was not included.

The model glossary includes the SB 1489 (2022) new definition of maturity dates based on settlement date, as opposed to the generally interpreted trade date.

No other changes to the policy are recommended at this time.

STRATEGIC PLAN NEXUS

The revisions to this policy help support SCV Water's Strategic Plan Goal F: High Performance Team, specifically Strategies F.1. – "Implement post-merger integration of the new Agency," as well as Strategy F.1.3 – "Update, develop and maintain clear and comprehensive policies for SCV Water."

FINANCIAL CONSIDERATIONS

None.

RECOMMENDATION

That the Finance and Administration Committee recommends that the Board of Directors approve the attached resolution adopting a revised Investment Policy.

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Attachment

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ATTACHMENT 1

RESOLUTION NO. _____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARITA VALLEY WATER AGENCY ADOPTING A REVISED INVESTMENT POLICY

INVESTMENT POLICY

1.0 POLICY

- 1.1 WHEREAS; the Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern; and
- 1.2 WHEREAS; the legislative body of a local agency may invest surplus monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 53601 et seq.; and
- 1.3 WHEREAS; the Treasurer of the Santa Clarita Valley Water Agency (Agency), acting under the direction and authority of the Finance Committee of the Agency, shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the Board of Directors at a public meeting;
- 1.4 NOW THEREFORE, it shall be the policy of the Agency to invest funds in a manner, which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Agency and conforming to all statutes governing the investment of Agency funds.

2.0 SCOPE

This investment policy applies to all financial assets of the Agency. These funds are accounted for in the annual Agency audit. The Agency pools all cash for investment purposes. This policy is applicable, but not limited to all funds listed below:

General/Operating Fund - 101

Special Revenue Funds

- a) One Percent Property Tax Fund - 101
- b) Facility Capacity Fee Fund -202
- c) State Water Project Fund - 204

Capital Project Fund

Debt Service Fund

Reserve Funds

Enterprise Fund

Grant Funds

Blended Component Units

- a) Devil's Den Water District – 970
- b) Upper Santa Clara Valley JPA – 975
- c) SCV Groundwater Sustainability Agency - 980

3.0 PRUDENCE; RESPONSIBILITY

- 3.1 Prudence: Investments shall be made with judgment and care, under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agency, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (California Government Code 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.
- 3.2 Responsibility: The Treasurer and other individuals assigned to manage the investment portfolio, acting with the intent and scope of this investment policy while exercising due diligence, shall be relieved of personal responsibility for the credit risk and market price risk for securities held in the investment portfolio, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

- 4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the Agency shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- 4.2 Liquidity: The investment portfolio will remain sufficiently liquid to enable the Agency to meet all operating requirements and budgeted expenditures. Investments will be undertaken with the expectation that unplanned expenses will be incurred; therefore, portfolio liquidity will be created to cover reasonable contingency costs.
- 4.3 Return on Investments: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. The goal is to maximize return while ensuring that safety and liquidity objectives are not compromised.

5.0 DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code 53600, et seq. Overall accountability and authority for implementation of this policy shall remain with the Board of Directors of the Agency and overseen by the Agency's Finance Committee. The day-to-day responsibility for management and implementation

of the investment program is the responsibility of the General Manager who may delegate the responsibility to the Treasurer, who, where and when appropriate, shall establish written procedures for the operation of the investment program consistent with this investment policy. With this delegation the Treasurer is given the authority to utilize internal staff and outside investment managers to assist in the investment program. The Treasurer shall use care to assure that those assigned responsibility to assist in the management of the Agency's portfolio do so in accordance with this policy.

External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of California Government Code 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard.

6.0 ETHICS AND CONFLICTS OF INTEREST

The Treasurer and officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Officials and staff members involved with the investment function shall disclose to the Board of Directors any personal financial interest with a financial institution, broker or investment issuer conducting business with the Agency. Officials and staff members shall further disclose to the Board of Directors any personal financial interest in any entity related to the investment performance of the Agency's portfolio.

7.0 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Treasurer will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Treasurer shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Treasurer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the Agency's account with that firm has reviewed the Agency's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the Agency that are appropriate under the terms and conditions of the Investment Policy.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the Agency, except where the Agency utilizes an external investment adviser in which case the Agency may rely on the adviser for selection. To

the extent practicable, the Treasurer or its external investment advisor shall endeavor to complete investment transactions using a competitive bid process whenever possible.

The Agency is a local agency authorized to invest surplus monies in the Local Agency Investment Fund (LAIF). LAIF is a special trust fund in the custody of the State Treasurer and the Local Investment Advisory Board created under Government Code Section 16429.2, which advises the State Treasurer on the investment and reinvestment of LAIF deposits. Each local agency with LAIF deposits has a separate account within LAIF, but the total deposits in LAIF are managed as a pooled investment account. The securities eligible for LAIF investments are statutorily specified in Government Code Section 16430 and are more conservative than those investments permitted under Government Code Section 53601, which governs the management of invested surplus monies by local agencies. Accordingly, the Treasurer need not be concerned with the qualifications of those financial institutions and broker/dealers with whom LAIF transacts business.

8.0 PORTFOLIO MATURITY LIMITS

8.1 The maximum maturity for any single investment in the portfolio shall not exceed five years, unless the security is a US Treasury, Agency, or Municipal bond, in which case the maximum maturity is 10 years.

8.2 Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Agency recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Agency will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The Agency further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. Therefore, the duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the Agency based on the Agency's investment objectives, constraints and risk tolerances.

9.0 AUTHORIZED AND SUITABLE INVESTMENTS

The Agency is empowered by California Government Code 53601 et seq. to invest in the following:

9.1 Bonds issued by the Agency.

9.2 United States Treasury Bills, Notes and Bonds.

9.3 Registered state warrants or treasury notes or bonds issued by the State of California.

9.4 Registered treasury notes or bonds of any of the 49 United States in addition to California, including bonds payable solely out of revenues from revenue-

producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California. The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization (NRSRO). No more than 30% of the portfolio may be in Municipal Securities.

- 9.5 Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency; and also including pooled investment accounts sponsored by the State of California, County Treasurers, other local agencies or Joint Powers Agencies. The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. No more than 30% of the portfolio may be in Municipal Securities. The LAIF is an approved pooled investment account.
- 9.6 Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by, or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. No more than 30% of the portfolio may be invested in any single federal agency/GSE issuer. The maximum percent of federal agency callable securities in the portfolio will be 20%.
- 9.7 Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances may not exceed 180 days' maturity or 40% of the Agency's money that may be invested pursuant to this policy. However, no more than 30% of the Agency's money can be invested in the bankers' acceptances of any single commercial bank.
- 9.8 Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally-recognized statistical-rating organization. The entity that issues the commercial paper shall either be:
 - 9.8.1 organized and operating within the United States as a general corporation, shall have total assets in excess of Five Hundred Million Dollars (\$500,000,000), and shall issue debt, other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally-recognized statistical-rating organization; or
 - 9.8.2 organized within the United States as a special-purpose corporation, trust, or limited liability company, have program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally-recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less. The Agency shall invest no more than 25% of its money in eligible commercial paper. Under a provision sunseting on January 1, 2026, provided that if the

Agency has \$100,000,000 or more of investment assets under management, the Agency may invest no more than 40% of its money in eligible commercial paper.

- 9.9 (i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federal or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30% of the Agency's money which may be invested pursuant to this policy. The Board of Directors and the Treasurer are prohibited from investing Agency funds, or funds in the Agency's custody, in negotiable certificates of deposit issued by a state or federal credit union if a member of the Board of Directors, or any person with investment decision-making authority within the Agency also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit. The amount of the NCD insured up to the FDIC limit does not require any credit ratings. Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- (ii) Deposits at a commercial bank, savings bank, savings and loan association or credit union that uses a private sector entity that assists in the placement of such certificates of deposit, pursuant to Government Code Section 53601.8. Deposits shall be subject to Government Code Section 53638 and may not exceed 50% of the Agency's money which may be invested pursuant to this policy.
- 9.10 Repurchase/Reverse Repurchase Agreements of any securities authorized by Section 53061. The market value of securities that underlay a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities, and are subject to the special limits and conditions of California Government Code 53601(j).
- 9.11 Medium term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of 5 years or less, issued by corporations organized and operating with the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of medium-term notes shall not include other instruments authorized by this policy and shall not exceed 30% of the Agency's money which may be invested pursuant to this policy.
- 9.12 Shares of beneficial interest issued by diversified management companies (mutual funds) investing in the securities and obligations authorized by this policy, and shares in money market mutual funds, subject to the restrictions of California Government Code Section 53601(l). The purchase price of investments under this subdivision shall not exceed 20% of the Agency's investments under this policy. However, no more than 10% of the Agency's money may be invested in any one mutual fund.

- 9.13 Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.
- 9.14 Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by California Government Code Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by California Government Code Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- 9.15 Asset backed, mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond from issuers not defined in sections 9.2 and 9.6 shall have:
- 9.15.1 A maximum legal final maturity that does not exceed five years.
 - 9.15.2 A rating category of "AA" or its equivalent or better by a nationally recognized rating service.
 - 9.15.3 May not exceed 20% of the Agency's surplus moneys that may be invested pursuant to this policy.
 - 9.15.4 No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- 9.16 Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized under Government Code Section 53601. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible, the joint powers authority issuing the shares must have retained an investment advisor that is registered or exempt from registration with the Securities and Exchange Commission, have not less than five years of experience in investing in the securities and obligations authorized under Government Code Section 53601, and have assets under management in excess of five hundred million dollars (\$500,000,000).
- 9.17 Proposition 1A receivables sold pursuant to California Government Code Section 53999. A "Proposition 1A receivable" constitutes the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph

(B) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code.

- 9.18 United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service and shall not exceed 30 percent of the Agency's moneys that may be invested pursuant to this policy. No more than 10% of the portfolio may be invested in any single issuer.
- 9.19 Deposits at a commercial bank, savings bank, savings and loan association or credit union that uses a private sector entity that assists in the placement of such certificates of deposit, pursuant to Government Code Section 53601.8. Deposits shall be subject to Government Code Section 53638 and may not exceed 50% of the District's money which may be invested pursuant to this policy.
- 9.20 Any other investment security authorized under the provisions of California Government Code Sections 5922 and 53601.

California Code (Source: CDIAC)

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40%	None	53601(g)
Commercial Paper—Non-Pooled Funds (under \$100,000,000 of investments)	270 days or less	25% of the agency's money	Highest letter and number rating by a nationally recognized rating service	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds (min. \$100,000,000 of investments)	270 days or less	40% of the agency's money	Highest letter and number rating by a nationally recognized rating service	53601(h)(2)(c)
Commercial Paper— Pooled Funds ¹	270 days or less	40% of the agency's money	Highest letter and number rating by a nationally recognized rating service	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30%	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50%	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50%	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None	53601(j)
Medium-Term Notes	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple	53601(l) and 53601.6(b)
Collateralized Bank Deposits	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund	N/A	None	None	16340
Supranational Obligations	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

10.0 PROHIBITED INVESTMENTS

The following are prohibited:

10.1 Investment in futures and options.

10.2 Investment in inverse floaters, range notes, or mortgage derived interest-only strips. (Gov. Code §53601.6.)

- 10.3 Investment in any security that could result in a zero interest accrual if held to maturity. Under a provision sunseting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted. (Gov. Code §53601.6.)
- 10.4 Trading securities for the sole purpose of speculating on the future direction of interest rates.
- 10.5 Purchasing or selling securities on margin.
- 10.6 The use of reverse repurchase agreements as a form of leverage, securities lending or any other form of borrowing or leverage.
- 10.7 The purchase of foreign currency denominated securities.
- 10.8 The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

11.0 COLLATERALIZATION

The Agency shall require any depository to adhere to the collateralization requirements of Government Code section 53652.

12.0 SAFEKEEPING AND CUSTODY

All securities owned by the Agency, except collateral for repurchase agreements, will be held in safekeeping at a third party bank trust department that will act as agent for the Agency under terms of a custody agreement.

Securities used as collateral for repurchase agreements with a term of up to seven days can be safe kept by a third party bank trust department, or by the broker/dealer's safekeeping institution, acting as agent for the Agency under the terms of a custody agreement executed by the broker/dealer and the Agency and specifying the Agency's perfected ownership of the collateral.

All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the Agency from the custodian listing all securities held in safekeeping with current market data and other information. Payment for all transactions will be conducted on a delivery-versus-payment (DVP) basis.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

13.0 LEVERAGING

Investments may not be purchased on margin. Securities can be purchased on a "When Issued" basis only when a cash balance can be maintained to pay for the securities on the purchase settlement date.

14.0 DIVERSIFICATION

The Agency will diversify its investments by security type and institution. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

Diversification strategies shall be reviewed and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- 14.1 Portfolio maturity dates shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- 14.2 Maturities selected shall provide for stability of income and liquidity.
- 14.3 Disbursement and payroll dates shall be covered through maturities of investments, marketable United States Treasury bills or other cash equivalent instruments such as money market mutual funds.
- 14.4 No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless except treasuries, agencies, Supranationals, and money market funds and otherwise specified in this policy.
- 14.5 If a security owned by the Agency is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
 - a. Any actions taken related to the downgrade by the investment manager will be communicated to the Treasurer in a timely manner.
 - b. If a decision is made to retain the security, the credit situation will be monitored and reported to the Board of Directors.
- 14.6 Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. The Agency will mitigate credit risk by adopting diversification requirements, issuer limitations and downgrade language. The Agency may elect to sell a security prior to its maturity and record a capital gain or loss to manage the quality, liquidity or yield of the portfolio in response to market conditions or the Agency's risk preferences.

15.0 REPORTING

Monthly transaction reports will be submitted by the Treasurer to the Board of Directors within 30 days of the end of the reporting period in accordance with California Government Code Section 53607.

The Treasurer shall submit to each member of the Board of Directors an investment report at least monthly. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for Agency by third party contracted managers. The report will also include the source of the portfolio valuation. For funds, which are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the

latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the Agency will meet its expenditure obligations for the next six months as required by Government Code Section 53646(b)(2) and (3), respectively. The Treasurer shall maintain a complete and timely record of all investment transactions.

16.0 INTERNAL CONTROLS

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the Agency and/or the Board of Directors, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

17.0 PORTFOLIO REVIEW AND PERFORMANCE EVALUATION:

The Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the Board of Directors.

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the Agency's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer's quarterly report. The Treasurer shall select an appropriate, readily available index to use as a market benchmark.

18.0 INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by resolution of the Agency. Moreover, the Policy shall be reviewed on an annual basis, and modifications must be approved by the Board of Directors.

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER’S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from their own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED BANK DEPOSIT. A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COLLATERALIZED TIME DEPOSIT. Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC). The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

FEDERALLY INSURED TIME DEPOSIT. A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MATURITY. The final date upon which the principal of a security becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100-basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MONEY MARKET MUTUAL FUND. A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at \$1 per share.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD). A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

SECURITIES AND EXCHANGE COMMISSION (SEC). The U.S. Securities and Exchange Commission (SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

SECURITIES AND EXCHANGE COMMISSION SEC) RULE 15c3-1. An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

(Originally Adopted February 2018; Re-adopted January 2019; Revised February 2020, February 2021, February 2022, October 2022 and October 2023.)

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COMMITTEE MEMORANDUM

DATE: September 18, 2023

TO: Finance and Administration Committee

FROM: Rochelle Patterson 
Chief Financial and Administrative Officer

SUBJECT: Recommend Approval of the First Addendum to the Ground Lease for the Property at 22722 Soledad Canyon Road

SUMMARY

On October 1, 2017, Castaic Lake Water Agency (predecessor-in-interest to the Santa Clarita Valley Water Agency (Agency) entered into the Ground Lease By and Between Action Family Counseling (Ground Lease) for the property known as 22722 Soledad Canyon Road, located on Los Angeles County Assessor's Number 2836-011-909. Action Family Counseling (Action) exercised the option to extend the Ground Lease in 2022, which now expires on September 30, 2023.

Staff developed three options to address the expiring lease, and presented these at the July 17, 2023 regular Finance and Administration (F&A) Committee meeting. The Committee discussed the item and agreed to move forward with Option 2 as described below and directed staff to begin work on terms for a new Lease.

DISCUSSION

Since 2011, the building at 22722 Soledad Canyon Road (Attachment 1) has been leased to Action Family Counseling to be used to provide drug and alcohol treatment and counseling services for the benefit of the community. Action is an organization that provides services to the local community, including drug and alcohol treatment and non-profit support services in group settings to parents and teenagers to instill and teach positive behavior and life-skills for personal and family development.

The property that Action leases on Soledad includes a one-story office building built in 1976 that is approximately 5,520 square feet (SF). The lot is 95,832 SF and zoned Community Commercial (CC) with a Mixed-Use Overlay (can be used for both commercial/retail and residential use). There is approximately 52,388 SF of buildable area and 43,444 SF of steep rolling hillside terrain. See Attachment 2 for the current Ground Lease.

There were three viable options for addressing the expiration of the lease:

1. Enter into a month-to-month tenancy upon the expiration date of September 30, 2023 on the same or new lease terms
2. Enter into a new lease on the same or new terms
3. Dispose of the property through the Surplus Lands Act (SLA) process

Option 1:

Section 26 of the current lease is a no holdover clause. This type of clause is meant to preclude a month-to-month tenancy or any other post-expiration tenancy period. Without this clause, the acceptance of rent or continued possession may be considered an implied consent to a month-to-month tenancy or some other post-expiration lease period. The holdover clause provides that the rent shall be increased to 150% of the base rent at the time of the lease expiration. The longer the holdover period goes without clarification, the more the situation can be interpreted to mean a month-to-month tenancy based on current lease terms. If a longer holdover period is required, a formal month-to-month tenancy should be considered, as it would allow the Agency to control the terms of the month-to-month tenancy, such as whether the rent should remain the same or be increased.

Option 2:

Entering into a new lease with Action would allow for the Agency to clarify terms, negotiate a rent escalator similar to the current lease, and identify new terms or language needed to ensure consistency with current Agency standards and policies.

Option 3

Disposal of the property would be governed by the SLA. Action and local developers have expressed only a general interest in acquiring the property. To-date, no formal offers or detailed proposals have been presented.

Disposal of the property would require the Agency's Board to declare the property as either "surplus land" or "exempt surplus land." There are specific exemptions that could apply, but if they do not, then the property is considered surplus land.

A written notice of availability would need to be sent to certain qualifying entities, including districts with jurisdiction over the area (such as local agencies) and housing sponsors identified in a list maintained by the California Department of Housing and Community Development (HCD). Any interested qualifying entity would have 60 days to notify the Agency in writing of its interest. If a qualifying entity were to provide such notice, then the Agency would be required to enter into "good faith negotiations" regarding price and terms for 90 days with any such entity.

If the Agency were to receive no such interest or cannot come to terms with an entity that has expressed interest within the 90-day negotiation period, the Agency would obtain a letter of compliance from HCD allowing disposition of the property without regard to the SLA. Prior to sale, the Agency would record a covenant against title to the property providing that if 10 or more units of housing are ever built on the land, at least 15% of those units must be affordable.

Although there is no requirement that the property be sold for less than fair market value or to seek a zoning change for the purpose of residential development, the SLA process may, as a practical matter, deter private developers and result in less than a full fair market price.

The property's highest and best use was found by the Agency's appraiser to be its present use. Highest and best use is generally defined as the reasonably probable and legal use of vacant land or an improved property, that is physically possible, appropriately supported, and financially feasible, and that results in the highest value.

At the July 17, 2023 meeting, the F&A Committee selected Option 2. Staff worked with Agency Counsel Best, Best & Krieger to draft the first addendum to the Ground Lease, which extends the term of the lease to September 30, 2028, with an option for one additional 12-month extension. This was acceptable to Action and was signed on September 8, 2023 and is attached as Attachment 3.

STRATEGIC PLAN NEXUS

Consideration of this ground lease property helps to support SCV Water's Strategic Plan Objective F.1.5. – "Optimize use of SCV Water Real Estate," as well as Objective E.5.2 – "Evaluate opportunities to improve the relationship between fixed costs and fixed revenues in rate and fee structures."

FINANCIAL CONSIDERATIONS

The Agency's appraiser found the property's highest and best use to be the Agency's present use. Rent through September 30, 2023 is \$13,545 per month (5,520 SF X \$2.45 per SF). It is comparable to the rental rates for the local market (\$1.99 to \$2.65 per SF). The appraised fair market value of the property in its current condition is \$2,420,000.00.

The base rent for the lease extension remains unchanged (\$13,545 per month) for the first year of the lease extension (through September 30, 2024) and will increase thereafter in accordance with the terms of the lease.

RECOMMENDATION

That the Finance and Administration Committee recommends the Board of Directors approve the first addendum to the Ground Lease for property at 22722 Soledad Canyon Road.

RP

Attachments

MBS

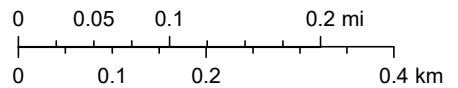
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Attachment 1- Location Map



1:9,749

- Parcel Outlines
- Minor
- Street Centerlines
- Railroad
- Primary
- Santa Clara River



Bureau of Land Management, Esri, HERE, Garmin, INCREMENT P, NGA, USGS

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Attachment 2- Current Ground Lease



AIR COMMERCIAL REAL ESTATE ASSOCIATION STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE -- GROSS (DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. Basic Provisions ("Basic Provisions").

1.1 **Parties:** This Lease ("Lease"), dated for reference purposes only _____

is made by and between Castaic Lake Water Agency _____
_____ ("Lessor")

and Action Family Counseling - SCV, Inc. Specifically excluded as lessees are Action - A Parent Teen Support Program; Action Family Counseling - Bakersfield, Inc.; Action Family Counseling, Inc.; 30035-39 Bouquet Canyon, LLC; 30010 Bouquet Canyon Road, LLC; 28557 Bud Canyon, LLC; Connectmyself.com, Inc; and any other person or entity except than Action Family Counseling - SCV, Inc. Any use or occupancy of the premises by any other person or entity other than Action Family Counseling - SCV, Inc., shall constitute an unauthorized assignment of this lease and, thereby, a material breach of this lease. _____ ("Lessee"),

(collectively the "Parties," or individually a "Party").

1.2 **Premises:** That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as 22722 Soledad Canyon Road, Santa Clarita, CA located in the County of Los Angeles, State of California and generally described as (describe briefly the nature of the property and, if applicable, the "Project", if the property is located within a Project) Stand alone building approx. 5,564 sf situated on approx. 2.2 acres. Lessor makes no representation or warranty regarding either the size of the building or the property. Tenant is advised to confirm for itself the sizes of both. Lease is contingent upon the approval of the CLWA Board of Directors. _____ ("Premises"). (See also Paragraph 2)

1.3 **Term:** 5 years and 0 months ("Original Term") commencing October 1, 2017 ("Commencement Date") and ending September 30, 2022 ("Expiration Date"). (See also Paragraph 3)

1.4 **Early Possession:** If the Premises are available Lessee may have non-exclusive possession of the Premises commencing _____ ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 **Base Rent:** \$11,685.00 per month ("Base Rent"), payable on the First day of each month commencing October 1, 2017 (rent for the period of August 2016 to September 2017 shall be \$11,199/month). (See also Paragraph 4)

If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. See Paragraph 51

1.6 **Base Rent and Other Monies Paid Upon Execution:**

(a) **Base Rent:** \$ _____ for the period _____

(b) **Security Deposit:** \$11,000 (previously paid) ("Security Deposit"). (See also Paragraph 5)

(c) **Association Fees:** \$ _____ for the period _____

(d) **Other:** \$ _____ for _____

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INITIALS

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INITIALS

(e) Total Due Upon Execution of this Lease: \$ _____

1.7 Agreed Use: Corporate Headquarters. Group counseling meeting for teens and their families conducted under close professional adult supervision. Any medical, medication, or residential use is strictly prohibited.

(See also Paragraph 6)

1.8 Insuring Party: Lessor is the "Insuring Party". The annual "Base Premium" is \$ _____ (See also Paragraph 8)

1.9 Real Estate Brokers: (See also Paragraph 15 and 25)

(a) Representation: The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):

- _____ represents Lessor exclusively ("Lessor's Broker");
- _____ represents Lessee exclusively ("Lessee's Broker"); or
- _____ represents both Lessor and Lessee ("Dual Agency").

(b) Payment to Brokers: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there is no such agreement, the sum of _____ or _____% of the total Base Rent) for the brokerage services rendered by the Brokers.

1.10 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by Cary Quashen and Kirsten Quashen ("Guarantor"). (See also Paragraph 37)

1.11 Attachments. Attached hereto are the following, all of which constitute a part of this Lease:

- an Addendum consisting of Paragraphs 51 through 53 ;
- a plot plan depicting the Premises;
- a current set of the Rules and Regulations;
- a Work Letter;
- a energy disclosure addendum is attached;
- other (specify): Rent Adjustment; Option to Extend.

2. Premises.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. While the approximate square footage of the Premises may have been used in the marketing of the Premises for purposes of comparison, the Base Rent stated herein is NOT tied to square footage and is not subject to adjustment should the actual size be determined to be different. Note: Lessee is advised to verify the actual size prior to executing this Lease.

2.2 Condition. Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee and in effect within thirty days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, sump pumps, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in good operating condition on said date and that the surface and structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the "Building") shall be free of material defects, and that the Unit does not contain hazardous levels of any mold or fungi defined as toxic under applicable state or federal law. If a non-compliance with said warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Building. If Lessee does not give Lessor the required notice within the appropriate warranty period, correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense, except for the roof, foundations, and bearing walls which are handled as provided in paragraph 7. Lessor also warrants, that unless otherwise specified in writing, Lessor is unaware of (i) any recorded Notices of Default affecting the Premise; (ii) any delinquent amounts due under any loan secured by the Premises; and (iii) any bankruptcy proceeding affecting the Premises.

2.3 Compliance. Lessor warrants that to the best of its knowledge the improvements on the Premises comply with the building codes, applicable laws, covenants or restrictions of record, regulations, and ordinances ("Applicable Requirements") that were in effect at the time that each improvement, or portion thereof, was constructed. Said warranty does not apply to the use to which Lessee will put the Premises, modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Lessee's use (see Paragraph 50), or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. NOTE: Lessee is responsible for determining whether or not the Applicable Requirements, and especially the zoning, are appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within 6 months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed so as to

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require during the term of this Lease the construction of an addition to or an alteration of the Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building ("**Capital Expenditure**"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and an amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor shall pay for such Capital Expenditure and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease or any extension thereof, on the date that on which the Base Rent is due, an amount equal to 1/144th of the portion of such costs reasonably attributable to the Premises. Lessee shall pay interest on the balance but may prepay its obligation at any time. If, however, such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall either: (i) immediately cease such changed use or intensity of use and/or take such other steps as may be necessary to eliminate the requirement for such Capital Expenditure, or (ii) complete such Capital Expenditure at its own expense. Lessee shall not, however, have any right to terminate this Lease.

2.4 Acknowledgements. Lessee acknowledges that: (a) it has been given an opportunity to inspect and measure the Premises, (b) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the size and condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's intended use, (c) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, (d) it is not relying on any representation as to the size of the Premises made by Brokers or Lessor, (e) the square footage of the Premises was not material to Lessee's decision to lease the Premises and pay the Rent stated herein, and (f) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. ~~In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.~~

2.5 Lessee as Prior Owner/Occupant. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work. *Lessee acknowledges that it has been the sole Lessee occupant of the Premises for the past five years.*

3. Term.

3.1 Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. Any provision herein granting Lessee Early Possession of the Premises is subject to and conditioned upon the Premises being available for such possession prior to the Commencement Date. Any grant of Early Possession only conveys a non-exclusive right to occupy the Premises. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such Early Possession. All other terms of this Lease (including but not limited to the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall be in effect during such period. Any such Early Possession shall not affect the Expiration Date.

~~**3.3 Delay In Possession.** Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession by such date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or change the Expiration Date. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until Lessor delivers possession of the Premises and any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession is not delivered within 60 days after the Commencement Date, as the same may be extended under the terms of any Work Letter executed by Parties, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. If possession of the Premises is not delivered within 120 days after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.~~

3.4 Lessee Compliance. Lessor shall not be required to deliver possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. Rent.

4.1 Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("**Rent**").

4.2 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. All monetary amounts shall be rounded to the nearest whole dollar. ~~In the event that any invoice prepared by Lessor is inaccurate such inaccuracy shall not constitute a waiver and Lessee shall be obligated~~

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~~to pay the amount set forth in this Lease. There will be no invoices. It is the Lessee's duty to timely pay Rent even though there are no invoices.~~ Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of \$25 in addition to any Late Charge and Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. Payments will be applied first to accrued late charges and attorney's fees, second to accrued interest, then to Base Rent, Insurance and Real Property Taxes, and any remaining amount to any other outstanding charges or costs.

4.3 ~~Association Fees. In addition to the Base Rent, Lessee shall pay to Lessor each month an amount equal to any owner's association or condominium fees levied or assessed against the Premises. Said monies shall be paid at the same time and in the same manner as the Base Rent.~~

5. **Security Deposit.** Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount already due Lessor, for Rents which will be due in the future, and/ or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 90 days after the expiration or termination of this Lease, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. **Use.**

6.1 **Use.** Lessee shall use and occupy the Premises only for the Agreed Use, ~~or any other legal use which is reasonably comparable thereto,~~ and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Other than guide, signal and seeing eye dogs, Lessee shall not keep or allow in the Premises any pets, animals, birds, fish, or reptiles. ~~Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within 7 days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.~~

6.2 **Hazardous Substances.**

(a) **Reportable Uses Require Consent.** The term "Hazardous Substance" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, ordinary office supplies (copier toner, liquid paper, glue, etc.) and common household cleaning materials, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit. ~~Lessee shall not keep, store, distribute, sell, or give away any controlled substance or prescribed medications on the Premises.~~

(b) **Duty to Inform Lessor.** If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) **Lessee Remediation.** Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) **Lessee Indemnification.** Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided,


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however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties not caused or contributed to by Lessee). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. **No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.**

(e) **Lessor Indemnification.** Except as otherwise provided in paragraph 8.7, Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which result from Hazardous Substances which existed on the Premises prior to Lessee's occupancy or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) **Investigations and Remediations.** Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to Lessee's occupancy, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) **Lessor Termination Option.** If a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or \$100,000, whichever is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 60 days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

6.3 **Lessee's Compliance with Applicable Requirements.** Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said Applicable Requirements are now in effect or become effective after the Start Date. Lessee shall, within 10 days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements. Likewise, Lessee shall immediately give written notice to Lessor of: (i) any water damage to the Premises and any suspected seepage, pooling, dampness or other condition conducive to the production of mold; or (ii) any mustiness or other odors that might indicate the presence of mold in the Premises. In addition, Lessee shall provide Lessor with copies of its business license, certificate of occupancy and/or any similar document within 10 days of the receipt of a written request therefor.

6.4 **Inspection; Compliance.** Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a Hazardous Substance Condition (see paragraph 9.1) is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination. In addition, Lessee shall provide copies of all relevant material safety data sheets (MSDS) to Lessor within 10 days of the receipt of a written request therefor.

7. **Maintenance; Repairs; Utility Installations; Trade Fixtures and Alterations.**

7.1 **Lessee's Obligations.**

(a) **In General.** Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior and exterior), ceilings, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee is also responsible for keeping the roof and roof drainage clean and free of debris. Lessor shall keep the surface and structural elements of the roof, foundations, and bearing walls in good repair (see paragraph 7.2). Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition (including, e.g. graffiti removal) consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building.

(b) **Service Contracts.** Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler, and pressure vessels, (iii) fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, and (v) clarifiers. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and Lessee shall reimburse Lessor, upon demand, for the cost thereof.


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(c) **Failure to Perform.** If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 10 days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly pay to Lessor a sum equal to 115% of the cost thereof. Alternatively, Lessor may consider this failure to perform by Lessee as a material breach of this Agreement and proceed as provided in this Agreement.

(d) **Replacement.** Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is 144 (i.e. 1/144th of the cost per month). Lessee shall pay Interest on the unamortized balance but may prepay its obligation at any time.

7.2 **Lessor's Obligations.** Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) and 14 (Condemnation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee, except for the surface and structural elements of the roof, foundations and bearing walls, the repair of which shall be the responsibility of Lessor upon receipt of written notice that such a repair is necessary. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease. Lessor will be responsible for the landscaping. Lessee is responsible for maintaining all interior and exterior lights and for installing any additional lights (after written approval from Lessor) that Lessee believes is necessary.

7.3 **Utility Installations; Trade Fixtures; Alterations.**

(a) **Definitions.** The term "Utility Installations" refers to all floor and window coverings, air and/or vacuum lines, power panels, electrical distribution, security and fire protection systems, communication cabling, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) **Consent.** Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Alterations or Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, will not affect the electrical, plumbing, HVAC, and/or life safety systems, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 month's Base Rent in the aggregate or a sum equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount in excess of one month's Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor. Lessee shall use only licensed, bonded, and insured contractors and subcontractors for any work to be performed at the Premises. Lessee shall notify Lessor in writing of all proposed contractors and subcontractors. Lessee shall not hire, use, or retain any contractors or subcontractors without Lessor's prior written consent and providing evidence to the satisfaction of the Lessor that the proposed contractor or subcontractor is duly licensed by the California Contractors State License Board, has workers compensation and general liability insurance in an amount satisfactory to Lessor, and has added Lessor as an additional insured on all of its insurance policies and provided proof of same. Lessor shall be notified at least 30 days prior to the beginning of any work so that it may post a Notice of Non-Responsibility. Lessee shall not suffer or permit any mechanic's liens to be filed against the Premises or the Improvements, nor against Lessee's leasehold interest in the Land by reason of work, labor, services or materials supplied or claimed to have been supplied to Lessee or anyone holding any interest in the Land and/or Improvements or any part thereof through or under Lessee. If any such mechanic's lien shall at any time be filed, Tenant shall within sixty (60) days after notice of the filing thereof, cause the same to be discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise, provided, however, that Lessee shall have the right to contest with due diligence, the validity or amount of any such lien or claimed lien, if Lessee shall give to Lessor reasonable security thereof, in an amount reasonably requested by Lessor (but in any event not less than 150% of the amount claimed to be owed by the lien claimant). Subject to the foregoing provisions, if Lessee shall fail to cause such lien to be discharged within the period aforesaid, then, in addition to any other right or remedy of Lessor, Lessor may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by procuring the discharge of such lien by deposit or by bonding proceedings, and in any such events Lessor shall be entitled, if Lessor so elects, to compel the prosecution of an action for the foreclosure of such mechanic's lien by the lienor and to pay the amount of judgment in favor of the lienor with interest, costs and allowances. Nothing contained in this Lease shall be deemed or construed in any way as constituting the consent of Lessor, express or implied, to any contractor, subcontractor, laborer or materialman for the performance of any labor or the furnishing of any materials for any specific improvements, alteration or repair of the Improvements or any part thereof, nor as giving Lessee a right, power of authority to contract for or permit the rendering of any services or the furnishing of any materials that would give rise to the filing of any mechanic's liens against Lessor's interest in the Premises.

(c) **Liens; Bonds.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialman's lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.


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7.4 **Ownership; Removal; Surrender; and Restoration.**

(a) **Ownership.** Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Removal.** By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) **Surrender; Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Premises) to the level specified in Applicable Requirements. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. Any personal property of Lessee not removed on or before the Expiration Date or any earlier termination date shall be deemed to have been abandoned by Lessee and may be disposed of or retained by Lessor as Lessor may desire. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. **Insurance; Indemnity.**

8.1 **Payment of Premium Increases.**

(a) Lessee shall pay to Lessor any insurance cost increase ("**Insurance Cost Increase**") occurring during the term of this Lease. Insurance Cost Increase is defined as any increase in the actual cost of the insurance required under Paragraph 8.2(b), 8.3(a) and 8.3(b), over and above the Base Premium as hereinafter defined calculated on an annual basis. Insurance Cost Increase shall include but not be limited to increases resulting from the nature of Lessee's occupancy, any act or omission of Lessee, requirements of the holder of mortgage or deed of trust covering the Premises, increased valuation of the Premises and/or a premium rate increase. The parties are encouraged to fill in the Base Premium in paragraph 1.8 with a reasonable premium for the Required Insurance based on the Agreed Use of the Premises. If the parties fail to insert a dollar amount in Paragraph 1.8, then the Base Premium shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the commencement of the Original Term for the Agreed Use of the Premises. In no event, however, shall Lessee be responsible for any portion of the increase in the premium cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b) in excess of \$2,000,000 per occurrence.

(b) Lessee shall pay any such Insurance Cost Increase to Lessor within 30 days after receipt by Lessee of a copy of the premium statement or other reasonable evidence of the amount due. If the insurance policies maintained hereunder cover other property besides the Premises, Lessor shall also deliver to Lessee a statement of the amount of such Insurance Cost Increase attributable only to the Premises showing in reasonable detail the manner in which such amount was computed. Premiums for policy periods commencing prior to, or extending beyond the term of this Lease, shall be prorated to correspond to the term of this Lease.

8.2 **Liability Insurance.**

(a) **Carried by Lessee.** Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than ~~\$4,000,000~~ ~~\$5,000,000~~ per occurrence with an annual aggregate of not less than ~~\$2,000,000~~ ~~\$5,000,000~~. Lessee shall add Lessor as an additional insured by means of an endorsement at least as broad as the Insurance Service Organization's "Additional Insured-Managers or Lessors of Premises" Endorsement. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "**insured contract**" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. Lessee shall provide an endorsement on its liability policy(ies) which provides that its insurance shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) **Carried by Lessor.** Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 **Property Insurance - Building, Improvements and Rental Value.**

(a) **Building and Improvements.** The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full insurable replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee not by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender or included in the Base Premium), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed \$5,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss.

(b) **Rental Value.** The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("**Rental Value Insurance**"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) **Adjacent Premises.** If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent


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to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

8.4 Lessee's Property; Business Interruption Insurance; Worker's Compensation Insurance.

(a) **Property Damage.** Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations.

(b) **Business Interruption.** Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) **Worker's Compensation Insurance.** Lessee shall obtain and maintain Worker's Compensation Insurance in such amount as may be required by Applicable Requirements. Such policy shall include a 'Waiver of Subrogation' endorsement. Lessee shall provide Lessor with a copy of such endorsement along with the certificate of insurance or copy of the policy required by paragraph 8.5.

(d) **No Representation of Adequate Coverage.** Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 Insurance Policies. Insurance required herein shall be by companies maintaining during the policy term a "General Policyholders Rating" of at least A-, VII, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates with copies of the required endorsements evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, at least 10 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party Lessee shall fail to procure and maintain the insurance required to be carried by it, the other Party Lessor may, but shall not be required to, procure and maintain the same.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 Indemnity. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 Exemption of Lessor and its Agents from Liability. Notwithstanding the negligence or breach of this Lease by Lessor or its agents, neither Lessor nor its agents shall be liable under any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places, (ii) any damages arising from any act or neglect of any other tenant of Lessor or from the failure of Lessor or its agents to enforce the provisions of any other lease in the Project, or (iii) injury to Lessee's business or for any loss of income or profit therefrom. Instead, it is intended that Lessee's sole recourse in the event of such damages or injury be to file a claim on the insurance policy(ies) that Lessee is required to maintain pursuant to the provisions of paragraph 8.

8.9 Failure to Provide Insurance. Lessee acknowledges that any failure on its part to obtain or maintain the insurance required herein will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, for any month or portion thereof that Lessee does not maintain the required insurance and/or does not provide Lessor with the required binders or certificates evidencing the existence of the required insurance, the Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or \$100, whichever is greater. The parties agree that such increase in Base Rent represents fair and reasonable compensation for the additional risk/ costs that Lessor will incur by reason of Lessee's failure to maintain the required insurance. Such increase in Base Rent shall in no event constitute a waiver of Lessee's Default or Breach with respect to the failure to maintain such insurance, prevent the exercise of any of the other rights and remedies granted hereunder, nor relieve Lessee of its obligation to maintain the insurance specified in this Lease. Alternatively, Lessor may treat Lessee's failure to obtain and maintain the insurance required herein as a material breach and proceed as provided herein for such breaches.

9. Damage or Destruction.

9.1 Definitions.

(a) **"Premises Partial Damage"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 6 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) **"Premises Total Destruction"** shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 6 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) **"Insured Loss"** shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) **"Replacement Cost"** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) **"Hazardous Substance Condition"** shall mean the occurrence or discovery of a condition involving the presence of, or a


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contamination by, a Hazardous Substance, in, on, or under the Premises which requires restoration.

9.2 Partial Damage - Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is \$10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 Partial Damage - Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 Abatement of Rent; Lessee's Remedies.

(a) **Abatement.** In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) **Remedies.** If Lessor is obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 Termination; Advance Payments. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

10. Real Property Taxes.

10.1 Definition. As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises or the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. Real Property Taxes shall also include any tax, fee, levy, assessment or charge, or any increase therein: (i) imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises, and (ii) levied or assessed on machinery or equipment provided by Lessor to Lessee pursuant to this Lease.

10.2

(a) **Payment of Taxes.** Lessor shall pay the Real Property Taxes applicable to the Premises provided, however, that Lessee shall pay to Lessor the amount, if any, by which Real Property Taxes applicable to the Premises increase over the fiscal tax year during which the Commencement Date Occurs ("Tax Increase"). Payment of any such Tax Increase shall be made by Lessee to Lessor within 30 days after receipt of Lessor's written statement setting forth the amount due and computation thereof. If any such taxes shall cover any period of time prior to or after the


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expiration or termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax bill applicable to the period that this Lease is in effect. In the event Lessee incurs a late charge on any Rent payment, Lessor may estimate the current Real Property Taxes, and require that the Tax Increase be paid in advance to Lessor by Lessee monthly in advance with the payment of the Base Rent. Such monthly payment shall be an amount equal to the amount of the estimated installment of the Tax Increase divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable Tax Increase is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable Tax Increase. If the amount collected by Lessor is insufficient to pay the Tax Increase when due, Lessee shall pay Lessor, upon demand, such additional sums as are necessary to pay such obligations. Advance payments may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any such advance payments may be treated by Lessor as an additional Security Deposit.

(b) **Additional Improvements.** Notwithstanding anything to the contrary in this Paragraph 10.2, Lessee shall pay to Lessor upon demand therefor the entirety of any increase in Real Property Taxes assessed by reason of Alterations or Utility Installations placed upon the Premises by Lessee or at Lessee's request or by reason of any alterations or improvements to the Premises made by Lessor subsequent to the execution of this Lease by the Parties.

10.3 **Joint Assessment.** If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Tax Increase for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available.

10.4 **Personal Property Taxes.** Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause its Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. **Utilities and Services.** Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered or billed to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered or billed. There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. **Assignment and Subletting.**

12.1 **Lessor's Consent Required.**

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) Unless Lessee is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(d), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

(f) Lessor may reasonably withhold consent to a proposed assignment or subletting if Lessee is in Default at the time consent is requested.

(g) Notwithstanding the foregoing, allowing a de minimis portion of the Premises, ie. 20 square feet or less, to be used by a third party vendor in connection with the installation of a vending machine or payphone shall not constitute a subletting.

12.2 **Terms and Conditions Applicable to Assignment and Subletting.**

(a) Regardless of Lessor's consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of \$500 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested. (See also Paragraph 36)

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment, entering into such sublease, or entering into possession of the Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.


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(g) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing. (See Paragraph 39.2)

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein;

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to atorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 Default; Breach. A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee.

(c) The failure of Lessee to allow Lessor and/or its agents access to the Premises or the commission of waste, act or acts constituting public or private nuisance, and/or an illegal activity on the Premises by Lessee, where such actions continue for a period of 3 business days following written notice to Lessee. In the event that Lessee commits waste, a nuisance or an illegal activity a second time then, the Lessor may elect to treat such conduct as a non-curable Breach rather than a Default.

(d) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate or financial statements, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42, (viii) material safety data sheets (MSDS), or (ix) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(e) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, other than those described in subparagraphs 13.1(a), (b), (c) or (d), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

(f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. §101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(g) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(h) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Lessee fails to perform any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals or Lessor at its option may terminate this Lease in accordance with the terms of this Agreement. Lessee shall pay to Lessor an amount equal to 115% of the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by


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the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover any damages to which Lessor is otherwise entitled. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 **Inducement Recapture.** Any agreement for free or abated rent or other charges, the cost of tenant improvements for Lessee paid for or performed by Lessor, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 **Late Charges.** Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall immediately pay to Lessor a one-time late charge equal to 10% of each such overdue amount or \$100, whichever is greater. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 **Interest.** Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due shall bear interest from the 31st day after it was due. The interest ("**Interest**") charged shall be computed at the rate of 10% per annum but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 **Breach by Lessor.**

(a) **Notice of Breach.** Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) **Performance by Lessee on Behalf of Lessor.** In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent the actual and reasonable cost to perform such cure, provided however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent or the Security Deposit, reserving Lessee's right to seek reimbursement from Lessor for any such expense in excess of such offset. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. **Condemnation.** If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "**Condemnation**"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the Building, or more than 25% of that portion of the Premises not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation paid by the condemnor for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. **Brokerage Fees.**

15.1 **Additional Commission.** In addition to the payments owed pursuant to Paragraph 1.8 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee or anyone affiliated with Lessee acquires any rights to the Premises or other premises owned by Lessor and located within the same Project, if any, within which the Premises is located, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by


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agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the fee schedule of the Brokers in effect at the time the Lease was executed.

16.2 **Assumption of Obligations.** Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 1.9, 15, 22 and 31. If Lessor fails to pay to Brokers any amounts due as and for brokerage fees pertaining to this Lease when due, then such amounts shall accrue interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker for the limited purpose of collecting any brokerage fee owed.

16.3 **Representations and Indemnities of Broker Relationships.** Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

16. **Estoppel Certificates.**

(a) Each Party (as "**Responding Party**") shall within 10 days after written notice from the other Party (the "**Requesting Party**") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "**Estoppel Certificate**" form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate. In addition, Lessee acknowledges that any failure on its part to provide such an Estoppel Certificate will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, should the Lessee fail to execute and/or deliver a requested Estoppel Certificate in a timely fashion the monthly Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or \$100, whichever is greater for remainder of the Lease. The Parties agree that such increase in Base Rent represents fair and reasonable compensation for the additional risk/costs that Lessor will incur by reason of Lessee's failure to provide the Estoppel Certificate. Such increase in Base Rent shall in no event constitute a waiver of Lessee's Default or Breach with respect to the failure to provide the Estoppel Certificate nor prevent the exercise of any of the other rights and remedies granted hereunder.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall within 10 days after written notice from Lessor deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. **Definition of Lessor.** The term "**Lessor**" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. **Days.** Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. **Limitation on Liability.** The obligations of Lessor under this Lease shall not constitute personal obligations of Lessor or its partners, members, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against Lessor's partners, members, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. **Time of Essence.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. **No Prior or Other Agreements; Broker Disclaimer.** This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.

23. **Notices.**

23.1 **Notice Requirements.** All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, or by email, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 **Date of Notice.** Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given 72 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices delivered by hand, or transmitted by facsimile transmission or by email shall be deemed delivered upon actual receipt. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. **Waivers.**


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(a) No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent.

(b) The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

(c) THE PARTIES AGREE THAT THE TERMS OF THIS LEASE SHALL GOVERN WITH REGARD TO ALL MATTERS RELATED THERETO AND HEREBY WAIVE THE PROVISIONS OF ANY PRESENT OR FUTURE STATUTE TO THE EXTENT THAT SUCH STATUTE IS INCONSISTENT WITH THIS LEASE.

25. **Disclosure Regarding The Nature of a Real Estate Agency Relationship.**

(a) ~~When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows:~~

~~(i) Lessor's Agent. A Lessor's agent under a listing agreement with the Lessor acts as the agent for the Lessor only. A Lessor's agent or subagent has the following affirmative obligations: To the Lessor: a. A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessor. To the Lessee and the Lessor: a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.~~

~~(ii) Lessee's Agent. An agent can agree to act as agent for the Lessee only. In these situations, the agent is not the Lessor's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations. To the Lessee: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessee. To the Lessee and the Lessor: a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.~~

~~(iii) Agent Representing Both Lessor and Lessee. A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Lessor or the Lessee. b. Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party, disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessee is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.~~

~~(b) Brokers have no responsibility with respect to any default or breach hereof by either Party. The Parties agree that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to this Lease may be brought against Broker more than one year after the Start Date and that the liability (including court costs and attorneys' fees), of any Broker with respect to any such lawsuit and/or legal proceeding shall not exceed the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.~~

~~(c) Lessor and Lessee agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by such Party to be confidential.~~

26. **No Right To Holdover.** Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 150% of the Base Rent applicable immediately preceding the expiration or termination. Holdover Base Rent shall be calculated on monthly basis. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. **Covenants and Conditions; Construction of Agreement.** All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

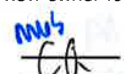
29. **Binding Effect; Choice of Law.** This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. **Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination.** This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "**Security Device**"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "**Lender**") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 **Attornment.** In the event that Lessor transfers title to the Premises, or the Premises are acquired by another upon the foreclosure or termination of a Security Device to which this Lease is subordinated (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, attorn to such new owner, and upon request, enter into a new lease, containing all of the terms and provisions of this Lease, with such new owner for


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the remainder of the term hereof, or, at the election of the new owner, this Lease will automatically become a new lease between Lessee and such new owner, and (ii) Lessor shall thereafter be relieved of any further obligations hereunder and such new owner shall assume all of Lessor's obligations, except that such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor which was not paid or credited to such new owner.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "**Non-Disturbance Agreement**") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall, if requested by Lessee, use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. Attorneys' Fees. If any Party ~~or Broker~~ brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "**Prevailing Party**" shall include, without limitation, a Party ~~or Broker~~ who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party ~~or Broker~~ of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach (\$200 is a reasonable minimum per occurrence for such services and consultation).

32. Lessor's Access; Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable prior notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect to Lessee's use of the Premises. All such activities shall be without abatement of rent or liability to Lessee.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. Signs. Lessor may place on the Premises ordinary "For Sale" signs at any time and ordinary "For Lease" signs during the last 6 months of the term hereof. Except for ordinary "for sublease" signs, Lessee shall not place any sign upon the Premises without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. Guarantor.

37.1 Execution. The Guarantors, if any, shall each execute a guaranty in the form most recently published by the AIR Commercial Real Estate Association.

37.2 Default. It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. Options. If Lessee is granted any Option, as defined below, then the following provisions shall apply:

39.1 Definition. "Option" shall mean: (a) the right to extend or reduce the term of or renew this Lease or to extend or reduce the term of or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase, the right of first offer to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 Options Personal To Original Lessee. Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 Multiple Options. In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be

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exercised unless the prior Options have been validly exercised.

39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, whether or not the Defaults are cured, during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term or completion of the purchase, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), or (ii) if Lessee commits a Breach of this Lease.

40. Multiple Buildings. If the Premises are a part of a group of buildings controlled by Lessor, Lessee agrees that it will abide by and conform to all reasonable rules and regulations which Lessor may make from time to time for the management, safety, and care of said properties, including the care and cleanliness of the grounds and including the parking, loading and unloading of vehicles, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessee also agrees to pay its fair share of common expenses incurred in connection with such rules and regulations.

41. Security Measures. Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. Reservations. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay. A Party who does not initiate suit for the recovery of sums paid "under protest" within 6 months shall be deemed to have waived its right to protest such payment.

44. Authority; Multiple Parties; Execution.

(a) If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within 30 days after request, deliver to the other Party satisfactory evidence of such authority.

(b) If this Lease is executed by more than one person or entity as "Lessee", each such person or entity shall be jointly and severally liable hereunder. It is agreed that any one of the named Lessees shall be empowered to execute any amendment to this Lease, or other document ancillary thereto and bind all of the named Lessees, and Lessor may rely on the same as if all of the named Lessees had executed such document.

(c) This Lease may be executed by the Parties in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

45. Conflict. Any conflict between the printed provisions of this Lease and typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. Offer. Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. Waiver of Jury Trial. THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.

49. Arbitration of Disputes. An Addendum requiring the Arbitration of disputes between the Parties ~~and/or Brokers~~ arising out of this Lease is is not attached to this Lease.


50. Accessibility; Americans with Disabilities Act.

(a) The Premises: have not undergone an inspection by a Certified Access Specialist (CASp). ~~have undergone an inspection by a Certified Access Specialist (CASp) and it was determined that the Premises met all applicable construction-related accessibility standards pursuant to California Civil Code §56.51 et seq.~~ ~~have undergone an inspection by a Certified Access Specialist (CASp) and it was determined that the Premises did not meet all applicable construction-related accessibility standards pursuant to California Civil Code §56.51 et seq.~~ A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.

(b) Since compliance with the Americans with Disabilities Act (ADA) is dependent upon Lessee's specific use of the Premises, Lessor makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation. In the event that Lessee's use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Lessee agrees to make any such necessary modifications and/or additions at Lessee's expense.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE


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INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.
2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Santa Clarita, CA Executed at: Santa Clarita, CA

On: _____ On: 10/4/17

By LESSOR: _____ By LESSEE: _____

Castaic Lake Water Agency Action Family Counseling - SCV, Inc.

By: *Matt Stone* By: *Cary Quashen*

Name Printed: Matt Stone Name Printed: Cary Quashen

Title: General Manager Title: CEO

By: *Keith Abercrombie* By: *Kirsten Quashen*

Name Printed: Keith Abercrombie Name Printed: Kirsten Quashen

Title: Retail Manager Title: CFO

Address: _____ Address: _____

Telephone: () _____ Telephone: () _____

Facsimile: () _____ Facsimile: () _____

Email: _____ Email: _____

Email: _____ Email: _____

Federal ID No. _____ Federal ID No. 95-4633208

BROKER: _____ **BROKER:** _____

Att: _____ Att: _____

Title: _____ Title: _____

Address: _____ Address: _____

Telephone:() _____ Telephone:() _____

Facsimile:() _____ Facsimile:() _____

Email: _____ Email: _____

Federal ID No. _____ Federal ID No. _____

Broker/Agent BRE License #: _____ Broker/Agent BRE License #: _____

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RENT ADJUSTMENT(S)
STANDARD LEASE ADDENDUM

Dated October 1, 2017

By and Between (Lessor) Castaic Lake Water Agency

(Lessee) Action Family Counseling-SCV, Inc.

Address of Premises: 22722 Soledad Canyon Road
Santa Clarita, CA 91350

Paragraph 51

A. RENT ADJUSTMENTS:

The monthly rent for each month of the adjustment period(s) specified below shall be increased using the method(s) indicated below.

(Check Method(s) to be Used and Fill in Appropriately)

[] I. Cost of Living Adjustment(s) (COLA)

a. On (Fill in COLA Dates):

the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): [] CPI W (Urban Wage Earners and Clerical Workers) or [] CPI U (All Urban Consumers), for (Fill in Urban Area):

, All Items

(1982-1984 = 100), herein referred to as "CPI".

b. The monthly Base Rent payable in accordance with paragraph A.1.a. of this Addendum shall be calculated as follows: the Base Rent set forth in paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.1.a. above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): the [] first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or [] (Fill in Other "Base Month"). The sum so calculated shall constitute the new monthly Base Rent hereunder, but in no event, shall any such new monthly Base Rent be less than the Base Rent payable for the month immediately preceding the Base Rent adjustment.

c. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties.

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II. Market Rental Value Adjustment(s) (MRV)

a. On (Fill in MRV Adjustment Date(s): _____

the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:

1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached within thirty days, then:

(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or

(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

(i) Within 15 days thereafter, Lessor and Lessee shall each select an appraiser or broker ("Consultant" - check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.

(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, i.e., the one that is NOT the closest to the actual MRV.

2) When determining MRV, the Lessor, Lessee and Consultants shall consider the terms of comparable market transactions which shall include, but not limited to, rent, rental adjustments, abated rent, lease term and financial condition of tenants. -

3) Notwithstanding the foregoing, the new Base Rent shall not be less than the rent payable for the month immediately preceding the rent adjustment.

b. Upon the establishment of each New Market Rental Value:

1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and -

2) the first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further Adjustments.

III. Fixed Rental Adjustment(s) (FRA)

The Base Rent shall be increased to the following amounts on the dates set forth below:

On (Fill in FRA Adjustment Date(s)):	The New Base Rent shall be:
October 01, 2018	\$12,035.00
October 01, 2019	\$12,400.00
October 01, 2020	\$12,765.00
October 01, 2021	\$13,150.00
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

IV. Initial Term Adjustments.

The formula used to calculate adjustments to the Base Rate during the original Term of the Lease shall continue to be used during the extended term.

B. NOTICE:

Unless specified otherwise herein, notice of any such adjustments, other than Fixed Rental Adjustments, shall be made as specified in paragraph 23 of the Lease.

C. BROKER'S FEE:

The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease or if applicable, paragraph 9 of the Sublease.

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 500 N Brand Blvd, Suite 900, Glendale, CA 91203.

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STATE OF TEXAS
COUNTY OF DALLAS

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10/1/2018

10/1/2018



OPTION(S) TO EXTEND
STANDARD LEASE ADDENDUM

Dated October 1, 2017

By and Between (Lessor) Castaic Lake Water Agency

By and Between (Lessee) Action Family Counseling - SCV, Inc.

Address of Premises: 22722 Soledad Canyon Road
Santa Clarita, CA 91350

Paragraph 52

A. OPTION(S) TO EXTEND:

Lessor hereby grants to Lessee the option to extend the term of this Lease for one additional twelve month period(s) commencing when the prior term expires upon each and all of the following terms and conditions:

(i) In order to exercise an option to extend, Lessee must give written notice of such election to Lessor and Lessor must receive the same at least 3 but not more than 4 months prior to the date that the option period would commence, time being of the essence. If proper notification of the exercise of an option is not given and/or received, such option shall automatically expire. Options (if there are more than one) may only be exercised consecutively.

(ii) The provisions of paragraph 39, including those relating to Lessee's Default set forth in paragraph 39.4 of this Lease, are conditions of this Option.

(iii) Except for the provisions of this Lease granting an option or options to extend the term, all of the terms and conditions of this Lease except where specifically modified by this option shall apply.

(iv) This Option is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and without the intention of thereafter assigning or subletting.

(v) The monthly rent for each month of the option period shall be calculated as follows, using the method(s) indicated below. (Check Method(s) to be Used and Fill in Appropriately)

I. Cost of Living Adjustment(s) (COLA)

a. On (Fill in COLA Dates):

the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): [] CPI W (Urban Wage Earners and Clerical Workers) or [] CPI U (All Urban Consumers), for (Fill in Urban Area): -

All Items (1982-1984 = 100), herein referred to as "CPI".

b. The monthly Base Rent payable in accordance with paragraph A.1.a. of this Addendum shall be calculated as follows: the Base Rent set forth in paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.1.a. above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): [] the first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or [] (Fill

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in Other "Base Month"); -

The sum so calculated shall constitute the new monthly Base Rent hereunder, but in no event, shall any such new monthly Base Rent be less than the Base Rent payable for the month immediately preceding the rent adjustment.

c. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties.

II. Market Rental Value Adjustment(s) (MRV)

a. On (Fill in MRV Adjustment Date(s))

the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:

1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached, within thirty days, then:

(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or

(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

(i) Within 15 days thereafter, Lessor and Lessee shall each select an appraiser or broker ("**Consultant**" - check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.

(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, ie. the one that is NOT the closest to the actual MRV.

2) When determining MRV, the Lessor, Lessee and Consultants shall consider the terms of comparable market transactions which shall include, but no limited to, rent, rental adjustments, abated rent, lease term and financial condition of tenants. -

3) Notwithstanding the foregoing, the new Base Rent shall not be less than the rent payable for the month immediately preceding the rent adjustment.

b. Upon the establishment of each New Market Rental Value:

1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and -

2) the first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further Adjustments.

III. Fixed Rental Adjustment(s) (FRA)

The Base Rent shall be increased to the following amounts on the dates set forth below:

On (Fill in FRA Adjustment Date(s)):	The New Base Rent shall be:
October 01, 2022	\$13,545.00
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

IV. Initial Term Adjustments.

The formula used to calculate adjustments to the Base Rate during the original Term of the Lease shall continue to be used during the extended term.

B. NOTICE:

Unless specified otherwise herein, notice of any rental adjustments, other than Fixed Rental Adjustments, shall be made as specified in


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paragraph 23 of the Lease.

C. BROKER'S FEE:

The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease or if applicable, paragraph 9 of the Sublease.

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 500 N Brand Blvd, Suite 900, Glendale, CA 91203.

Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.

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ADDENDUM

Date: 10/11/2017

By and Between (Lessor) Castaic Lake Water Agency
(Lessee) Action Family Counseling - SCV, Inc.

Address of Premises: 22722 Soledad Canyon Road
Santa Clarita, CA

Paragraph 53

In the event of any conflict between the provisions of this Addendum and the printed provisions of the Lease, this Addendum shall control.

A. Any and all consents and agreements provided for or permitted by this Agreement shall be in writing. This Agreement contains the sole agreement of the parties and correctly sets forth the rights, duties, and obligations of each to the other as of this date. Any prior arrangements, promises, negotiations, agreements, or representations not expressly set forth in this Agreement are of no force and effect.

B. Whenever used in this Agreement, the singular shall include the plural, and the plural shall include the singular and the gender shall include the male and female and neuter as well as a trust, firm, company, or corporation, all as the context and meaning of this Agreement may require. The article, section, and paragraph titles and headings contained in this Agreement are inserted as a matter of convenience and for ease of reference only and shall be disregarded for all other purposes, including the construction or enforcement of this Agreement or any of its provisions.

C. Each party to this Agreement acknowledges that it has participated in the drafting of this Agreement, and any applicable rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in connection with the construction or interpretation of this Agreement.

D. Lessee acknowledges and agrees that any construction by it on or at the Premises is done for the benefit of the Lessee alone. Lessor reserves the right to require Lessee to post, at Lessee's sole expense, completion and payment bonds prior to the Lessee beginning any work (including work covered by section 7 of the Lease).

E. Section 8.7 of the Lease is replaced entirely by the following, "'Lessor" for the purposes of this Section shall mean and include Lessor and Lessor's directors, officers, shareholders, agents and employees. To the fullest extent permitted by law, Lessee covenants with Lessor that Lessor shall not be liable for any damage or liability of any kind or for any injury to or death of persons or damage to property of Lessee or any other

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person occurring during the Term of this Lease (including all renewal periods) from any cause whatsoever related to the use, occupancy or enjoyment of the Premises by Lessee or any person thereon or holding under Lessee. Lessee shall pay for, defend (with an attorney approved by Lessor), indemnify, and save Lessor harmless against and from any real or alleged damage or injury and from all claims, judgments, liabilities, costs and expenses, including attorney's fees and costs, arising out of or connected with Lessee's use of the Premises and its facilities, or any repairs, Alterations or improvements (including original improvements and fixtures specified as Lessee's Work) which Lessee may make or cause to be made upon the Premises, any breach of this Lease by Lessee and any loss or interruption of business or loss of rental income resulting from any of the foregoing; provided, however (and though Lessee shall in all cases accept any tender of defense of any action or proceeding in which Lessor is named or made a party and shall, notwithstanding any allegations of negligence or misconduct on the part of Lessor, defend Lessor as provided herein), Lessee shall not be liable for such damage or injury to the extent and in the proportion that the same is ultimately determined to be attributable solely to the gross negligence or willful misconduct of Lessor, and Lessor shall pay for, defend, indemnify, and save Lessee harmless against and from any and all claims, judgments, liabilities, costs and expenses, including attorneys fees and costs, resulting from any such damage or injury. Lessor need not have first paid any such claim in order to be defended or indemnified or held harmless. The obligations to indemnify set forth in this Section shall include all attorneys' fees, litigation costs, investigation costs and court costs and all other costs, expenses and liabilities incurred by the indemnified party from the first notice that any claim or demand is to be made or may be made. All indemnity obligations under this Section shall survive the expiration or termination of this Lease. Lessee's duty to indemnify Lessor shall apply to instances of both Lessor's active and passive negligence. The parties expressly intend that Lessee's duty to indemnify Lessor (1) require indemnity for any loss arising out of or connected to the actions of the Lessee, notwithstanding the Lessor's active or passive negligence, (2) provide for indemnity regarding all acts and omissions, including but not limited to the misconduct or negligence, of the Lessee, and (3) the indemnity provisions apply to losses resulting from the Lessee's negligence or any other cause other than the willful misconduct or sole gross negligence of the Lessor.

F. Section 12 of the Lease is amended to include the following, "Standard for Consent. Lessee agrees that Lessor may refuse its consent to the proposed transfer on any reasonable grounds, and (by way of example and without limitation) Lessee agrees that it shall be reasonable for Lessor to withhold its consent, among any other reasons, if any of the following situations exist or may exist: (a) the proposed transferee's financial condition, net worth or liquidity is less than the financial condition, net worth or liquidity of Lessee as of the Effective Date or the date of the request for transfer, whichever is greater, or is inadequate to support all of the financial and other obligations of Lessee under this Lease; (b) the business reputation or character of the proposed transferee is not reasonably acceptable to Lessor; or (c) the proposed transferee is not likely to conduct on the Premises a business of a quality substantially equal to that conducted by Lessee. These situations are not exclusive and are set forth as examples only."

G. Section 12.2 of the Lease is amended to include the following, "Lessee shall pay to Lessor, as Additional Rent, concurrently with any request for assignment or transfer, any legal fees and expenses incurred by Lessor in connection with the proposed Assignment or transfer, to the extent such amounts exceed the non-refundable fee set forth above, not to exceed Three Thousand and 00/100 Dollars (\$3,000.00)."

H. Paragraph 18 is hereby amended to provide, "If any provision of this Agreement is determined by any


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court of competent jurisdiction or arbitrator to be invalid, illegal, or unenforceable to any extent, that provision shall, if possible, be construed as though more narrowly drawn, if a narrower construction would avoid such invalidity, illegality, or unenforceability. If a narrower construction would not avoid such invalidity, illegality, or unenforceability, then the provision held to be invalid, illegal, or unenforceable shall be severed and the remaining provisions of this Agreement shall remain effect."

I. Section 35 of the Lease is amended to include the following, "The voluntary or other surrender of this Lease by the Lessee, or a mutual cancellation of the Lease, or a termination by Lessor, shall not work as a merger, and shall, at the option of the Lessor, terminate all or any existing subtenancies.

J. Section 39 of the Lease is amended to include the following, "Any Options for Lessee are conditioned upon the satisfaction of all conditions in the Lease, as well as that Lessee is open for business to the public from the Premises, is not in default under this Lease beyond applicable notice and cure periods and is current on all lease payments. Lessee's failure to exactly comply with the time requirements set forth in the Lease relative to the exercise of any Option to Renew shall cause the option provided herein to automatically cease and terminate and, in such event, this Lease shall terminate upon the expiration of the initial Term. All references in this Lease to the "Term" shall be deemed to mean the initial Term as extended by the Option Term, as applicable."

K. Section 42 shall be amended to include the following, "No easements, express or implied, are hereby granted or conferred upon Lessee in consideration of its use of the Premises, nor may any easement, express or implied, be granted or conferred upon Lessee without Lessor's express written consent which may be withheld for any reason."

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AIR COMMERCIAL REAL ESTATE ASSOCIATION GUARANTY OF LEASE

WHEREAS, Castaic Lake Water Agency, hereinafter "Lessor", and Action Family Counseling, SCV, Inc., hereinafter "Lessee", are about to execute a document entitled "Lease" dated October 1, 2017 concerning the premises commonly known as 22722 Soledad Canyon Road, Santa Clarita, CA wherein Lessor will lease the premises to Lessee, and

WHEREAS, Cary Quashen; Kirsten Quashen hereinafter "Guarantors" have a financial interest in Lessee, and

WHEREAS, Lessor would not execute the Lease if Guarantors did not execute and deliver to Lessor this Guaranty of Lease.

NOW THEREFORE, in consideration of the execution of said Lease by Lessor and as a material inducement to Lessor to execute said Lease, Guarantors hereby jointly, severally, unconditionally and irrevocably guarantee the prompt payment by Lessee of all rents and all other sums payable by Lessee under said Lease and the faithful and prompt performance by Lessee of each and every one of the terms, conditions and covenants of said Lease to be kept and performed by Lessee.

It is specifically agreed by Lessor and Guarantors that: (i) the terms of the foregoing Lease may be modified by agreement between Lessor and Lessee, or by a course of conduct, and (ii) said Lease may be assigned by Lessor or any assignee of Lessor without consent or notice to Guarantors and that this Guaranty shall guarantee the performance of said Lease as so modified.

This Guaranty shall not be released, modified or affected by the failure or delay on the part of Lessor to enforce any of the rights or remedies of the Lessor under said Lease.

No notice of default by Lessee under the Lease need be given by Lessor to Guarantors, it being specifically agreed that the guarantee of the undersigned is a continuing guarantee under which Lessor may proceed immediately against Lessee and/or against Guarantors following any breach or default by Lessee or for the enforcement of any rights which Lessor may have as against Lessee under the terms of the Lease or at law or in equity.

Lessor shall have the right to proceed against Guarantors following any breach or default by Lessee under the Lease without first proceeding against Lessee and without previous notice to or demand upon either Lessee or Guarantors.

Guarantors hereby waive (a) notice of acceptance of this Guaranty, (b) demand of payment, presentation and protest, (c) all right to assert or plead any statute of limitations relating to this Guaranty or the Lease, (d) any right to require the Lessor to proceed against the Lessee or any other Guarantor or any other person or entity liable to Lessor, (e) any right to require Lessor to apply to any default any security deposit or other security it may hold under the Lease, (f) any right to require Lessor to proceed under any other remedy Lessor may have before proceeding against Guarantors, (g) any right of subrogation that Guarantors may have against Lessee.

Guarantors do hereby subordinate all existing or future indebtedness of Lessee to Guarantors to the obligations owed to Lessor under the Lease and this Guaranty.

If a Guarantor is married, such Guarantor expressly agrees that recourse may be had against his or her separate property for all of the obligations hereunder.

The obligations of Lessee under the Lease to execute and deliver estoppel statements and financial statements, as therein provided, shall be deemed to also require the Guarantors to do and provide the same to Lessor. The failure of the Guarantors to provide the same to Lessor shall constitute a default under the Lease.

The term "Lessor" refers to and means the Lessor named in the Lease and also Lessor's successors and assigns. So long as Lessor's interest in the Lease, the leased premises or the rents, issues and profits therefrom, are subject to any mortgage or deed of trust or assignment for security, no acquisition by Guarantors of the Lessor's interest shall affect the continuing obligation of Guarantors under this Guaranty which shall nevertheless continue in full force and effect for the benefit of the mortgagee, beneficiary, trustee or assignee under such mortgage, deed of trust or assignment and their successors and assigns.

The term "Lessee" refers to and means the Lessee named in the Lease and also Lessee's successors and assigns.

Any recovery by Lessor from any other guarantor or insurer shall first be credited to the portion of Lessee's indebtedness to Lessor which exceeds the maximum liability of Guarantors under this Guaranty.

No provision of this Guaranty or right of the Lessor can be waived, nor can the Guarantors be released from their obligations except in writing signed by the Lessor.

Any litigation concerning this Guaranty shall be initiated in a state court of competent jurisdiction in the county in which the leased premises

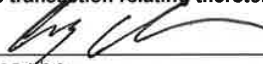
are located and the Guarantors consent to the jurisdiction of such court. This Guaranty shall be governed by the laws of the State in which the leased premises are located and for the purposes of any rules regarding conflicts of law the parties shall be treated as if they were all residents or domiciles of such State.

In the event any action be brought by said Lessor against Guarantors hereunder to enforce the obligation of Guarantors hereunder, the unsuccessful party in such action shall pay to the prevailing party therein a reasonable attorney's fee. The attorney's fee award shall not be computed in accordance with any court fee schedule, but shall be such as to full reimburse all attorney's fees reasonably incurred.


If any Guarantor is a corporation, partnership, or limited liability company, each individual executing this Guaranty on said entity's behalf represents and warrants that he or she is duly authorized to execute this Guaranty on behalf of such entity.

If this Form has been filled in, it has been prepared for submission to your attorney for his approval. No representation or recommendation is made by the AIR Commercial Real Estate Association, the real estate broker or its agents or employees as to the legal sufficiency, legal effect, or tax consequences of this Form or the transaction relating thereto.

Executed at: Action Family Counseling
On: 10/11/17
Address: 22722 Soledad Cyn Rd
Santa Clarita CA 91350



Cary Quashen



Kirsten Quashen

"GUARANTORS"

Attachment 3 - First Addendum to Ground Lease

ADDENDUM EXTENDING THE STANDARD INDUSTRIAL/COMMERCIAL SINGLE TENANT LEASE – GROSS

This Addendum Extending The Standard Industrial/Commercial Single Tenant Lease – Gross (“Addendum”) is made as of 9/8/, 2023 (the “Effective Date”), by and between the Santa Clarita Valley Water Agency (“Lessor”) and Action Family Counseling – SCV, Inc. (“Lessee;” collectively, the “Parties”).

RECITALS

WHEREAS, the Parties entered into the Standard Industrial/Commercial Single Tenant Lease – Gross (“Lease”) for the leasing by Lessee from Lessor of the property commonly known as 22722 Soledad Canyon Road, Santa Clarita, California (“Premises”).

WHEREAS, the original term of the Lease was set to expire on September 30, 2022.

WHEREAS, Lessee exercised its option to extend the original term of the Lease to September 30, 2023.

WHEREAS, the Parties desire to further extend the term of the Lease and amend certain provisions of the Lease as provided below.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants and conditions contained herein and for other good and valuable consideration, Lessor and Lessee agree as follows:

1. Term Extension. The Parties hereby agree to extend the term of the Lease from September 30, 2023 to September 30, 2028 (“Extended Term”). Lessee shall have the right to extend the Extended Term for one additional twelve month period in accordance with the terms contained in the Option(s) to Extend Standard Lease Addendum To The Lease.

2. Base Rent. The base rent to be paid by Lessee to Lessor shall be \$13,545.00 until the execution of this Addendum by the Parties or December 31, 2023, whichever occurs first. Payment of a new base rent in the amount of \$13,545.00 shall commence on the first day of the following month and shall increase thereafter in accordance with the terms of the Lease.

3. Maintenance. The Parties agree that under the terms of the Lease, Lessee is responsible, at its sole expense and cost, for all maintenance of the Premises, including all lighting, plumbing and quarterly HVAC maintenance. If Lessee fails to perform the required maintenance, Lessor shall have the right to perform it without notice to Lessee and at Lessee’s cost and expense.

4. Confirmation Of Lease Terms. All terms of the Lease and its Addendums shall remain current, valid and in force throughout the Extended Term.

Lessor: Santa Clarita Valley Water Agency

Lessee: Action Family Counseling SCV, Inc.

By: _____

By:  _____

Name: Matthew Stone

Name: CARY O WASHEN

Title: General Manager

Title: CEO



COMMITTEE MEMORANDUM

DATE: September 18, 2023

TO: Finance and Administration Committee

FROM: Rochelle Patterson *R. Patterson*
Chief Financial and Administrative Officer

SUBJECT: Recommend Approval of Purchase of Two (2) Backhoe Replacements for Agency Fleet

SUMMARY

The Agency requires backhoes for routine maintenance, emergency repairs, pipeline repairs/replacements and special projects. The proposed purchases would replace two backhoes that have exceeded their expected lifecycle and are experiencing significant mechanical issues.

DISCUSSION

Backhoes are an integral tool for the Agency to complete routine maintenance, emergency repairs, pipeline repairs/replacements and special projects. Two (2) of the ten (10) Agency backhoes have exceeded their expected lifecycle, requiring constant repairs and causing significant downtime due to parts being difficult to locate, or are obsolete. Therefore, operating these backhoes is no longer cost effective.

Asset Description	Age	Hour Meter (equivalent to odometer miles)
1996 John Deere 310D	27 years	6509
1999 New Holland 655E	24 years	6320

The two backhoes scheduled for replacement are powered by diesel engines, which are Tier 0 and Tier 1 engines that produce high emissions. Engine “tier” refers to the emissions certification level of an engine. According to California Air Resources Board (CARB), a single, older Tier 0 off-road engine has up to 80 times higher emissions per hour compared to a new Tier 4 Final engine. The proposed backhoes have diesel Tier 4 Final engines that would produce less emissions and reduce the Agency’s Off-Road emission’s factor, complying with CARB regulations. Of the remaining eight (8) backhoes, two (2) are forecast to be replaced in 2026, two (2) in 2029 and the remainder after 2033.

Staff has researched and tested various equipment from multiple manufacturers to identify the best replacement option. After comparing the various available equipment, Staff determined that the Caterpillar product line would present the Agency with the most productivity support and savings over the life of the asset. Additionally, it has been the Agency’s experience that Caterpillar provides higher quality products and service when compared to other manufacturers. Caterpillar also provides operator training with the purchase, which is essential to ensure safe and proper operation of this heavy machinery.

The manufacturer's list price per backhoe is \$225,770 (excluding fees and taxes). Staff received a budgetary quote (Attachment 1) from Quinn of \$176,100 (excluding fees and taxes) per backhoe utilizing Sourcewell's cooperative purchase agreement. Sourcewell is a government agency service created by legislation whose main objective is to create contracts through competitive bidding for government, state, and local procurement, in order to obtain the best pricing and allow agencies to piggyback on contracts that have been competitively bid. Sourcewell's competitive bidding process meets the Agency's procurement policy. By purchasing through the Sourcewell agreement, the Agency will save \$49,670 per backhoe.

STRATEGIC PLAN NEXUS

This purchase helps support the following SCV Water's Strategic Plan Strategies B.2. "Plan and budget for long-term replacements and improvements;" C.6 – "Actively manage natural resource use;" and F.5 – "Maintain a safe and secure work environment."

FINANCIAL CONSIDERATIONS

The replacement of these backhoes is included in the FY 2023/24 adopted Budget. The two backhoes are expected to cost approximately \$420,000 including fees, taxes and a 5% contingency to account for any cost fluctuations, such as the cost of metal at the time of delivery. There is a five to six month lead time.

RECOMMENDATION

That the Finance and Administration Committee recommends the Board of Directors approve the purchase of two (2) backhoe replacements for the Agency fleet.

RP

Attachment

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June 16, 2023

SANTA CLARITA VALLEY WATER AGENCY DBA SCV WATER
 27234 BOUQUET CANYON ROAD
 SANTA CLARITA, California 91350

Attention: Mike Grunbok

We would like to thank you for your interest in our company and our products, and are pleased to quote the following for your consideration.

One (1) New Caterpillar Inc. Model: 420XE Backhoe Loader including standard and optional equipment as listed below.

STANDARD EQUIPMENT

BOOMS, STICKS, AND LINKAGES -BACKHOE -- 14'4" Center pivot backhoe -4.3 Meters -- Boom and swing transport locks -- Electro hydraulic operated backhoe -and stabilizer controls -- Street type stabilizer shoes -- Anti-drift hydraulics (boom, stick, -and E-stick) -- Cat Cushion Swing(tm) system -LOADER -- Single Tilt Loader -- Lift cylinder brace -- Self-leveling loader with single -lever control -- Return-to-dig -(automatic bucket positioner) -- Transmission neutralizer switch -- Bucket level indicator -

POWERTRAIN -- Water separator -- Thermal starting aid system -- Dry type axial seal air cleaner with -integral precleaner -- Automatic dust ejection system -- Filter condition indicator -- Hydraulically boosted multi-plate -wet disk brake with dual pedals & -interlock -- Differential lock -- Spring Applied Hydraulic Release -(SAHR) Drive-line parking brake -- Torque converter -- Neutral safety switch -- Spin-on filters for -Fuel -Engine oil -Transmission oil -- Outboard Planetary Rear Axles -- Diesel particulate filter -- Hydrostatic power steering -

HYDRAULICS -- Electro hydraulic hoe and loader -controls -- Load sensing, variable flow system -with 43 gpm (162 L/min) axial piston -pump -- 6 micron hydraulic filter -- Caterpillar XT-3 hose -- Hydraulic oil cooler -- Pilot control shutoff switch -- Flow-sharing hydraulic valves -- Hydraulic suction strainer -

ELECTRICAL -- 12 volt electrical start -- 150 ampere alternator -- Horn, front and rear -- Backup alarm -- Hazard flashers/turn signals -- Halogen head lights (2) -- Halogen rear flood lights (2) -- Stop and tail lights -- Audible system fault alarm -- Key start/stop system -- 850 CCA maintenance free battery -- Battery disconnect switch -- External Power Receptacle (12v) -- Diagnostic ports for engine and -machine Electronic Control Modules -

OPERATOR ENVIRONMENT -- Interior rearview mirror -- ROPS canopy, Rear Fenders -- 2-inch (50mm) retractable seat belt -- Tilt steering column -- Steering knob -- Hand and foot throttle -- Automatic Engine Speed Control -- One Touch Low Idle -- Floor mat and Coat Strap -- Lockable storage area -- Air suspension seat -

FLUIDS -- Antifreeze - Extended Life Coolant --20F (-30C)

OTHER STANDARD EQUIPMENT -- Standard Storage Box -- Transport tie-down points -- Ground line fill fuel tank with -42.3 gal (160L) capacity & 5 gal (19L) -diesel exhaust fluid -- Rubber impact strips on radiator -guard -- CD-ROM Parts Manual -- Safety Manual -- Operations and Maintenance Manual -- Lockable hood -- Tire Valve Stem Protection

STOCK NUMBER: NS0019787

SERIAL NUMBER: TBD

YEAR: 2023

SMU: 5

MACHINE SPECIFICATIONS

420 XE 07A BACKHOE LOADER CFG1	563-5593
CAB, DELUXE	544-0883
LINES, HYD CPLR 14FT EXT PILOT	555-2396
COUPLING, QD, THREADED WITH CAPS	456-3390
PLATE GROUP - BOOM WEAR	423-7607
GUARD, STABILIZER	353-1389
AUTO-UP STABILIZERS	567-5090
PRODUCT LINK, CELLULAR, PLE643	560-6797
USB POWER PORT	553-5854
DISPLAY, SECURITY, ENABLED	573-0397
STANDARD RADIO (12V)	540-2298
FAN	387-6682
LINES, COMBINED AUX, E-STICK	548-1231
RIDE CONTROL	551-6453
SERIALIZED TECHNICAL MEDIA KIT	421-8926
STABILIZER PADS, FLIP-OVER	9R-6007
TIRES, 340 80-18/500 70-24, MX	533-0488
SEAT BELT, 3" SUSPENSION	206-1748
COUNTERWEIGHT, 1015 LBS	337-9696
SEAT, DELUXE FABRIC	558-9623
WORKLIGHTS (8) LED LAMPS	491-6736
AIR CONDITIONER, T4F	542-7810
DISPLAY, TOUCH SCREEN	545-5048
LOADER, ST, PL	585-1162
ENGINE, 82KW, C3.6 DITA, T4F	542-7780
PT, 4WD/2WS AUTOSHIFT	544-1063
STICK, EXTENDABLE, 14FT	543-4284
HYDRAULICS, MP, 6FCN/8BNK, EH	585-1161
420 LANE 3 ZCON	626-9390
BUCKET-MP, 1.4 YD3, PO	337-7442
CUTTING EDGE, TWO PIECE, WIDE	9R-5320
LOADER BUCKET PINS	545-8548
COUPLER, PG, MAN.D.LOCK, BHL	444-7500
BUCKET-HD, 24", 6.2 FT3	219-3387
FLIP OVER TINE FORKS	60UNIV

We wish to thank you for the opportunity of quoting on your equipment needs. This quotation is valid for 30 days, after which time we reserve the right to re-quote. If there are any questions, please do not hesitate to contact me.

Sincerely,
 Victor Muñoz
 Machine Sales Representative
 Direct (818)297-8742 victor.munoz@quinncompany.com

WARRANTY & COVERAGE

Standard Warranty: 12 MONTHS FULL MACHINE

MANUFACTURES LIST PRICE	\$225,770.00
SOURCEWELL DISCOUNT #032119-CAT, SELL PRICE	\$176,100.60
TIRE FEE	\$7.00
60MO/5000HR PREMIER Equipment Protection Plan	\$6,770.00
SUBTOTAL	\$182,877.00
SALES TAX (9.5%)	\$17,372.71
AFTER TAX BALANCE	\$200,250.31

F.O.B/TERMS: TBD

ADDITIONAL CONSIDERATIONS

- Delivery is about 5-6 Months TBD
- This machine is currently on order; Offered subject to prior sale.
- **Signed quote with purchase order required for reservations.**
- Budgetary quote; Offered subject to change in effect at the time of delivery.

Accepted by _____ on _____

Signature

Mike Reyes

From: Victor Munoz <Victor.Munoz@QuinnCompany.com>
Sent: Friday, June 16, 2023 7:11 AM
To: Mike Reyes
Subject: Quinn Co CAT 420 XE BHL updated quote
Attachments: Q Santa Clarita Valley Water Agency dba SCV Water 420 XE BHL new v2.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hello Mike,

Good morning, hope all is well.

Attached is the revised and updated quote with changes we discussed. I added the 60m/5K hr Premier EPP warranty on a line item for consideration, Below is a few other options for review and consideration. Please review and contact me with any questions or concerns Thank you

Optional Coverage for new 420 XE BHL 2023:

POWERTRAIN +HYDRAULICS +TECH PARTS AND LABOR 36 Months 3000 Hours \$1,183.20
PREMIER PARTS AND LABOR 36 Months 3000 Hours \$2,388.00

POWERTRAIN +HYDRAULICS +TECH PARTS AND LABOR 48 Months 4000 Hours \$1,983.60
PREMIER PARTS AND LABOR 48 Months 4000 Hours \$3,977.00

POWERTRAIN +HYDRAULICS +TECH PARTS AND LABOR 60 Months 5000 Hours \$3,178.40
PREMIER PARTS AND LABOR 60 Months 5000 Hours \$6,770.00

Kindest Regards,

Victor Muñoz | Machine Sales Rep.
13275 Golden State Road
Sylmar, Ca. 91342
New, Used, Long term Heavy Rents
Direct (818) 297-8742 | Office (818) 408-5376
victor.munoz@quinncompany.com
www.quinncompany.com


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COMMITTEE MEMORANDUM

DATE: September 18, 2023

TO: Finance and Administration Committee

FROM: Rochelle Patterson 
Chief Financial and Administrative Officer

SUBJECT: Recommend Approval of a Revised Customer Service Policy

SUMMARY

The revised Customer Service Policy transfers the workflow for temporary meter connections from the Engineering Department to the Customer Care Department, as well as updates the deposit schedule to reflect current cost of service for temporary meter connections.

DISCUSSION

SCV Water currently provides two types of temporary service connections: portable and flanged. Portable hydrant meters are issued for temporary connection to an approved fire hydrant for construction use of a limited duration and are typically disconnected at the end of each workday. These services are applied for and processed by the Customer Service Department. Flanged meters are stationary connections to fire hydrants for construction and other use of a limited duration. These services are applied for, approved and processed by the Engineering Department. Monthly service and consumption charges for both connection types are billed by the Customer Care Department using the Customer Information System (CIS), and both connection types require deposit. Hydrant meter deposits are tracked in the CIS by the Customer Care Department. Flanged meter deposits are tracked in Oracle by the Engineering and Accounting Departments.

To streamline the application, deposit and billing processes for both the customer and the Agency, staff has modified the flanged-type workflow to leverage the existing portable-type workflow and system automation by transitioning the application and deposit process from Engineering to Customer Care. As part of this process, staff reassessed the deposit and cost-of-service fees associated with both types of temporary service connections.

These changes have been worked into the current Customer Service Policy as reflected in the redlines on the next page. Rather than attach the entire policy, shown here are the changes to be made in the following sections of the policy: Part 3: Service Connection; Appendix A-4 – Temporary Service Connection Monthly Fixed Charge; and Appendix A-7 – Temporary Service Connection Installation Charge.

Underlined red text has been added, while struck red text will be deleted.

PART 3: SERVICE CONNECTION

3.3 Temporary Service Connection

3.3.1 General Provisions

1. Purpose

Provided no undue hardship is caused to customers, the Agency will furnish temporary service for construction purposes when the applicant has requested service on this basis, or the Agency reasonably expects the service to be temporary and the applicant has paid advances and established credit. The Agency contemplates temporary service will be provided for a term of six (6) months or less or as established by the Agency can be extended on a case-by-case basis as determined by the Agency, and requires the applicant to comply with the following:

APPENDIX A-4 – TEMPORARY SERVICE CONNECTION MONTHLY FIXED CHARGE

MONTHLY FIXED CHARGES					
Size	Effective 7/1/2021	Effective 7/1/2022	Effective 7/1/2023	Effective 7/1/2024	Effective 7/1/2025
Fire-Hydrant/ Construction Meter					
2-in	NA	NA	\$90.83	\$96.73	\$103.02
2 1/2-in	\$94.32	\$100.45	\$106.97	\$113.93	\$121.33
4-in	NA	NA	\$273.84	\$291.64	\$310.60
6-in	\$478.72	\$509.84	\$542.98	\$578.27	\$615.86
Jumper*					
¾-in	\$28.83	\$30.68	\$32.70	\$34.81	\$37.05
1-in	\$38.32	\$40.79	\$43.47	\$46.27	\$49.26

*Jumper includes 5 billing units

APPENDIX A-7 – TEMPORARY SERVICE CONNECTION INSTALLATION CHARGE

The Temporary Service Connection charge is assessed on a one-time basis and payment is required prior to the Agency providing Potable or Recycled Water Service.

The cost to install or relocate an existing Temporary Service Connection is listed below.

Table A-7

Installation Type	Deposit by Meter Size	
	2 ½-3 inch	6-inch
From a Fire Hydrant (Meter Only)	\$ 1,200.00	\$ 1,500.00
Fire Hydrant (Billing Deposit)	\$ 500.00	\$ 500.00

<u>Installation Type</u>	<u>Deposit by Meter Size*</u>			
	<u>2-inch</u>	<u>2 ½-inch</u>	<u>4-inch</u>	<u>6-inch</u>
<u>Installation Cost</u>	<u>\$ 790</u>	<u>NA</u>	<u>\$ 790</u>	<u>\$ 790</u>
<u>Meter Only</u>	<u>\$ 2,405</u>	<u>\$ 1,424</u>	<u>\$ 4,130</u>	<u>\$ 7,001</u>
<u>Billing Deposit</u>	<u>\$ 1,055</u>	<u>\$ 1,004</u>	<u>\$ 5,692</u>	<u>\$10,816</u>

*Deposits, less lost or damaged meter charges are applied to final bill upon account closure and unused balances are refunded.

No other changes to the policy are recommended at this time. To view the current Customer Service Policy in its entirety, it may be accessed here:

<https://yourscvwater.com/sites/default/files/SCVWA/customer-care/Customer-Service-Policy-Feb-2023.pdf>.

STRATEGIC PLAN NEXUS

The revision of this Customer Service Policy helps support SCV Water’s Strategic Plan Strategy A – Provide “best-in-class” customer service; Objective F.1.3 – Update, develop and maintain clear and comprehensive policies for SCV Water

FINANCIAL CONSIDERATIONS

None.

RECOMMENDATION

That the Finance and Administration Committee recommends the Board of Directors approve the proposed changes in the revised Customer Service Policy.

RP

M65

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Monthly Financial Report

July 2023

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Statement of Revenues and Expenses

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SCV Water
Statement of Revenues and Expenses
For the 1st Period Ending 7.31.23 - Unaudited

	(A)			(B)			(C)			(D)			(E)			(F)			(G)			(H)		
	Actual			Budget			Variance			Percent			Actual			Budget			Variance			Percent		
	Current Period			Current Period			Current Period			Current Period			Year-to-Date			Year-to-Date			Year-to-Date			Year-to-Date		
(1)	\$	7,464,392		\$	10,641,573		\$	(3,177,181)		(30%)	(a) Water Sales		\$	7,464,392		\$	10,641,573		\$	(3,177,181)		(30%)		
(2)		25,092			25,180		(88)		(0%)	Water Sales - WWR				25,092			25,180			(88)		(0%)		
(3)		32,077			40,600		(8,523)		(21%)	Water Sales - Recycled				32,077			40,600			(8,523)		(21%)		
(4)		73,300			55,000		18,300		33%	Misc Fees and Charges				73,300			55,000			18,300		33%		
(5)	\$	7,594,861		\$	10,762,353		(3,167,492)		(29%)	Total Operating Revenues		\$	7,594,861		\$	10,762,353		\$	(3,167,492)		(29%)			
										Operating Expenses														
(6)	\$	178,124		\$	257,837		(79,713)		(31%)	(b) Management				\$	178,124		\$	257,837		\$	(79,713)		(31%)	
(7)		1,516,057			1,993,948		(477,891)		(24%)	(c) Finance, Admin & IT				1,516,057			1,993,948			(477,891)		(24%)		
(8)		133,813			255,685		(121,872)		(48%)	(d) Customer Care				133,813			255,685			(121,872)		(48%)		
(9)		662,656			928,131		(265,476)		(29%)	(e) Trans. & Distribution				662,656			928,131			(265,476)		(29%)		
(10)		714,910			1,248,931		(534,021)		(43%)	(f) Pumping Wells & Storage				714,910			1,248,931			(534,021)		(43%)		
(11)		312,942			938,385		(625,443)		(67%)	(g) Water Resources				312,942			938,385			(625,443)		(67%)		
(12)		14,784			209,068		(194,284)		(93%)	(h) Source of Supply				14,784			209,068			(194,284)		(93%)		
(13)		864,228			1,116,097		(251,869)		(23%)	(i) Water Quality, Treatment & Maintenance				864,228			1,116,097			(251,869)		(23%)		
(14)		164,970			333,305		(168,335)		(51%)	(j) Engineering Services				164,970			333,305			(168,335)		(51%)		
(15)	\$	4,562,485		\$	7,281,386		(2,718,902)		(37%)	Total Operating Expenses		\$	4,562,485		\$	7,281,386		\$	(2,718,902)		(37%)			
(16)	\$	3,032,376		\$	3,480,967		(448,590)		(13%)	Net Operating Revenues (Expenses)		\$	3,032,376		\$	3,480,967		\$	(448,590)		(13%)			
										Non-Operating Revenues and (Expenses)														
(17)	\$	627,786		\$	1,203,575		(575,789)		(48%)	(j) Non-Operating Revenues ¹				\$	627,786		\$	1,203,575		\$	(575,789)		(48%)	
(18)		(460,606)			(6,362,178)		5,901,572		(93%)	(k) Capital Improvement Projects - Pay Go				(460,606)			(6,362,178)			5,901,572		(93%)		
(19)		-			-		-		0%	Debt Service				-		-	-		-	-		0%		
(20)		(5,184)			(3,333)		(1,850)		56%	Leases and SBITA Interest Expenses				(5,184)			(3,333)			(1,850)		56%		
(21)	\$	161,996		\$	(5,161,937)		5,323,933		(103%)	Net Non-Operating Revenues and (Expenses)		\$	161,996		\$	(5,161,937)		\$	5,323,933		(103%)			
(22)	\$	3,194,372		\$	(1,680,970)		4,875,343		(290%)	Increase (Decrease) in Net Position		\$	3,194,372		\$	(1,680,970)		\$	4,875,343		(290%)			

Monthly Changes of more than 10% and \$20,000

- (a) Overall consumption was lower than anticipated due to weather and conservation.
- (b) July payroll lower due to reversal of year-end accrued payroll. Outside services lower than budgeted due to lower legal costs than originally anticipated
- (c) July payroll lower due to reversal of year-end accrued payroll. Outside services lower than budgeted due to the reversal of year-end bank fees accrual.
- (d) July payroll lower due to reversal of year-end accrued payroll.
- (e) July payroll lower due to reversal of year-end accrued payroll. Utilities lower than budgeted due to reversal of Edison year-end accrual.
- (f) July payroll lower due to reversal of year-end accrued payroll. BMP participation lower than expected. Outside services lower than budgeted due to professional services lower than expected.
- (g) Utilities lower than budgeted due to reversal of Edison year-end accrual. Core water supply expenses lower as a result of lower firming banking program expenditures driven by a wet year.
- (h) July payroll lower due to reversal of year-end accrued payroll.
- (i) Outside services lower than expected due to reversal of year-end accruals.
- (j) Non-Operating Revenues are lower due to reversal of year-end accrued grant funds & year-end accrued interest income.
- (k) Timing of capital projects vary from month to month

¹ Non-Operating Revenues include: Grants & Reimbursements, 1% Property Tax, Cell Sites, FCF, Lab Revenues, Interest Income, Annexation Reimb.

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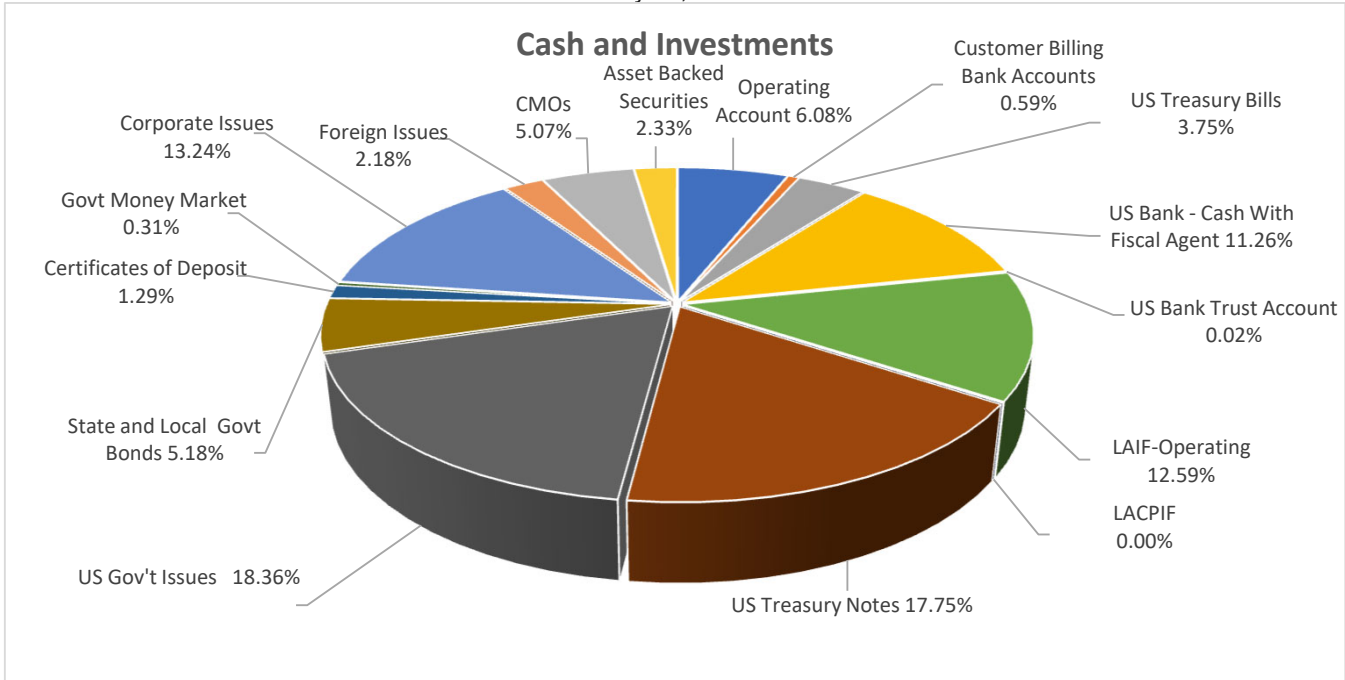
Investment Report

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Santa Clarita Valley Water Agency

Cash and Investment Summary

July 31, 2023



Operating Account-Incl FCF's, SWP & CIP	XXX-10101	\$	16,609,578	6.08%
Customer Billing Bank Accounts	101-10105		1,614,997	0.59%
US Treasury Bills (Cash Equivalent)	101-10104		10,240,321	3.75%
US Bank - Cash with Fiscal Agent	101-102XX		30,774,110	11.26%
US Bank Trust Account (1% Prop Tax)	101-10202		45,444	0.02%
LAIF - Operating	101-11061		34,396,535	12.59%
LAC Pooled Investment Fund	101-11062		5,641	0.00%
US Treasury Notes	101-11063		48,526,602	17.75%
US Gov't Issues (excl T-Bills & T-Notes)	101-11064		50,185,433	18.36%
State and Local Government Bonds	101-11065		14,149,196	5.18%
Certificates of Deposit	101-11066		3,523,224	1.29%
Government Money Mkt Fund	101-11067		847,786	0.31%
Corporate Issues	101-11068		36,232,542	13.26%
Foreign Issues	101-11069		5,950,096	2.18%
CMOs	101-11070		13,854,753	5.07%
Asset Backed Securities	101-11071		6,327,177	2.32%
		\$	273,283,435	100.01%

Estimated Refundable Developer Deposits:

\$ - Included in totals

Portfolio-wide Investments:

Weighted Average Yield 4.377%

Rochelle Patterson, MPA
Treasurer/Chief Financial & Administrative Officer

Amy Aguer, CPA
Controller

All investment actions executed since the last report have been made in full compliance with the Investment Policy, and the Agency will meet its expenditure obligations for the next six months as required by Government Code Section 53646(b)(2) and (3), respectively.

SCV Water
Consolidated Cash & Investment Summary
7/31/2023

	<u>Note</u>	<u>Acct #</u>	<u>Balance</u>	<u>Total</u>	<u>% of Total</u>
<u>AGENCY FUNDS</u>					
Cash & Sweep Accounts					
WF Operating Account-Incl FCF's, SWP & CIP		XXX-10101	\$ 16,609,578		
Less: WF Restricted Cash (FCFs, SWP & CIP)	1	2XX-10101	(1,666,098)		
US Treasury Bills - CAM		101-10104	10,240,321		
Customer Billing - Northstar Account		101-10105	297,280		
Customer Billing - enQuesta Account		101-10107	1,317,716		
US Bank - Cash with Fiscal Agent		101-102XX	30,774,110		
US Bank Trust Account (1% Prop Tax)		101/204-10202	45,444		
Less: Restricted Cash US Bank Accts -SWP	1	204-10202	-		
Subtotal - Cash & Sweep Accounts Unrestricted			\$ 57,618,352	21.08%	
Investments - Unrestricted					
Local Agency Investment Fund		101/202/204-11061	\$ 34,396,535		
LAC Pooled Investment Fund		101-11062	5,641		
US Treasury Notes - US Bank		101-11063	48,526,602		
US Govt Issues (excl T-Notes & T-Bills)		101/204-11064	50,185,433		
Taxable Municipal Issues (State & Local)		101-11065	14,149,196		
Certificates of Deposit		101-11066	3,523,224		
Government Money Mkt Fund		101/204-11067	847,786		
Corporate Issues		101-11068	36,232,542		
Foreign Issues		101-11069	5,950,096		
CMOs-Collateralized Mortgage Obligations		101-11070	13,854,753		
Asset Backed Securities		101-11071	6,327,177		
Less: Restricted Investments - FCF	2	202-11061	(9,958,753)		
Less: Restricted Investments - SWP	3	204-11061-11067	(92,348,411)		
Subtotal - Investments Unrestricted			\$ 111,691,822	40.87%	
Cash and Investments - Restricted					
Facility Capacity Fee Fund - Cash	4	202-10101	\$ -		
Facility Capacity Fee Fund - Investments	5	202-11061	9,958,753		
State Water Project - Cash (WF & US Bank)	6	204-10XXX	1,824,181		
State Water Project - Investments	7	204-11061/11063/11064	92,348,411		
Subtotal - Investments Restricted			104,131,345	38.10%	
TOTAL AGENCY CASH & INVESTMENTS			\$ 273,441,519		
<u>CAPITAL IMPROVEMENT PROJECT FUNDS</u>					
Cash & Sweep Accounts	8	220-10101	\$ (158,083)		
Local Agency Investment Fund - Restricted		220-11061	-		
TOTAL CAPITAL IMPROVEMENT PROJECT FUNDS			\$ (158,083)	-0.06%	
TOTAL CASH AND INVESTMENTS			\$ 273,283,435	100.00%	

Notes

- 1 Less: Restricted Cash - FCF's, SWP & CIP
- 2 Less: Restricted Investments - FCF's Legacy SCWD
- 3 Less: Restricted Investments - State Water Project
- 4 Restricted Cash - FCF's (Txfr'd to cover Debt Svc)
- 5 Restricted Investments - FCF's (SCWD Legacy)
- 6 Restricted Cash - SWP (State Water Project)
- 7 Restricted Investments - SWP (State Water Project)
- 8 Restricted Cash - CIP 2020A Bond Proceeds - Negative - Awaiting reimbursement from the 2023A Bond Proceeds

7/31/2023

Per Chandler Asset Management and US Bank Custody Trust Statement

Agency-wide General Funds Invested:

<u>Cash & Cash-Equivalents</u>	<u>Cost</u>	<u>Yield</u>	<u>Purchase Date</u>	<u>Maturity Date</u>
Wells Fargo Pooled Operating Cash	\$ 16,609,578	5.162%	Various	Liquid
Less: CIP 2020A Pooled Cash	158,083	5.162%	Various	Liquid
Wells Fargo Customer Care Accounts	1,614,997	5.162%	Various	Liquid
US Bank DS Accounts	30,774,110	4.790%	Various	Liquid
US Bank 1% Property Tax Trust Account	45,444	3.740%	Various	08/15/23
US T-Bills (Cash Equiv) - CAM	10,240,321	5.035%	Various	Liquid
Commercial Paper (Cash Equiv) - CAM	1,444,736	5.160%	Various	Various
First American Gov't MM (Cash Equiv) -CAM	847,786	4.870%	Various	Liquid

Total Cash & Cash-Equivalents \$ 61,735,055 4.950% Weighted Avg Yield

Investments External to US Bank / Chandler Asset Management

Local Agency Investment Fund (LAIF)	\$ 34,396,535	3.305%	Various	Liquid
LA County Pooled Investment Fund	5,641	3.840%	Various	Liquid

Investments per US Bank / Chandler Asset Management Statements (excluding Cash Equivalents)

Asset-Backed Securities - CAM	6,327,177	5.530%	Various	Various
Federal Agencies - CAM	50,185,433	5.252%	Various	Various
CMO's - Collateralized Mortgages - CAM	13,854,753	4.722%	Various	Various
Corporate Issues	34,787,805	5.221%	Various	Various
Municipal Bonds (State/Local Gov'ts) CAM	14,149,196	5.250%	Various	Various
Negotiable Certificates of Deposit - CAM	3,523,224	5.386%	Various	Various
US Treasury Notes - US Bank	48,526,602	4.563%	Various	Various
Foreign Issues & SupraNationals	5,950,096	5.204%	Various	Various

Total Investments \$ 211,706,464 4.210% Weighted Avg Yield

Cash & Investments Non-CIP \$ 273,441,519 4.377% Portfolio Weighted Avg Yield

Reconciliation with Portfolio-wide Summary

CIP 2020A Cash	\$ (158,083)
CIP 2020A LAIF	0
CIP Cash & Investments	<u>(158,083)</u>
Portfolio Wide Total Cash & Investments	<u>\$ 273,283,435</u>

0

CAM Managed Assets / Held at US Bank

US T-Bills (Cash Equiv)
Commercial Paper
First American Gov't MM
Asset-Backed Securities
Federal Agencies
CMO's - Collateralized Mtgs
Corporate Issues (excluding Foreign Issues)
Municipal Bonds (State/Local)
Negotiable CDs
US Treasury Notes
Foreign Notes
CAM Assets Managed

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3-Month Cashflow

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SANTA CLARITA VALLEY WATER AGENCY
3 - Month Cash Flow Projection

Cash Flow for September FY24 to November FY24

DESCRIPTION	UNRESTRICTED		RESTRICTED		
	Checking	Investments	CIP Fund	SWC	Capacity Fees
Beginning Balance (estimated):	\$ 19,437,584	\$ 115,681,177	\$ 74,458,129	\$ 91,655,086	\$ 10,616,292
September					
Cash Provided from:					
Water Sales	11,634,169	-	-	-	-
Water Sales Misc ¹	60,000	-	-	-	-
Recycled Water Sales	40,600	-	-	-	-
Non Operating Income:					
Property Taxes	-	-	-	-	-
Capacity Fees	-	-	-	-	131,483
Interest Earned	491,166	-	142,188	327,708	-
Communication/Rental	44,189	-	-	-	-
Grants	-	-	-	-	-
Reimbursements ²	392,612	-	-	-	-
Bond/Loan Proceeds	-	-	-	-	-
Other ³	1,936	-	-	-	-
Cash Used/Added to/for:					
Monthly Expenses	(7,860,911)	-	-	(12,212)	-
DWR Payments	-	-	-	(1,900,000)	-
Misc. Water Purchases	(11,667)	-	-	(1,496,904)	-
Debt Service	(3,333)	-	-	-	-
CIP	(6,362,178)	-	(3,893,500)	-	-
CalPERS UAL	-	-	-	-	-
Txfr to/from	-	-	-	-	-
Projected Ending Balance Sep	\$ 17,864,167	\$ 115,681,177	\$ 70,706,817	\$ 88,573,678	\$ 10,747,775
October					
Cash Provided from:					
Water Sales	9,699,338	-	-	-	-
Water Sales Misc ¹	50,000	-	-	-	-
Recycled Water Sales	40,600	-	-	-	-
Non Operating Income:					
Property Taxes	-	-	-	-	-
Capacity Fees	-	-	-	-	131,483
Interest Earned	491,166	-	142,188	327,708	-
Communication/Rental	44,189	-	-	-	-
Grants	647,743	-	-	-	-
Reimbursements ²	249,574	-	-	-	-
Bond/Loan Proceeds	-	-	-	-	-
Other ³	1,936	-	-	-	-
Cash Used/Added to/for:					
Monthly Expenses	(7,652,511)	-	-	(12,212)	-
DWR Payments	-	-	-	(808,500)	-
Misc. Water Purchases	(11,667)	-	-	(1,486,703)	-
Debt Service	(3,333)	-	-	-	-
CIP	(6,362,178)	-	(3,893,500)	-	-
Txfr to/from	-	-	-	-	-
Projected Ending Balance. Oct	\$ 15,059,023	\$ 115,681,177	\$ 66,955,504	\$ 86,593,970	\$ 10,879,259

SANTA CLARITA VALLEY WATER AGENCY
3 - Month Cash Flow Projection

Cash Flow for September FY24 to November FY24

DESCRIPTION	UNRESTRICTED		RESTRICTED		
	Checking	Investments	CIP Fund	SWC	Capacity Fees
Beginning Balance (estimated):	\$ 19,437,584	\$ 115,681,177	\$ 74,458,129	\$ 91,655,086	\$ 10,616,292
November					
Cash Provided from:					
Water Sales	8,731,922	-	-	-	-
Water Sales Misc ¹	45,000	-	-	-	-
Recycled Water Sales	40,600	-	-	-	-
Non Operating Income:					
Property Taxes	619,045	-	-	808,486	-
Capacity Fees	-	-	-	-	131,483
Interest Earned	491,166	-	142,188	327,708	-
Communication/Rental	44,189	-	-	-	-
Grants	647,743	-	-	-	-
Reimbursements ²	253,781	-	-	-	-
Bond/Loan Proceeds	-	-	-	-	-
Other ³	1,936	-	-	-	-
Cash Used/Added to/for:					
Monthly Expenses	(7,548,311)	-	-	(12,212)	-
DWR Payments	-	-	-	(808,500)	-
Misc. Water Purchases	(11,667)	-	-	(1,486,703)	-
Debt Service	(3,333)	-	-	-	-
CIP	(6,362,178)	-	(3,893,500)	-	-
Txfr to/from	-	-	-	-	-
Projected Ending Balance Nov	\$ 12,008,916	\$ 115,681,177	\$ 63,204,192	\$ 85,422,749	\$ 11,010,742

Notes:

¹ Water Sales Misc. includes Late Charges, Misc. Retail Charges, Rebates, and Water Sales-One time

² Reimbursements include Annexation and PERCH Reimbursements - O&M & CIP

³ Other includes Laboratory Revenues and Other Non-Operating Revenue

Ten Largest Disbursements Check Register

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SCV Water
Ten Largest Disbursements
 July 1, 2023 to July 31, 2023

No.	Date	Pmt #	Supplier_Name	Invoice_Description	Method	Amount
1	07-26-2023	16199	HPS West, Inc	3/4 IN MASTER METER ALLEGRO (3,742), 2 IN MASTER METERS ALLEGRO (407)	SCV_ACH	1,676,883.71
			HPS West, Inc			1,676,883.71
2	07-26-2023	56741	Pacific Hydrotech Corporation	ESFP Washwater Return and Sludge Collection Project, Progress Payment through 6/20/23	CHECK	1,010,903.67
			Pacific Hydrotech Corporation			1,010,903.67
3	07-26-2023	56740	Pacific Hydrotech Corporation	Santa Clara & Honby Wells PFAS Groundwater Treatment Improvement Construction, Progress Payment through 5/31/23	CHECK	965,675.82
			Pacific Hydrotech Corporation			965,675.82
4	07-05-2023	56579	Pacific Hydrotech Corporation	ESFP Washwater Return and Sludge Collection Project, Progress Payment through 5/20/23	CHECK	786,172.50
			Pacific Hydrotech Corporation			786,172.50
5	07-26-2023	56794	Pacific Hydrotech Corporation	Santa Clara and Honby Wells PFAs Progress Pay 11	CHECK	472,778.08
			Pacific Hydrotech Corporation			472,778.08
6	07-26-2023	16209	Zim Industries, Inc.	Replacement (Saugus 3 & 4) Wells Construction Project, Progress Payment through 6/30/23	SCV_ACH	426,132.00
			Zim Industries, Inc.			426,132.00
7	07-25-2023	16142	So. California Edison Co.	Lk Hughes E/S Dam 5/26/23-6/26/23	AUTO DEBIT	1,131.99
				25849 1/2 Railroad Ave 5/26/23-6/26/23		13,819.49
				32700 Lake Hughes Road 5/26/23-6/26/23		25,481.57
				27234 Bouquet Canyon Rd SB 5/26/23-6/26/23		81.03
				25401 Bouquet Canyon 5/25/23-6/25/23		134,798.21
				23308 Magic Mountain 5/9/23-6/7/23		9,847.31
				23498 Newhall Ranch Rd 5/26/23-6/26/23		18.79
				28185 The Old Rd 5/26/23-6/26/23		5,878.40
				26503 McBean Pkwy 5/26/23-6/26/23		17.94
				27930 1/2 Lost Canyon Rd 5/26/23-6/26/23		137.92
				27171 1/2 Camp Plenty 5/26/23-6/26/23		38.98
				20545 Santa Clara St 5/26/23-6/26/23		190,006.25
				27295 Rolling Hills Ave 5/26/23-6/26/23		381.00
				17213 Medley Ridge Dr 5/26/23-6/26/23		40.29
				20545 Santa Clara St 4/27/23-5/25/23		121.45
				27434 1/2 Bouquet Canyon Rd 5/26/23-6/26/23		106.98
				27475 1/2 Canyon View Dr 5/11/23-6/11/23		86.10
				26501 Summit Cir 5/22/23-6/20/23		454.62
				26505 Summit Cir 5/22/23-6/20/23		151.56
				26979 Westridge 5/26/23-6/26/23		33.19
27139 Honby Ave PED 5/19/23-6/19/23	29.34					
So. California Edison Co.		382,662.41				
8	07-05-2023	56578	Pacific Hydrotech Corporation	Well 201 VOC Groundwater Treatment Improvements, Progress Payment through 4/30/23	CHECK	371,925.00
			Pacific Hydrotech Corporation			371,925.00
9	07-26-2023	16228	Evoqua Water Technologies, LLC.	DI RENTAL 7/1/23-9/30/23	SCV_ACH	148.32
				Well Q2 Resin Fill - Resin Initial Fill Service		368,315.29
Evoqua Water Technologies, LLC.		368,463.61				
10	07-26-2023	16200	ERS Industrial Services, Inc.	Turn Key Service Media Supply for (1) Gravity Filter at Earl Schmidt Water Treatment Plant	SCV_ACH	178,960.00
				Turn Key Service Media Supply for (1) Gravity Filter at the Rio Vista Water Treatment Plant		178,960.00
ERS Industrial Services, Inc.		357,920.00				

Total **6,819,516.80**

Total-All Disbursements Issued During July 2023 **12,237,372.69**

Largest Ten Vendor Payments as Compared to Total **56%**

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Director Stipends

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Director Reimbursements

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CA Govt. Code Section 53065.5

List of Reimbursement for "Individual Charges" = \$100 or more

Annual Disclosure for Fiscal Year 23/24 [AP Transactions Updated as of: 7/31/2023](#)

DIRECTORS [P-Card \(VISA\) Transactions Updated as of: 7/31/23](#) *July PCard transactions affect August cash.

Date	Recipient of Reimbursement	Reason for Reimbursement	Amount
07/01/23	Cooper, William	ACWA Committee Meeting Sacramento, CA 6/22/23-6/23/23 Travel Expense (Airfare, Mileage, Parking,	549.07
07/01/23	Cooper, William	Ground Transportation- Uber) ACWA Committee Meeting Sacramento, CA 6/22/23-6/23/23 Expense (Lodging, Meals)	401.13
			950.20

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**Finance and Administration Committee
Planning Calendar
FY 2023/24**

Item	July 11 Board	July 17 Comm	July 18 Board	Aug 1 Board	Aug 15 Board	Aug 21 Comm (Q4)	Sept 5 Board	Sept 25 RESCHED Comm	Oct 3 Board	Oct 16 Comm (to be cancelled)	Oct 17 Board	Nov 7 Board	Nov 20 Comm (Q1)	Dec 5 Board	Dec 11 RESCHED Comm	Dec 19 Board	Jan 2 Board	Jan 22 RESCHED Comm	Feb 6 Board	Feb 26 RESCHED Comm (Q2)	Mar 5 Board	Mar 18 Comm	April 2 Board	April 15 Comm	May 16 Board	May 20 Comm (Q3)	June 4 Board	June 17 Comm	June 18 - JPA		
17	Recommend Approval of a Resolution Adopting a Revised Investment Policy - (Annually adopted via reso) (consent)							P			P																				
18	Recommend Approval of the First Addendum to the Ground Lease for the Property at 22722 Soledad Canyon Road							P			P																				
19	Recommend Approval of Purchase of Two (2) Backhoe Replacements for Agency Fleet							P			P																				
20	Recommend Approval of a Revised Customer Service Policy							P			P																				
21	Fleet and Warehouse Update							P																							
22	Recommend Receiving and Filing of July 2023 Monthly Financial Report (consent)							P																							
23	Recommend Approval of a Purchase Order for Fleet Vehicle Purchase											P	P																		
24	Recommend Approval of an Internal Control Policy											P	P																		
25	Recommend Approval of a Comp Time Policy											P	P																		
26	Recommend Receiving and Filing of September 2023 Monthly and FY 2023/24 First Quarter Financial Report												P	P																	
27	Review Facility Capacity Fee (FCF) Revenues and FCF Study Components													P	P																
28	Technology Update													P	P																
29	Fleet and Warehouse Update													P	P																
30	Recommend Receiving and Filing of SCV Water Annual Comprehensive Financial Report (ACFR) ended June 30, 2023 (consent)														P	P															
31	Ratepayer Advocate Interviews (1 yr w/2 1yr options)																														
32	Recommend Receiving and Filing of October 2023 Monthly Financial Report (consent)																														
33	Recommend Receiving and Filing of November 2023 Monthly Financial Report (consent)																														

**ITEM NO.
9**

**Finance and Administration Committee
Planning Calendar
FY 2023/24**

Item	July 11 Board	July 17 Comm	July 18 Board	Aug 1 Board	Aug 15 Board	Aug 21 Comm (Q4)	Sept 5 Board	Sept 25 RESCHED Comm	Oct 3 Board	Oct 16 Comm (to be cancelled)	Oct 17 Board	Nov 7 Board	Nov 20 Comm (Q1)	Dec 5 Board	Dec 11 RESCHED Comm	Dec 19 Board	Jan 2 Board	Jan 22 RESCHED Comm	Feb 6 Board	Feb 26 RESCHED Comm (Q2)	Mar 5 Board	Mar 18 Comm	April 2 Board	April 15 Comm	May 16 Board	May 20 Comm (Q3)	June 4 Board	June 17 Comm	June 18 - JPA	
34	Review Budget Calendar																													
35	Recommend Receiving and Filing of December 2023 and FY 2023/24 Second Quarter Financial Report and Mid-Year Budget Review																													
36	Recommend Approval of a Proposed Employee Salary Adjustment (COLA) for FY 2023/24																						P							
37	Discuss Facility Capacity Fee Study																						P							
38	Technology Update																													
39	Fleet and Warehouse Update																													
40	Recommend Receiving and Filing of January 2024 Monthly Financial Report (consent)																													
41	Recommend Approval of a Resolution Adopting the FY 2023/24 and FY 2024/25 Biennial Budget																							P						
42	Review Annual List of Professional Services Contracts (consent)																							P						
43	Recommend Receiving and Filing of February 2024 Monthly Financial Report (consent)																							P						
44	Approve a Resolution Adopting the Appropriation of All As-Yet Unappropriated Funds for FY 2023/24 (consent)																									P				
45	Approve a Resolution Adopting the Appropriation Limit for FY 2024/25 (consent)																									P				
46	Recommend Receiving and Filing of March 2024 and FY 2023/24 Third Quarter Financial Report																									P				
47	Technology Update																													
48	Fleet and Warehouse Update																													
49	Recommend Receiving and Filing of April 2024 Monthly Financial Report (consent)																													
50	Approve FY 2024/25 and FY 2025/26 Budgets																													