

# SAN BENITO URBAN AREA WATER SUPPLY AND TREATMENT AGREEMENT



**Sunnyslope County  
Water District**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
ARTICLE 1: DEFINED TERMS.....	2
ARTICLE 2: TERM OF AGREEMENT .....	2
ARTICLE 3: QUANTITY OF TREATED WATER TO BE PROVIDED .....	3
3.1. Amount of Delivery.....	3
3.2. Sources of Water .....	3
(a) Central Valley Project Water.....	3
(b) Water Transfers.....	3
(c) Groundwater .....	4
3.3. Selection of Water Sources and Schedule of Water Demands .....	4
3.4. Limitations in Supply .....	4
3.5. Water Quality .....	5
(a) Water Quality Goals .....	5
(i) <i>TDS Concentration</i> .....	5
(ii) <i>Hardness</i> .....	5
(b) Future Projects to Meet Water Quality Goals.....	5
(c) District Responsible for Quality of Treated Water Delivered.....	6
ARTICLE 4: ADVISORY COMMITTEE .....	6
4.1. Function of Advisory Committee.....	6
4.2. Limit of Authority of Advisory Committee .....	6
4.3. Meetings of the Advisory Committee.....	7
ARTICLE 5: TREATMENT FACILITIES AND ADROP .....	7
5.1. TREATMENT FACILITIES.....	7
(a) District Commitment of Funds .....	7
(b) Lessalt WTP .....	7
(1) <i>Location and Capacity</i> .....	7
(2) <i>Included Costs</i> .....	8
(3) <i>Pipeline to High Pressure Zone</i> .....	8
(4) <i>Ownership</i> .....	8
(c) West Hills WTP .....	8
(1) <i>Location and Capacity</i> .....	8
(2) <i>Included Capital Costs</i> .....	8
(3) <i>Ownership</i> .....	8

	(d)	Non-Conveyance Covenant.....	9
	(e)	Operation and Maintenance of Treatment Facilities.....	9
		(1) <i>Operation Pursuant to Operation and Maintenance Agreement</i> .....	9
		(2) <i>Wholesale Customers Responsible for Operation of Distribution Pipelines</i> .....	9
		(3) <i>District Responsible for WTP Inflow and Outflow</i> .....	9
	(f)	Wholesale Customers' Respective Shares of Treatment Capacity.....	9
5.2.		ADROP.....	10
	(a)	Project Description and Capacity.....	10
	(b)	Included Capital Costs.....	10
	(c)	Grant Funding.....	10
	(d)	Operation and Maintenance of ADRoP.....	10
		(1) <i>Expansion of West Hills WTP</i> .....	10
		(2) <i>ASR Wells and Pipelines</i> .....	11
5.3.		CAPITAL IMPROVEMENTS.....	11
	(a)	Capital Improvements to Comply with Law or Regulation.....	11
	(b)	Capital Improvements to Accommodate Future Growth Demands.....	11
ARTICLE 6:		PAYMENT FOR TREATED WATER SERVICE.....	12
6.1.		Wholesale Customers' Payment Obligations and Covenants.....	12
6.2.		Wholesale Customers' Obligation to Take Delivery of Water.....	12
6.3.		Costs to Be Paid to District.....	12
	(a)	Capital Costs.....	13
		(1) <i>Capital Treatment Component – Treatment Facilities</i> .....	13
		(2) <i>Reliability Fee Component – ADRoP</i> .....	13
		(3) <i>Capital Replacement Reserve Component</i> <b>Error! Bookmark not defined.</b>	
	(b)	Fixed Operational Costs.....	14
		(1) <i>Administrative Fee Component</i> .....	14
		(2) <i>Direct Cost Component</i> .....	15
		(3) <i>Fixed Treatment Component</i> .....	15
	(c)	Variable Operational Costs.....	15
		(1) <i>Water Supply Component</i> .....	15
		(2) <i>Variable Treatment Component</i> .....	16
	(d)	ADRoP – Deferred Costs During Storage Years.....	16
	(e)	Extraordinary Operations and Maintenance.....	16

6.4.	Financial Covenants .....	17
	(a) Adequacy of Wholesale Customers' Revenue Sources .....	17
	(b) Financial Reporting Requirements.....	17
	(c) Wholesale Customers' Pledge of Revenues .....	17
6.5.	Billing and Payment .....	18
	(a) Invoices .....	18
	(b) Non-reimbursable District Credit - SJB .....	18
	(c) Payment.....	18
6.6.	Accounting .....	18
	(a) Application of Wholesale Customer Payments .....	19
	(b) Account Management.....	19
ARTICLE 7:	DISPUTES AND ATTORNEYS' FEES.....	19
ARTICLE 8:	LIMITATION OF LIABILITY .....	20
ARTICLE 9:	TERMINATION .....	20
ARTICLE 10:	DEFAULT .....	20
	10.1. Notice and Right to Cure.....	20
	10.2. Consequences of Default.....	21
ARTICLE 11:	AMENDMENTS .....	21
	11.1. Amendment Only by Writing.....	21
	11.2. Changes in Parties' Service Areas .....	21
ARTICLE 12:	SUCCESSORS AND ASSIGNS .....	22
ARTICLE 13:	ASSIGNMENT .....	22
ARTICLE 14:	NOTICES.....	22
ARTICLE 15:	NO THIRD PARTY BENEFICIARIES .....	22
ARTICLE 16:	OTHER PROVISIONS .....	23
	16.1. Integration.....	23
	(a) Memorandum of Understanding, December 2004 and as amended in February 2008.....	23
	(b) Hollister Urban Area Water and Wastewater Master Plan, 2008. ....	23
	(c) Coordinated Water Supply and Treatment Agreement, 2010. ....	23
	(d) Water Supply and Treatment Agreement Statement of Intent, 2011. ....	23
	(e) Hollister Urban Area Water Supply and Treatment Agreement, 2013. ....	23
	(f) San Benito Urban Areas Water Supply and Treatment Master Plan Update, 2023.....	23

16.2. Relationship of Parties .....	23
16.3. Controlling Law .....	23
16.4. Captions .....	23
EXHIBIT A: Capital Recovery Schedule .....	25
EXHIBIT B: Description of ADRoP and Associated Costs.....	30
EXHIBIT C: Explanation of Cost Components.....	31
EXHIBIT D: Wholesale Customers' Water Service Areas .....	33
EXHIBIT E: District's Zone 6 Boundary .....	35

## **SAN BENITO URBAN AREA WATER SUPPLY AND TREATMENT AGREEMENT**

This SAN BENITO URBAN AREA WATER SUPPLY AND TREATMENT AGREEMENT (“Agreement”) by and among the CITY OF HOLLISTER (“Hollister”), SAN BENITO COUNTY WATER DISTRICT (“District”), SUNNYSLOPE COUNTY WATER DISTRICT (“SSCWD”), and CITY OF SAN JUAN BAUTISTA (“SJB”), sometimes referred to herein as the “Parties” or individually as a “Party,” shall be effective as of the date is fully executed by the Parties.

### **EXPLANATORY RECITALS:**

A. **WHEREAS**, pursuant to the Hollister Urban Area Water Supply and Treatment Agreement entered into on May 29, 2013, by and among Hollister, District, and SSCWD (“Former Agreement”), the Parties, but not including SJB, established principles and objectives for the development of a Water and Wastewater Master Plan (“Master Plan”) and for a Coordinated Water Supply and Treatment Plan (“Coordinated Plan”) (collectively “Plans”) for the Hollister Urban Area (“HUA”), which efforts have been memorialized in the documents enumerated in Article 16.1 of this Agreement; and

B. **WHEREAS**, pursuant to the Former Agreement, the Parties, but not including SJB, agreed to equitably allocate the capital costs and the costs for the operation and maintenance of certain facilities which were necessary for the implementation of the Plans and consisted of: the upgrade to the Lessalt Water Treatment Plant (“Lessalt WTP”); the construction of the West Hills Water Treatment Plant (“West Hills WTP”); a transmission pipeline from the West Hills WTP to the distribution system; and a transmission pipeline from the Lessalt WTP to the High Pressure Zone (collectively, “Treatment Facilities”); and

C. **WHEREAS**, District advanced from its reserves \$34,000,000 to fund the aggregate costs of the Treatment Facilities, consisting of construction costs, final design, environmental review, permitting, and construction management services; and

D. **WHEREAS**, the construction and land acquisition necessary for the Treatment Facilities has been completed; and

E. **WHEREAS**, the Treatment Facilities are being operated and maintained pursuant to an operation and maintenance agreement executed on August 14, 2013 by and between District and SSCWD (“O&M Agreement”), and last renewed for a five-year term on July 26, 2023, including as it may be amended, replaced, or renewed in the future; and

F. **WHEREAS**, the Parties, now including SJB, have determined that it is in their mutual interests to continue implementing the Plans in the Urban Area (“UA”) under this Agreement and to assure the District’s recovery of the capital costs of the Treatment Facilities

by equitably allocating the costs of those Treatment Facilities among Hollister, SSCWD, and now SJB (collectively, "Wholesale Customers", or individually, "Wholesale Customer"); and

G. **WHEREAS**, the Parties have determined that it is in their mutual interests to terminate the Former Agreement and replace it with this Agreement, to add SJB as a Party, and to update the terms of the Former Agreement to reflect developments since 2013; and

H. **WHEREAS**, the Parties have determined that it is in their mutual interest to also include in this Agreement terms and conditions to account for the capital costs and the operation and maintenance of a project to improve water supply reliability for the region, the Accelerated Drought Response Project ("ADRoP"); and

I. **WHEREAS**, the Parties contemplate the construction of a transmission pipeline to provide treated water to SJB's area of service, the full costs of which shall be incurred and paid solely by SJB, and the construction, operation, and maintenance costs of which shall be subject to a separate agreement; and

J. **WHEREAS**, District holds water entitlements necessary for the provision of wholesale treated water to Wholesale Customers; and

K. **WHEREAS**, pursuant to this Agreement, District will provide wholesale treated water to Wholesale Customers for their use in supplement to their existing groundwater wells to provide municipal and industrial ("M&I") water service within Wholesale Customers' respective service areas.

**NOW THEREFORE, in consideration of the terms and conditions contained herein and the covenants entered into herein, the Parties hereby agree as follows:**

**ARTICLE 1: DEFINED TERMS**

Defined terms are indicated by quotation marks, and sometimes also with parentheses, when first used in this Agreement, and the defined terms are thereafter capitalized. Such defined terms shall have the meaning that is provided when the term is first used, regardless of whether the term is defined in the Explanatory Recitals or in Articles 2 through 16 herein.

**ARTICLE 2: TERM OF AGREEMENT**

Upon execution of this Agreement by all of the Parties, the Agreement shall become effective and shall remain in force until the capital costs of the Treatment Facilities and ADRoP described in Article 5 herein, including applicable interest, have been fully recovered by District, or until 30 years after its execution, whichever period shall be longer. Thereafter, this Agreement shall be

automatically renewed as to each Wholesale Customer for subsequent 10-year terms unless a written request for non-renewal is delivered by a Party to each of the other Parties to this Agreement no later than twelve (12) months prior to the expiration of any renewal period. Notice of non-renewal given by one Wholesale Customer shall not affect the right of the other Wholesale Customers to renew this Agreement.

### **ARTICLE 3: QUANTITY OF TREATED WATER TO BE PROVIDED**

#### **3.1. Amount of Delivery**

District, subject to supply limitations and exercise of District's discretion each year as described herein and in Articles 3.3 and 3.4 herein, shall deliver to the Lessalt WTP and the West Hills WTP an aggregate of 5,060 acre-feet ("AF") annually of untreated water, at an average rate of 4.25 million gallons per day ("mgd") for treatment and subsequent delivery to Wholesale Customers for distribution to their municipal and industrial customers, provided however, that District's obligation shall be limited to a maximum delivery rate of no more than 6.5 mgd. District will retain discretion concerning the allocation of water deliveries between the Lessalt WTP and West Hills WTP, respectively, but shall seek input from Wholesale Customers concerning their desired allocations. Water will be deemed delivered by the District to a Wholesale Customer when it passes into the transmission pipelines at the Lessalt WTP or the West Hills WTP used for the conveyance of water to that Wholesale Customer. The quantity delivered will be as measured by the meter on each such transmission pipeline.

#### **3.2. Sources of Water**

The Parties acknowledge that District has the following sources of untreated water available to satisfy its obligations under this Agreement:

(a) Central Valley Project Water

M&I water delivered to District from the federal Central Valley Project ("CVP") through the San Luis Reservoir, San Felipe Project, Hollister Conduit and San Justo Reservoir pursuant to Contract No. 8-07-20-W0130A-P between the United States and District, as amended and supplemented ("CVP Contract"); and

(b) Water Transfers

Episodic purchases of imported surface water, including permanent sales and long-term transfers, out-of-basin banked water, and spot market purchases that can, from time to time, be supplied to District through the San Luis Reservoir, San Felipe Project, Hollister Conduit and San Justo Reservoir; and

(c) Groundwater

Groundwater supplies and surface diversions that District may develop from subbasins to the north of the HUA, including any supplies that may become available through a North County Groundwater Bank generally described in the Master Plan and coordinated Plan but yet to be developed, and subject to uncertainty due to unknown results of field testing, regulatory and permitting conditions, and operational limitations.

**3.3. Selection of Water Sources and Schedule of Water Demands**

District shall prepare and provide to Wholesale Customers a written projection estimating the quantity of water to be supplied that year from each of the sources of supply described in Article 3.2 above, by March 1 of each year, or within 14 days of the initial CVP allocation, whichever is later. Within 14 days of receiving District's written projection, each Wholesale Customer shall provide to District a schedule of its estimated monthly water demand for that year. The actual quantity of water supplied from each source may vary from District's projection due to hydrologic conditions, pumping restrictions in the Sacramento-San Joaquin Delta, aquifer conditions, or other unanticipated factors affecting availability or cost. The choice of how much water to deliver each year from each source of supply, including whether District supplements its sources of supply using ADRoP, described in Article 5.2 herein, is a matter within District's sole discretion. Wholesale Customers acknowledge that the CVP Contract supplies available to them are subject to the entitlements and allocations established annually by District.

**3.4. Limitations in Supply**

The Wholesale Customers acknowledge that District has no control over hydrologic conditions, administrative decisions affecting the Delta, or other factors that may reduce the availability and delivery of imported surface water supplies from the San Luis Reservoir and the San Felipe Project. District shall determine the total available supply each year. District shall work together with Wholesale Customers to maximize District's entitlement to CVP M&I deliveries under any Water Shortage Policy adopted by the U.S. Bureau of Reclamation for water allocation during times of shortage. If, in any year, CVP Contract supplies and other imported supplies are reduced to a level that prevents District from delivering to Wholesale Customers the full amount specified in Article 3.1 above, no liability shall accrue against District or any of its officers, agents or employees for any damage, direct or indirect, arising therefrom. In the event that District is unable to deliver the full amount specified in Article 3.1 above in any year, the total available supply shall be allocated between the Lessalt WTP and West Hills WTP in proportion to their respective projected annual production requirements provided to District pursuant to

Article 3.3 above. The Wholesale Customers further acknowledge that District has an obligation to deliver water to M&I customers other than Wholesale Customers. District shall utilize the water shortage contingency plan included in its most recent urban water management plan adopted pursuant to the Urban Water Management Planning Act (Water Code section 10610 et seq.), as the water shortage contingency plan may be amended and updated from time to time, to allocate water during a condition of water shortage and shall reduce allocations to Wholesale Customers and to such other M&I customers by the same percentage.

### **3.5. Water Quality**

#### **(a) Water Quality Goals**

District shall have the sole discretion as to the sources of water used for treated water deliveries in any year, but shall exercise such discretion only after consultation with the Advisory Committee, as provided in Article 4.1 herein with the goal of achieving, in combination with groundwater from the municipal wells of Hollister, SSCWD, and SJB, drinking water of the lowest hardness and mineral content practicable, which, in any event, shall meet all regulatory requirements for drinking water. Water quality goals not included in this Agreement shall be identified in future Water Master Plans and reflected by an amendment to this Agreement. The Water Quality Goals for drinking water are agreed to be both:

##### **(i) *TDS Concentration***

A Total Dissolved Solids (TDS) concentration target of 500 milligrams per liter (mg/L) but not greater than 700 mg/L; and

##### **(ii) *Hardness***

A hardness of not greater than 120 mg/L (calcium carbonate).

#### **(b) Future Projects to Meet Water Quality Goals**

The Parties acknowledge that these Water Quality Goals will not be fully achieved solely through the Treatment Facilities as described herein. In furtherance of achieving the Water Quality Goals, the Parties agree to use their best efforts to plan and implement additional projects in the future to acquire additional surface water supplies and/or implement additional groundwater demineralization projects pursuant to separate agreements. Any such separate agreement shall be among the District and those Wholesale Customers who commit to, and contribute towards, the additional funding for such projects.

(c) District Responsible for Quality of Treated Water Delivered

Except as otherwise provided in the O&M Agreement, District shall be responsible for meeting treated water quality requirements established by the California Department of Public Health (“DPH”) Drinking Water Program, shall provide required reports to DPH and shall be responsible for any fines resulting from violation of water quality parameters due to the quality of water produced at the Lessalt WTP and West Hills WTP, *provided, however, that* the amount of any such fines that are not a result of District’s negligence may be recovered as part of the Treated Water Component of rates. Wholesale Customers shall be responsible for meeting water quality requirements in their respective portions of the water distribution systems and for reports required by DPH regarding such distribution systems.

**ARTICLE 4: ADVISORY COMMITTEE**

Upon execution of this Agreement, the Parties shall form a four-member Advisory Committee composed of one management representative of each Party, who shall serve at the pleasure of the elected body of such Party. Changes in the designated representatives may be made only upon written notice to each other Party at the addresses set forth in Article 14.

**4.1. Function of Advisory Committee**

The function of the Advisory Committee will be to facilitate communication among the Parties and to coordinate responses to mutual concerns regarding water supply, water quality, and related issues including the selection of sources of water as such sources influence costs and quality. Potential activities to be addressed include the design, permitting, construction, operation, maintenance, repair and replacement of surface water treatment plants, including, but not limited to, the operation and maintenance of the Treatment Facilities; ADRoP; regulatory requirements for drinking water quality; response to droughts or other water supply disruptions; and allocation of treated surface water supplies in times of shortage, emergencies or other unique needs of the Parties that may arise. The communication, coordination, and cooperation provided for by the establishment of the Advisory Committee shall extend to all provisions of the Agreement, *provided that*, each Party shall retain exclusive decision making authority for all actions, opinions and determinations to be made concerning facilities owned by that Party.

**4.2. Limit of Authority of Advisory Committee**

Final responsibility and discretion for any decisions relating to construction, operation or maintenance of a distribution system or facility shall remain with the Party that owns the affected distribution system or facility, including that decisions relating to the operation or expansion of

the Treatment Facilities and the West Hills transmission pipeline shall be the responsibility of District unless otherwise provided in the O&M Agreement. The Advisory Committee shall be consulted by District each year concerning District's preliminary projection of the selection and proportions of water to be used from the various sources available to District during that year, and shall be advised by District of the potential impacts of such selection and proportions on rates and water quality. The Parties will strive to agree on such selection and proportions of water sources, but District shall have the ultimate authority and discretion on these issues in the event that agreement cannot be reached by April 1.

#### **4.3. Meetings of the Advisory Committee**

Regular meetings of the Advisory Committee shall be held quarterly in the months of February, May, August and October of each year at a date and time agreed upon by all Parties. However, special meetings may be called by any Party on ten days' written notice to each other Party, as necessary to address specific subjects related to the implementation of this Agreement, or upon 72 hours prior written notice in the event of circumstances that require a decision before a regularly noticed meeting can be called. It is anticipated that a special meeting may need to be called in April of each year so that the Parties can consider proposed budgets for the ensuing fiscal year. Agendas for all meetings, together with documents to be considered at such meetings, shall be provided to each member at least one week before each meeting of the Advisory Committee, or in the event of emergency, as soon as possible before a meeting.

### **ARTICLE 5: TREATMENT FACILITIES AND ADROP**

#### **5.1. TREATMENT FACILITIES**

##### (a) District Commitment of Funds

District has advanced the amount of \$34,000,000 to fund the completion of the Treatment Facilities described below in Articles 5.1(b) and (c), which included the design, permitting and construction of the Treatment Facilities. Pursuant to the payment structure and related terms as provided in Article 6 herein, Wholesale Customers have agreed to repay District for the full cost of design, construction and financing of said Treatment Facilities.

##### (b) Lessalt WTP

###### (1) *Location and Capacity*

The Lessalt WTP is located at the intersection of Fairview Road and Sunnyslope Road in San Benito County. It currently has a production capacity of approximately 2 mgd.

(2) *Included Costs*

The costs of the Lessalt Upgrade Project incurred after September 1, 2011, including but not limited to design, engineering, environmental review, permitting, construction and related legal expenses, have been borne by District and shall be recovered from Wholesale Customers as described in Article 6 hereof.

(3) *Pipeline to High Pressure Zone*

A dedicated distribution pipeline was constructed and financed by District to serve the “High Pressure Zone” from the Lessalt WTP, for which the costs of such construction, including design, engineering, land acquisition, permitting, environmental review and legal expenses, have been borne by District and shall be recovered from Wholesale Customers as described in Article 6 hereof.

(4) *Ownership*

The Lessalt WTP, together with all real property and related appurtenances, is owned by District, with the exception of the distribution pipeline described in Article 5.2(b)(3) above which is owned by SSCWD.

(c) West Hills WTP

(1) *Location and Capacity*

The West Hills WTP is located on the western side of the City of Hollister, north of Union Road. The West Hills WTP has a capacity of 4.5 mgd and is designed for possible future expansion to 9 mgd. As of the date this Agreement is executed, the Parties expect that the West Hills WTP will be expanded to 6.75 mgd to accommodate the component of ADRoP described in Article 5.2(d)(1) herein.

(2) *Included Capital Costs*

The costs of the West Hills WTP, including but not limited to design, engineering, environmental review, permitting, construction and related legal expenses, have been borne by District and shall be recovered from Wholesale Customers as described in Article 6 hereof.

(3) *Ownership*

The West Hill WTP, together with all real property and related appurtenances necessary to its operation, including the water transmission line to the connection point of Hollister’s distribution system at Nash Road, is owned by District.

(d) Non-Conveyance Covenant

District covenants that, during the term of this Agreement or subsequent extensions of this Agreement, it shall not convey title to any such real property or to any portion of the Treatment Facilities without amendment to this Agreement.

(e) Operation and Maintenance of Treatment Facilities

(1) *Operation Pursuant to Operation and Maintenance Agreement*

The Treatment Facilities, including the Lessalt WTP, the West Hills WTP and the distribution mains between the treatment plants and each Wholesale Customer's distribution system, shall be operated and maintained pursuant to the O&M Agreement.

(2) *Wholesale Customers Responsible for Operation of Distribution Pipelines*

Wholesale Customers shall be responsible for meeting all statutory and regulatory requirements related to the operation of their respective water distribution systems, including water quality, and shall make all required reports to the DPH and any other applicable entities. Each Wholesale Customer shall ensure that each water service connection in its service area is metered and shall impose on its customers all water conservation requirements imposed on District by state or federal law and by District's CVP Contract, and shall provide District with such information as may be requested by District so that District can comply with such requirements.

(3) *District Responsible for WTP Inflow and Outflow*

District shall provide and maintain meters, valves and controls, and instrumentation at connections to the Hollister Conduit, at the turnouts to the Lessalt WTP and West Hills WTP, and at the outlets of the Lessalt WTP and West Hills WTP where the outlet connects to Wholesale Customers' distribution systems. District shall have the meters tested and calibrated annually. A copy of the annual test report will be provided to Wholesale Customers.

(f) Wholesale Customers' Respective Shares of Treatment Capacity

The respective annual treatment capacity of the Treatment Facilities reserved for each Wholesale Customer shall be as follows:

Hollister: Forty-six percent (46%).

SSCWD: Forty-six percent (46%).

SJB: Eight percent (8%).

There shall be no changes in a Wholesale Customer's respective percentage of the treatment capacity absent a separate agreement or an amendment to this Agreement.

## 5.2. ADROP

### (a) Project Description and Capacity

The Accelerated Drought Response Project (“ADRoP”) includes the expansion of the West Hills WTP to a capacity of 6.75 mgd (“West Hills Expansion”); construction and development of up to five aquifer storage and recovery well sites, including the wells, pumps, disinfection building, electrical cabinets, transformers, appurtenant structures, and security fences (“ASR Wells”); and the installation of water transmission pipelines to convey recharge and recovery water to and from the ASR Wells (“ASR Pipelines”). ADRoP is expected to have the capacity to inject, store, and recover up to 2,700 acre-feet of water each year. ADRoP, including the associated costs and funding, is described further in Exhibit B hereto.

### (b) Included Capital Costs

The costs of ADRoP will include, but are not limited to, design, engineering, environmental review, permitting, construction and related legal expenses, for which District, at District’s discretion, will seek bond revenues or advance such costs from District’s undesignated reserves. The costs of ADRoP shall be recovered by District from Wholesale Customers as described in Article 6 herein.

### (c) Grant Funding

District has been awarded three grants, totaling \$20,000,000, to fund the construction and implementation of ADRoP. District received \$1,800,000 from the California Department of Water Resources (“DWR”) funded through the Integrated Regional Water Management program; \$11,500,000 from DWR funded through the Sustainable Groundwater Management Grant Program; and \$6,700,000 from the U.S. Bureau of Reclamation funded through the Small Surface Water and Groundwater Storage Projects program. Such grant funding, including any grants that may be secured in the future for funding ADRoP, shall offset Wholesale Customers’ repayment obligations described in Article 6.3(a)(2). Any capital costs not recovered through grant funding shall be recovered from Wholesale Customers as described in Article 6.

### (d) Operation and Maintenance of ADRoP

#### (1) Expansion of West Hills WTP

Upon completion of the West Hills Expansion, the West Hills WTP, as expanded, shall continue to be operated and maintained pursuant to the O&M Agreement.

(2) *ASR Wells and Pipelines*

The construction, operation, and maintenance of the ASR Wells and ASR Pipelines may be operated and maintained under a separate operation and maintenance agreement. Whether the ASR Wells and ASR Pipelines are operated under the existing O&M Agreement or a separate agreement shall be determined at District's sole discretion.

(e) Ownership of ADRoP

All buildings, storage tanks, pipelines, structures, improvements, appurtenances, and fixtures associated with ADRoP, including the West Hills Expansion, ASR Wells, and ASR Pipelines, shall be owned by District.

**5.3. CAPITAL IMPROVEMENTS**

(a) Capital Improvements to Comply with Law or Regulation

District shall have the responsibility to construct additional capital improvements for the Treatment Facilities and ADRoP necessary to comply with law or regulation, up to a total expenditure equal to the amount then accumulated in a fund for such improvements ("Capital Replacement Reserve"), provided that this responsibility shall not require the District to expand the capacity of the Treatment Facilities beyond the level necessary to meet District's obligation to treat 5,060 AF of untreated water each year as described in Article 3.1 herein. Should the costs for such required capital improvements exceed the amount then accumulated in the Capital Replacement Reserve, District shall be required to acquire funding at the best available rate. If District must acquire third-party financing, each Wholesale Customer agrees to pay District its actual true principal and interest costs, plus 25 basis points, in equal monthly installments on a twenty-year amortization schedule. District shall provide notice to Wholesale Customers at least six months prior to acquiring such third-party financing to the extent reasonably practicable under the circumstances.

(b) Capital Improvements to Accommodate Future Growth Demands

District shall not be obligated to plan, design or construct future improvements for increased capacity of the Treatment Facilities or ADRoP or of raw water supply to the Treatment Facilities to accommodate future growth and demand, nor shall Wholesale Customers be obligated to pay for such improvements. Notwithstanding, District and one or more Wholesale Customer may agree to assume such obligations through a separate agreement, or, if all Parties agree, by an amendment to this Agreement.

## **ARTICLE 6: PAYMENT FOR TREATED WATER SERVICE**

### **6.1. Wholesale Customers' Payment Obligations and Covenants**

The full cost of treated water service for which Wholesale Customers shall collectively be obligated to pay District shall include the whole of the Capital Costs, Fixed Operational Costs, and Variable Operational Costs of the Treatment Facilities and ADRoP, which are comprised of the various cost components set forth herein in Article 6.3, subparagraphs (a) through (c) ("Full Costs"). With respect to the cost components that obligate Wholesale Customers to pay costs based upon their respective share of treatment capacity, Article 5.1(f) herein shall govern each Wholesale Customer's respective share. Wholesale Customers confirm, represent, and warrant to maintain fully effective water rates sufficient to meet Wholesale Customers' payment obligations hereunder during the term of the Agreement.

### **6.2. Wholesale Customers' Obligations and Delivery of Water**

No Wholesale Customer shall be required to take delivery of the full amount of water it has requested from District pursuant to Article 3.3 herein. Provided, however, that each Wholesale Customer shall remain obligated to pay the whole of their respective amount of the Capital Costs and Fixed Operational Costs described in Article 6.3 herein each year, regardless of whether they request or accept delivery of water. If a Wholesale Customer requests water for a given year, regardless of whether the Wholesale Customer takes delivery of the full requested quantity, that Wholesale Customer shall remain obligated to pay at least seventy-five percent (75%) of the Variable Operational Costs, described in Article 6.3 herein, for the quantity of water the Wholesale Customer requested.

### **6.3. Costs to Be Paid to District**

Except as provided in Article 6.3(f) herein, each Wholesale Customer shall make monthly payments to District for its respective percentage of the Full Cost based on the structure of payment obligations and cost components outlined in subparagraphs (a) through (c) below. For purposes of subparagraphs (b) and (c) below, the Wholesale Customers' obligation to pay Fixed Operational Costs and Variable Operational Costs for the Treatment Facilities shall include those costs associated with the West Hills WTP following completion of the West Hills Expansion. A description of each cost component of the Full Cost, including the methodology for calculating each, is described further in Exhibit C hereto.

(a) Capital Costs

Wholesale Customers shall pay the capital costs for the Treatment Facilities and ADRoP. Such capital costs include, but are not limited to, the cost of developing, permitting, preparing environmental review documents, designing, bidding, and constructing, including legal consultation (“Capital Costs”), for the Treatment Facilities and ADRoP. Wholesale Customers agree to reimburse District for the Capital Costs pursuant to the cost components set forth herein.

(1) *Capital Treatment Component – Treatment Facilities*

The Capital Treatment Component shall be calculated such that when paid through completion of the Wholesale Customer’s amortized monthly installment payments (“Capital Recovery Schedule”), District shall have recovered the entirety of the Capital Costs for the Treatment Facilities. The amount payable by each Wholesale Customer shall be based on the percentage of the treatment capacity to which each Wholesale Customer is entitled pursuant to this Agreement. Subject to Article 6.3(f), the Capital Recovery Schedule, set forth in Exhibit A hereto, shall describe the payment schedule for the Capital Treatment Component Payable by each Wholesale Customer.

(2) *Reliability Fee Component – ADRoP*

The Reliability Fee Component shall be based on an amount determined by District to be sufficient for District to recover any remaining Capital Costs for ADRoP not recovered through grant funding, which shall be derived via bond financing or from District’s undesignated reserves, the option of which shall be at District’s sole discretion. In the event District issues bonds to cover the remaining Capital Costs associated with ADRoP, either in whole or in part, the Reliability Fee Component shall include repayment of the principal of the bonds but shall not include any applicable interest accrued on those bonds, and payment of such interest shall remain District’s obligation. The amount of the Reliability Fee Component payable by each Wholesale Customer shall be on a per-acre-foot basis of treated water delivered to each Wholesale Customer, including that District shall also collect the Reliability Fee Component from each of District’s other M&I customers, including those not receiving water pursuant to this Agreement. The Wholesale Customers’ obligation to pay the Reliability Fee Component shall be terminated as of the date that District has collected the whole of the unfunded Capital Costs associated with ADRoP, excluding interest.

### (3) *Capital Replacement Reserve Component*

The Capital Replacement Reserve Component shall be established and maintained in a manner consistent with District's Policy on Restriction and Designation of Net Assets/Cash ("Reserve Policy"), attached hereto as Exhibit F, including as that Policy may be amended from time to time by District upon 30 days' notice to Wholesale Customers. As set forth in the Reserve Policy, last adopted on May 28, 2025, the amount collected through the Capital Replacement Reserve Component will be used only for capital replacement of assets to account for depreciation of the Treatment Facilities, and funds so expended will be replaced through subsequent contributions. The obligation of Hollister and SSCWD to pay the Capital Replacement Reserve Component under this Agreement shall be postponed until SJB has fully paid its respective share of the Capital Replacement Reserve Component, upon which Hollister and SSCWD shall begin payment of their respective shares.

#### (b) Fixed Operational Costs

Wholesale Customers shall pay the fixed operational costs for the Treatment Facilities. "Fixed Operational Costs" consist of the operation and maintenance expenses associated with the Treatment Facilities that do not vary or depend on the amount of water that is treated or delivered. Each year, when District makes its preliminary supply projection as described in Article 3.3 herein, District shall identify the anticipated costs for each component of the Fixed Operational Costs. The amount of the aggregate Fixed Operational Costs payable to District by each Wholesale Customer, comprised of the cost components below, shall be based on the percentage of the treatment capacity to which each Wholesale Customer is entitled pursuant to this Agreement.

#### (1) *Administrative Fee Component*

The Administrative Fee Component shall be based on an amount equal to five percent (5%) of District's total payroll expenses, enabling District to recover a share of its costs of management, supervision, accounting, and the legal and general administrative costs of owning, managing, and operating the Treatment Facilities and ADRoP.

(2) *Direct Cost Component*

The Direct Cost Component shall be based on the amount necessary for District to recover the fixed costs of ownership of the Treatment Facilities, including property insurance, fees imposed by the California Department of Public Health, and other similar costs of ownership.

(3) *Fixed Treatment Component*

The Fixed Treatment Component shall be based on the amount necessary for District to recover the fixed costs of treating water using the Treatment Facilities.

(c) Variable Operational Costs

Wholesale Customers shall pay the variable operational costs for the Treatment Facilities and ADRoP. "Variable Operational Costs" consist of the operation and maintenance expenses associated with the Treatment Facilities and ADRoP that vary depending upon the volume of water that is treated and delivered. The amount of the aggregate Variable Operational Costs payable to District by each Wholesale Customer, comprised of the cost components below, shall be based on the percentage of treated water delivered to each Wholesale Customer pursuant to this Agreement.

(1) *Water Supply Component*

The Water Supply Component shall be based on the amount necessary for District to obtain raw water for the ensuing year from the Central Valley Project (CVP) and other sources delivered to the Treatment Facilities. District's revenue requirements shall be determined in conformity with District's normal rate-setting process, which District reserves the right to modify upon one year's notice to Wholesale Customers.

*Shortage Conditions – Additional Costs:* During periods of shortage, should the actual cost of raw water exceed the amount projected by District in its normal rate-setting process, District shall consult with the Advisory Committee to determine if additional costs shall be incurred. Should the recommendation of the Advisory Committee be to incur additional costs, such costs shall be borne by Wholesale Customers and recovered through the Water Supply Component. Recovery of such additional costs shall be included in the Water Supply Component of rates and charges invoiced to Wholesale Customers, amortized over a twelve-month period beginning on the date when District obligates itself to incur such additional costs.

*Requests for Additional Water:* In any year, any Wholesale Customer may request additional water to be delivered that year, and District shall accommodate the request provided it determines that additional water is available and delivery of the additional water does not affect

the other Wholesale Customers' costs or allocation of water for that year. All costs incurred by District to deliver such requested additional water shall be borne by the Wholesale Customer or Wholesale Customers making the request and recovered through the Water Supply Component.

(2) *Variable Treatment Component*

The Variable Treatment Component shall be based on the amount necessary for District to recover the Variable Operational Costs of treating raw water using the Treatment Facilities and for delivering treated water to the ASR Wells for purposes of ADRoP.

(d) ADRoP – Deferred Payment of Costs Incurred During Storage Years

Notwithstanding the foregoing, in years when District's total water supply is determined by District to be sufficient to store water using the ASR Wells, payment for any costs associated with the Water Supply Component or Variable Treatment Component attributable to water stored using the ASR Wells and ASR Pipelines shall be deferred and those costs shall be borne by District until such time that any stored water is recovered from the ASR Wells and delivered to Wholesale Customers. District shall account and bill for water recovered from the ASR Wells in the same manner it would account and bill for transfer water acquired by District, and District shall recover such deferred payments through the Water Supply Component. District shall also recover such unpaid costs for water stored using the ASR Wells and ASR Pipelines from its other M&I customers, including those not receiving water pursuant to this Agreement, in the same manner as from the Wholesale Customers.

(e) Extraordinary Operations and Maintenance

Extraordinary operations and maintenance costs outside of the anticipated annual budgeted amount shall be discussed by the Advisory Committee before District commits to such costs or includes them in a Wholesale Customer's invoice. Nevertheless, if District determines after discussion with the Advisory Committee that such costs are necessary to provide a safe reliable source of potable water that meets all regulatory requirements, or if such costs are required to provide for the continuing safe operation of the Treatment Facilities or ADRoP, District shall have authority to incur such costs and include them in the Wholesale Customers' invoice, itemizing such costs under the cost component District determines is appropriate, amortized over a 12 month period.

(f) SJB's Deferred Payment Obligations

Notwithstanding the foregoing payment obligations, SJB shall not be obligated to pay any cost components set forth in Article 6.3 herein until (i) SJB first takes delivery of water pursuant to this Agreement, or (ii) two (2) years has passed from the date of execution of this Agreement,

whichever shall occur first (the “Payment Commencement Date”), provided, however, that SJB shall not be obligated to pay Variable Operational Costs or the Reliability Fee Component until SJB first takes delivery water. During the period from the date of execution of this Agreement to the Payment Commencement Date, Hollister and SSCWD shall collectively be obligated to pay the whole of the Fixed Operational Costs, with each paying one-half of such costs. On the Payment Commencement Date, or within a reasonable time thereafter, District shall prepare an updated Capital Recovery Schedule to incorporate SJB’s obligation to pay the whole of its respective share of the Capital Treatment Component. The updated Capital Recovery Schedule shall also reflect the contribution applied against SJB’s payment obligations as set forth in Article 6.5(b) herein. District shall provide each Wholesale Customer a reasonable time to review the updated Capital Recovery Schedule. Upon the approval of the updated Capital Recovery Schedule by all Parties, which approval shall not be unreasonably withheld, the updated Capital Recovery Schedule shall replace and supersede the original Capital Recovery Schedule set forth in Exhibit A hereto without the need for a formal amendment.

#### **6.4. Financial Covenants**

##### **(a) Adequacy of Wholesale Customers’ Revenue Sources**

Wholesale Customers shall maintain adequate revenue sources to pay the whole of their respective share of the annual Full Cost of treated water service during the term of this Agreement.

##### **(b) Financial Reporting Requirements**

The financial reporting requirements shall be as follows: (i) Each Party shall provide audited financial statements to each other Party within nine (9) months of the fiscal year end, and (ii) each Wholesale Customer shall provide to District an annual budget for its respective water enterprise within 30 days of its approval, demonstrating compliance with Wholesale Customer’s financial obligation set forth in Article 6.4(a) herein.

##### **(c) Wholesale Customers’ Pledge of Revenues**

In order to secure the payment of the Capital Treatment Component payable by Wholesale Customers to the District, each Wholesale Customer hereby pledges its “Net Revenues”, hereby defined as the amount equal to all of the gross revenues received by Wholesale Customers during any period, less the amount required by the Wholesale Customer to pay for all Fixed Operational Costs and Variable Operational Costs which are payable during any such period. Subject to preexisting pledges or liens on the Wholesale Customers’ Net Revenues, this pledge shall constitute a first pledge of and charge and lien upon the Wholesale Customers’ Net

Revenues for the repayment of the Capital Treatment Component and shall be valid and binding from and after execution of this Agreement, without any physical delivery thereof or further act. The pledge to District under this Paragraph shall be on parity with any pledges or liens against the Wholesale Customers' revenues prior in time to the execution of this Agreement. After execution of this Agreement and upon written request by any Wholesale Customer, District shall promptly consider, in good faith, any request by the Wholesale Customer that District consent to subordination or other modification of District's secured position to the extent that subordination or other modification does not materially impair District's secured position, and shall not unreasonably withhold consent to that request.

## **6.5. Billing and Payment**

### (a) Invoices

District will issue invoices to each Wholesale Customer by the 10th day of each month. The invoices shall show the total amount due, and the amounts owed by Wholesale Customers for Capital Costs, Fixed Operational Costs, and Variable Operational Costs, separately stated in the categories and components described above and illustrated in Exhibit C attached hereto.

### (b) Non-Reimbursable District Contribution - SJB

District shall contribute a non-reimbursable contribution to be applied against SJB's payment obligations for the Full Cost of treated water service in a total aggregate amount of \$869,565.

### (c) Payment

Wholesale Customers shall remit payments due and owing after application of available credits to District on or before the 15th of the month following receipt of the invoice. District may assess a late charge to a Wholesale Customer that fails to make full and timely payment. The late charge payable to District shall be ten percent (10%) of the amount of the late payment that is overdue for ten (10) or more days. The late charge shall increase by an additional ten percent (10%) each year that the late payment remains outstanding. Any amount in dispute must be paid pending resolution of the disputed amount. A dispute concerning the amount owed on an invoice does not relieve a Wholesale Customer of the obligation to pay the full invoice amount in a timely manner.

## **6.6. Accounting**

(a) Application of Wholesale Customer Payments

In the event a Wholesale Customer's payment for any given invoice is insufficient to meet the Wholesale Customer's obligation to pay the Full Cost of treated water service, District shall apply the revenue received for that invoice to satisfy the Wholesale Customer's obligation, in whole or in part, for payment of any cost component of the Full Cost of treated water service, the allocation of which is to be determined at District's sole discretion.

(b) Account Management

District shall keep its accounts pertaining to this Agreement separate and distinct from its general funds, and consistent with generally accepted accounting principles. District shall, each year, upon request of a Wholesale Customer, provide the Wholesale Customer a detailed accounting of costs and expenses for the Treatment Facilities and ADRoP, disposition of all Wholesale Customer revenues, and a summary of all water deliveries made during the year. Wholesale Customers and District shall enter into good faith negotiations to resolve any discrepancies or disputes relating to accountings, reports, or records of use.

**ARTICLE 7: DISPUTES AND ATTORNEYS' FEES**

If a dispute arises between the Parties regarding breach of this Agreement or interpretation of any term of this Agreement, the Parties shall first attempt to resolve the dispute by good faith negotiation, followed by mediation if negotiation fails to resolve the dispute. The steps for dispute resolution agreed by the Parties are as follows:

Step One:

The managers or other persons designated by the disputing Parties will negotiate on behalf of the entities they represent. The nature of the dispute shall be reduced to writing by each such Party together with the relevant facts asserted and shall be presented to the manager of the other Party who shall then meet and attempt to resolve the issue. If the dispute is resolved at this step, there shall be a written memorialization of such resolution, signed by each disputing Party's manager and ratified by each Party which shall be binding upon the Parties.

Step Two:

If the dispute cannot be resolved within ten (10) days at Step One, the disputing Parties shall submit the matter to non-binding mediation. The dispute shall be heard by a mutually acceptable mediator and any common costs of mediation shall be borne equally by the disputing Parties. The Parties shall each bear their own costs and fees therefore. If the issue is

resolved at this step, a written memorialization of such resolution shall be signed by each manager and approved by the respective disputing Party.

Step Three:

If a dispute cannot be resolved through negotiation or mediation, a disputing Party may bring an action in the Superior Court of the State of California to resolve the issue. The prevailing Party in such an action shall be entitled to its reasonable attorney fees as may be awarded by the trial court or upon appeal.

**ARTICLE 8: LIMITATION OF LIABILITY**

Wholesale Customers and each of them recognize and agree that no liability for damages shall attach to District, its officers, employees, agents and representatives hereunder on account of any failure to accurately anticipate availability of water, or because of actual failure of supply due to any damage to District equipment, pipelines, or facilities caused by vandalism, war, riot, invasion, fire, governmental restrictions, strikes, inability to procure supplies, Acts of God, or other causes beyond its control. Wholesale Customers and each of them shall indemnify, hold District harmless from and defend District against all claims of damage to persons or property or regulatory enforcement actions that may be asserted due to conditions within Wholesale Customers' distribution system or systems that are beyond District's control. District shall indemnify, hold Wholesale Customers and each of them harmless from, and defend Wholesale Customers and each of them against all claims of damage to persons or property or regulatory enforcement actions that are a result of District's negligence that may be asserted due to conditions within District's distribution system or systems that are beyond the control of Wholesale Customers and each of them.

**ARTICLE 9: TERMINATION**

This Agreement is conditioned upon the faithful performance by all Parties of all the terms and provisions herein. Pursuant to Article 10, any Party may give notice of termination for breach of a material term of this Agreement and shall thereupon commence dispute resolution pursuant to Article 7; one of the remedies in dispute resolution may be termination of the Agreement.

**ARTICLE 10: DEFAULT**

**10.1. Notice and Right to Cure**

Upon default of any of the terms of this Agreement including but not limited to failure to make required payments, violation of any material provision of this Agreement, law, or regulation, the

non-defaulting Party or Parties may terminate this Agreement by giving a 180-day notice; however, during the 180-day notice period, the defaulting Party shall have the right to cure any such default. The right-to-cure period may be extended upon mutual written agreement of all Parties.

#### **10.2. Consequences of Default**

If a Wholesale Customer defaults on its obligations under this Agreement, it will be required to pay all resulting direct damages including its respective share of all remaining Capital Costs incurred by District for development and construction of the Treatment Facilities and a percentage of the outstanding Capital Costs for ADRoP based on its respective share of treatment capacity as described in Article 5.1(f) herein, including interest, in addition to its financial obligations to District that remain unpaid as of the date of the default, together with District's reasonable attorney's fees incurred in a successful enforcement of the Agreement. Should any incidence of default not be resolved within one hundred eighty (180) days as same may be extended, all applicable legal and equitable remedies shall be available to the Parties, including an injunction requiring a defaulting Party that operates the Treatment Facilities under contract to continue such operations on a time and materials basis for no less than one year.

### **ARTICLE 11: AMENDMENTS**

#### **11.1. Amendment Only by Writing**

This Agreement may be amended only by a writing executed by all Parties unless expressly provided otherwise herein.

#### **11.2. Changes in Parties' Service Areas**

The Parties hereby agree that any change in a Wholesale Customer's service area shall modify Exhibit D hereto upon such Wholesale Customer's submission of a map showing the adjusted service area. Any area added to a Wholesale Customer's Service Area that receives treated water pursuant to this Agreement must be within the boundaries of District's Zone 6, as shown on Exhibit E, and as Zone 6 may be amended from time to time. Upon any change in the boundaries of Zone 6, Wholesale Customers shall be provided an updated map of Zone 6 without the need for formal amendment of this Agreement.

**ARTICLE 12: SUCCESSORS AND ASSIGNS**

Subject to the provisions of Article 13 herein, this Agreement and all terms and conditions herein shall inure to the benefit of and be binding upon the successors and assigns of the Parties hereto.

**ARTICLE 13: ASSIGNMENT**

No assignment or transfer by a Wholesale Customer of the Agreement or any part thereof, or any rights hereunder or interest herein of a Wholesale Customer, shall be valid unless approved by District. Such approval by District shall not be unreasonably withheld.

**ARTICLE 14: NOTICES**

Any notice required under this Agreement shall be in writing and shall be effective three days after it is sent by United States mail, addressed to all Parties at the addresses set forth below, or as such addresses may be modified by a Party upon written notice to each other Party. A copy of the mailed notice shall also be provided to each other Party by electronic mail sent to the email addresses provided below:

SAN BENITO COUNTY WATER DISTRICT  
30 Mansfield Road  
Hollister, CA 95024  
clerk@sbcwd.com

CITY OF HOLLISTER  
375 Fifth Street  
Hollister, CA 95023  
david.mirrione@hollister.ca.gov

SUNNYSLOPE COUNTY WATER DISTRICT  
3570 Airline Highway  
Hollister, CA 95023  
drew@sunnyslopewater.org

CITY OF SAN JUAN BAUTISTA  
311 2nd Street  
San Juan Bautista, CA 95045  
citymanager@san-juan-bautista.ca.us

**ARTICLE 15: NO THIRD PARTY BENEFICIARIES**

Nothing in this Agreement is intended to confer any rights or remedies upon any person other than the Parties.

## **ARTICLE 16: OTHER PROVISIONS**

Other provisions pertinent to this Agreement are as follows:

### **16.1. Integration**

This Agreement embodies the entire agreement among the Parties relating to the subject matter hereof and supersedes all prior agreements and understandings, written or oral, relating to such subject matter, *provided, however*, that, in the event of dispute arising under this Agreement the Parties agree that the following documents may be referred to as an aid in determining the intent of the Parties in entering into this Agreement:

- (a) Memorandum of Understanding, December 2004 and as amended in February 2008.
- (b) Hollister Urban Area Water and Wastewater Master Plan, 2008.
- (c) Coordinated Water Supply and Treatment Agreement, 2010.
- (d) Water Supply and Treatment Agreement Statement of Intent, 2011.
- (e) Hollister Urban Area Water Supply and Treatment Agreement, 2013.
- (f) San Benito Urban Areas Water Supply and Treatment Master Plan Update, 2023.

### **16.2. Relationship of Parties**

Each Party is an independent entity and is not the agent of any other Party, except as otherwise expressly provided in the Agreement or as otherwise agreed by the Parties in writing. This Agreement shall not be construed as constituting the Parties as partners or joint ventures for common law purposes, federal, state or local income tax purposes, or otherwise.

### **16.3. Controlling Law**

This Agreement shall be construed, governed, and applied in accordance with the laws of the State of California.

### **16.4. Captions**

Captions of the Articles and subsections of this Agreement are intended solely for the convenience of the Parties and shall not be used to discern of the meaning of the Agreement.

**IN WITNESS WHEREOF, the Parties hereto hereby agree to be bound by the provisions, terms and covenants of this Agreement.**

**SAN BENITO COUNTY WATER DISTRICT**

By: \_\_\_\_\_ Date: \_\_\_\_\_  
(Print name): \_\_\_\_\_  
Its: \_\_\_\_\_ Attest: \_\_\_\_\_  
**Clerk, Board of Directors**

**CITY OF HOLLISTER**

By: \_\_\_\_\_ Date: \_\_\_\_\_  
(Print name): \_\_\_\_\_  
Its: \_\_\_\_\_ Attest: \_\_\_\_\_  
**Clerk, Hollister Council**

**SUNNYSLOPE COUNTY WATER DISTRICT**

By: \_\_\_\_\_ Date: \_\_\_\_\_  
(Print name): \_\_\_\_\_  
Its: \_\_\_\_\_ Attest: \_\_\_\_\_  
**Clerk of the Board**

**CITY OF SAN JUAN BAUTISTA**

By: \_\_\_\_\_ Date: \_\_\_\_\_  
(Print name): \_\_\_\_\_  
Its: \_\_\_\_\_ Attest: \_\_\_\_\_  
**Clerk, Hollister Council**

**EXHIBIT A: Capital Recovery Schedule**

**Tranche 1-City of Hollister**

	Enter values
Loan amount	\$ 4,500,000.00
Annual interest rate	4.500%
Loan period in years	30
Start date of loan	9/1/2013
Monthly payment	\$ 22,800.84
Number of payments	360
Total interest	\$ 3,708,302.02
Total cost of loan	\$ 8,208,302.02

Billed to Date	Beginning	Ending	Fiscal Year	Fiscal Year
	Balance	Balance	Principal	Interest
7/1/2014	\$ 4,445,860.42	\$ 4,439,731.56	\$ 60,268.44	\$ 167,739.95
7/1/2015	\$ 4,370,778.06	\$ 4,364,367.64	\$ 75,363.92	\$ 198,246.14
7/1/2016	\$ 4,292,246.42	\$ 4,285,541.51	\$ 78,826.13	\$ 194,783.94
7/1/2017	\$ 4,210,107.06	\$ 4,203,094.12	\$ 82,447.39	\$ 191,162.68
7/1/2018	\$ 4,124,194.23	\$ 4,116,859.12	\$ 86,235.01	\$ 187,375.06
7/1/2019	\$ 4,034,334.57	\$ 4,026,662.49	\$ 90,196.63	\$ 183,413.44
7/1/2020	\$ 3,940,346.79	\$ 3,932,322.25	\$ 94,340.24	\$ 179,269.82
7/1/2021	\$ 3,842,041.21	\$ 3,833,648.03	\$ 98,674.22	\$ 174,935.85
7/1/2022	\$ 3,739,219.50	\$ 3,730,440.74	\$ 103,207.29	\$ 170,402.77
7/1/2023	\$ 3,631,674.18	\$ 3,622,492.12	\$ 107,948.62	\$ 165,661.45
7/1/2024	\$ 3,519,188.24	\$ 3,509,584.36	\$ 112,907.76	\$ 160,702.31
7/1/2025	\$ 3,401,534.72	\$ 3,391,489.63	\$ 118,094.72	\$ 155,515.34
7/1/2026	\$ 3,278,476.21	\$ 3,267,969.66	\$ 123,519.97	\$ 150,090.09
7/1/2027	\$ 3,149,764.42	\$ 3,138,775.20	\$ 129,194.46	\$ 144,415.61
7/1/2028	\$ 3,015,139.64	\$ 3,003,645.57	\$ 135,129.63	\$ 138,480.44
7/1/2029	\$ 2,874,330.21	\$ 2,862,308.11	\$ 141,337.46	\$ 132,272.61
7/1/2030	\$ 2,727,052.02	\$ 2,714,477.63	\$ 147,830.48	\$ 125,779.59
7/1/2031	\$ 2,573,007.90	\$ 2,559,855.84	\$ 154,621.79	\$ 118,988.28
7/1/2032	\$ 2,411,887.02	\$ 2,398,130.76	\$ 161,725.08	\$ 111,884.98
7/1/2033	\$ 2,243,364.27	\$ 2,228,976.05	\$ 169,154.71	\$ 104,455.36
7/1/2034	\$ 2,067,099.62	\$ 2,052,050.41	\$ 176,925.64	\$ 96,684.42
7/1/2035	\$ 1,882,737.40	\$ 1,866,996.83	\$ 185,053.58	\$ 88,556.49
7/1/2036	\$ 1,689,905.62	\$ 1,673,441.92	\$ 193,554.91	\$ 80,055.16
7/1/2037	\$ 1,488,215.17	\$ 1,470,995.14	\$ 202,446.78	\$ 71,163.28
7/1/2038	\$ 1,277,259.10	\$ 1,259,247.99	\$ 211,747.15	\$ 61,862.91
7/1/2039	\$ 1,056,611.75	\$ 1,037,773.20	\$ 221,474.78	\$ 52,135.29
7/1/2040	\$ 825,827.89	\$ 806,123.91	\$ 231,649.29	\$ 41,960.77
7/1/2041	\$ 584,441.87	\$ 563,832.69	\$ 242,291.22	\$ 31,318.84
7/1/2042	\$ 331,966.61	\$ 310,410.65	\$ 253,422.04	\$ 20,188.03
7/1/2043	\$ 67,892.69	\$ 45,346.45	\$ 265,064.20	\$ 8,545.86
9/1/2043	\$ 22,715.66	\$ 0.00	\$ 45,346.45	\$ 255.23

## Tranche 2-City of Hollister

	Enter values
Loan amount	\$ 5,500,000.00
Annual interest rate	4.000%
Loan period in years	20
Start date of loan	5/1/2015
Monthly payment	\$ 33,328.92
Number of payments	240
Total interest	\$ 2,498,940.35
Total cost of loan	\$ 7,998,940.35

Billed to Date	Beginning Balance	Fiscal Year Principal	Fiscal Year Interest
7/1/2015	\$ 5,485,004.42	\$ 30,041.15	\$ 36,616.68
7/1/2016	\$ 5,301,110.49	\$ 184,506.90	\$ 215,440.12
7/1/2017	\$ 5,109,724.45	\$ 192,024.00	\$ 207,923.02
7/1/2018	\$ 4,910,541.04	\$ 199,847.35	\$ 200,099.67
7/1/2019	\$ 4,703,242.60	\$ 207,989.44	\$ 191,957.58
7/1/2020	\$ 4,487,498.49	\$ 216,463.25	\$ 183,483.77
7/1/2021	\$ 4,262,964.64	\$ 225,282.30	\$ 174,664.72
7/1/2022	\$ 4,029,282.93	\$ 234,460.65	\$ 165,486.37
7/1/2023	\$ 3,786,080.67	\$ 244,012.93	\$ 155,934.08
7/1/2024	\$ 3,532,969.98	\$ 253,954.40	\$ 145,992.62
7/1/2025	\$ 3,269,547.16	\$ 264,300.89	\$ 135,646.12
7/1/2026	\$ 2,995,392.09	\$ 275,068.92	\$ 124,878.10
7/1/2027	\$ 2,710,067.52	\$ 286,275.65	\$ 113,671.37
7/1/2028	\$ 2,413,118.39	\$ 297,938.96	\$ 102,008.05
7/1/2029	\$ 2,104,071.10	\$ 310,077.46	\$ 89,869.56
7/1/2030	\$ 1,782,432.73	\$ 322,710.49	\$ 77,236.53
7/1/2031	\$ 1,447,690.33	\$ 335,858.21	\$ 64,088.80
7/1/2032	\$ 1,099,310.00	\$ 349,541.59	\$ 50,405.42
7/1/2033	\$ 736,736.12	\$ 363,782.46	\$ 36,164.56
7/1/2034	\$ 359,390.43	\$ 378,603.52	\$ 21,343.50
5/1/2035	\$ 33,218.19	\$ 327,259.48	\$ 6,029.71

## Tranche 1- Sunnyslope County Water Dist.

	Enter values
Loan amount	\$ 6,500,000.00
Annual interest rate	4.500%
Loan period in years	30
Start date of loan	9/1/2013
Monthly payment	\$ 32,934.55
Number of payments	360
Total interest	\$ 5,356,436.25
Total cost of loan	\$ 11,856,436.25

Billed to Date	Beginning Balance	Payment	Ending Balance	Fiscal Year Principal	Fiscal Year Interest
7/1/2014	\$ 6,421,798.39	\$ 32,934.55	\$ 6,412,945.59	\$ 87,054.41	\$ 242,291.04
7/1/2015	\$ 6,313,346.08	\$ 32,934.55	\$ 6,304,086.59	\$ 108,859.00	\$ 286,355.54
7/1/2016	\$ 6,199,911.50	\$ 32,934.55	\$ 6,190,226.62	\$ 113,859.96	\$ 281,354.58
7/1/2017	\$ 6,081,265.75	\$ 32,934.55	\$ 6,071,135.95	\$ 119,090.67	\$ 276,123.87
7/1/2018	\$ 5,957,169.44	\$ 32,934.55	\$ 5,946,574.28	\$ 124,561.67	\$ 270,652.87
7/1/2019	\$ 5,827,372.16	\$ 32,934.55	\$ 5,816,290.26	\$ 130,284.02	\$ 264,930.53
7/1/2020	\$ 5,691,612.02	\$ 32,934.55	\$ 5,680,021.02	\$ 136,269.24	\$ 258,945.30
7/1/2021	\$ 5,549,615.09	\$ 32,934.55	\$ 5,537,491.60	\$ 142,529.43	\$ 252,685.12
7/1/2022	\$ 5,401,094.83	\$ 32,934.55	\$ 5,388,414.40	\$ 149,077.20	\$ 246,137.34
7/1/2023	\$ 5,245,751.59	\$ 32,934.55	\$ 5,232,488.61	\$ 155,925.78	\$ 239,288.76
7/1/2024	\$ 5,083,271.90	\$ 32,934.55	\$ 5,069,399.63	\$ 163,088.99	\$ 232,125.56
7/1/2025	\$ 4,913,327.93	\$ 32,934.55	\$ 4,898,818.36	\$ 170,581.27	\$ 224,633.28
7/1/2026	\$ 4,735,576.75	\$ 32,934.55	\$ 4,720,400.62	\$ 178,417.74	\$ 216,796.80
7/1/2027	\$ 4,549,659.72	\$ 32,934.55	\$ 4,533,786.40	\$ 186,614.22	\$ 208,600.32
7/1/2028	\$ 4,355,201.70	\$ 32,934.55	\$ 4,338,599.16	\$ 195,187.24	\$ 200,027.30
7/1/2029	\$ 4,151,810.30	\$ 32,934.55	\$ 4,134,445.05	\$ 204,154.11	\$ 191,060.43
7/1/2030	\$ 3,939,075.14	\$ 32,934.55	\$ 3,920,912.13	\$ 213,532.92	\$ 181,681.63
7/1/2031	\$ 3,716,566.97	\$ 32,934.55	\$ 3,697,569.55	\$ 223,342.58	\$ 171,871.96
7/1/2032	\$ 3,483,836.81	\$ 32,934.55	\$ 3,463,966.65	\$ 233,602.90	\$ 161,611.64
7/1/2033	\$ 3,240,415.06	\$ 32,934.55	\$ 3,219,632.07	\$ 244,334.58	\$ 150,879.97
7/1/2034	\$ 2,985,810.57	\$ 32,934.55	\$ 2,964,072.81	\$ 255,559.26	\$ 139,655.28
7/1/2035	\$ 2,719,509.58	\$ 32,934.55	\$ 2,696,773.20	\$ 267,299.61	\$ 127,914.93
7/1/2036	\$ 2,440,974.78	\$ 32,934.55	\$ 2,417,193.89	\$ 279,579.31	\$ 115,635.23
7/1/2037	\$ 2,149,644.14	\$ 32,934.55	\$ 2,124,770.76	\$ 292,423.13	\$ 102,791.41
7/1/2038	\$ 1,844,929.81	\$ 32,934.55	\$ 1,818,913.76	\$ 305,857.00	\$ 89,357.54
7/1/2039	\$ 1,526,216.97	\$ 32,934.55	\$ 1,499,005.74	\$ 319,908.02	\$ 75,306.52
7/1/2040	\$ 1,192,862.51	\$ 32,934.55	\$ 1,164,401.20	\$ 334,604.54	\$ 60,610.01
7/1/2041	\$ 844,193.81	\$ 32,934.55	\$ 814,424.99	\$ 349,976.21	\$ 45,238.33
7/1/2042	\$ 479,507.33	\$ 32,934.55	\$ 448,370.94	\$ 366,054.06	\$ 29,160.49
7/1/2043	\$ 98,067.21	\$ 32,934.55	\$ 65,500.42	\$ 382,870.52	\$ 12,344.03
9/1/2043	\$ 32,811.50	\$ 32,934.55	\$ 0.00	\$ 65,500.42	\$ 368.67

## Tranche 2 - Sunnyslope County Water Dist.

	Enter values
Loan amount	\$ 8,500,000.00
Annual interest rate	4.000%
Loan period in years	20
Start date of loan	5/1/2015
Monthly payment	\$ 51,508.33
Number of payments	240
Total interest	\$ 3,861,998.72
Total cost of loan	\$ 12,361,998.72

Billed to Date	Beginning Balance	Ending Balance	Fiscal Year Principal	Fiscal Year Interest
7/1/2015	\$ 8,476,825.01	\$ 8,453,572.76	\$ 46,427.24	\$ 56,589.42
7/1/2016	\$ 8,192,625.31	\$ 8,168,425.73	\$ 285,147.03	\$ 332,952.91
7/1/2017	\$ 7,896,846.88	\$ 7,871,661.37	\$ 296,764.36	\$ 321,335.58
7/1/2018	\$ 7,589,017.98	\$ 7,562,806.38	\$ 308,855.00	\$ 309,244.94
7/1/2019	\$ 7,268,647.65	\$ 7,241,368.15	\$ 321,438.23	\$ 296,661.71
7/1/2020	\$ 6,935,224.95	\$ 6,906,834.03	\$ 334,534.12	\$ 283,565.82
7/1/2021	\$ 6,588,218.08	\$ 6,558,670.48	\$ 348,163.55	\$ 269,936.38
7/1/2022	\$ 6,227,073.63	\$ 6,196,322.21	\$ 362,348.27	\$ 255,751.66
7/1/2023	\$ 5,851,215.59	\$ 5,819,211.31	\$ 377,110.90	\$ 240,989.04
7/1/2024	\$ 5,460,044.51	\$ 5,426,736.33	\$ 392,474.98	\$ 225,624.96
7/1/2025	\$ 5,052,936.52	\$ 5,018,271.32	\$ 408,465.02	\$ 209,634.92
7/1/2026	\$ 4,629,242.33	\$ 4,593,164.81	\$ 425,106.51	\$ 192,993.43
7/1/2027	\$ 4,188,286.17	\$ 4,150,738.80	\$ 442,426.01	\$ 175,673.93
7/1/2028	\$ 3,729,364.79	\$ 3,690,287.68	\$ 460,451.12	\$ 157,648.81
7/1/2029	\$ 3,251,746.24	\$ 3,211,077.06	\$ 479,210.61	\$ 138,889.32
7/1/2030	\$ 2,754,668.77	\$ 2,712,342.67	\$ 498,734.39	\$ 119,365.54
7/1/2031	\$ 2,237,339.60	\$ 2,193,289.07	\$ 519,053.60	\$ 99,046.33
7/1/2032	\$ 1,698,933.64	\$ 1,653,088.42	\$ 540,200.65	\$ 77,899.29
7/1/2033	\$ 1,138,592.19	\$ 1,090,879.17	\$ 562,209.25	\$ 55,890.68
7/1/2034	\$ 555,421.57	\$ 505,764.64	\$ 585,114.53	\$ 32,985.41
5/1/2035	\$ 51,337.20	\$ (0.00)	\$ 505,764.64	\$ 9,318.64

**Tranche 3 as billed to Agencies**

Agencies are billed each month in advance. Charge to agencies includes .25% markup. The loan payment to the bank is due the first of the month beginning 4/1/2016.

		Beg Principal Per Agency		
		\$	2,000,000	Per Agency
Agency Bill Date	Principal billed in FYE	Principal Balance per Agency	Interest by yr	
7/10/2016	\$ 61,252	\$ 1,938,748	\$ 36,985	
7/10/2017	\$ 107,649	\$ 1,831,098	\$ 60,757	
7/10/2018	\$ 111,136	\$ 1,719,963	\$ 57,270	
7/10/2019	\$ 114,735	\$ 1,605,228	\$ 53,671	
7/10/2020	\$ 118,451	\$ 1,486,777	\$ 49,955.32	
7/10/2021	\$ 122,287	\$ 1,364,490	\$ 46,119.16	
7/10/2022	\$ 126,247	\$ 1,238,243	\$ 42,158.77	
7/10/2023	\$ 130,336	\$ 1,107,907	\$ 38,070.12	
7/10/2024	\$ 134,557	\$ 973,350	\$ 33,849.05	
7/10/2025	\$ 138,915	\$ 834,435	\$ 29,491.28	
7/10/2026	\$ 143,414	\$ 691,021	\$ 24,992.38	
7/10/2027	\$ 148,058	\$ 542,963	\$ 20,347.77	
7/10/2028	\$ 152,853	\$ 390,109	\$ 15,552.75	
7/10/2029	\$ 157,804	\$ 232,306	\$ 10,602.43	
7/10/2030	\$ 162,914	\$ 69,391	\$ 5,491.79	
12/10/2030	\$ 69,391	\$ (0)	\$ 2,980.84	

## **EXHIBIT B: Description of ADRoP and Associated Costs**

The Accelerated Drought Response Project (ADRoP) ADRoP is intended to provide water supply reliability for the District’s municipal and industrial customers during periods of extended drought. It is designed to take full advantage of water available to the District through its contract with the U.S. Bureau of Reclamation whereby excess surface water would be stored in the local aquifer in wet years for later use when allocations from the Central Valley Project combined with water previously stored by the District locally are insufficient to meet the District’s stated level of service goals. The decision to pursue ADRoP occurred through a collaborative process, which included the Wholesale Customers, as documented in the San Benito Urban Area Water and Wastewater Master Plan Update 2023.

ADRoP includes the construction of up to five Aquifer Storage and Recovery (ASR) wells, the expansion of the West Hills Water Treatment Plant (WHWTP), and the installation of pipelines for water transmission. It will have the capacity to inject, store, and recover up to 2,700 AFY of water. The WHWTP will be expanded from its current design capacity of 4.5 mgd to 6.75 mgd, which will provide additional treatment capacity to serve San Juan Bautista and deliver treated water to the ASR wells while still meeting current demands. The WHWTP will need to be modified to provide an alternative point of delivery for San Juan Bautista, the costs of which will be borne exclusively by San Juan Bautista.

In the years when water is being stored, the treated water will be delivered into the distribution system using the existing gravity flow pipeline, at which point it will be conveyed through pipelines owned by Hollister and then to the ASR wells through a new dedicated transmission pipeline owned by the District. In years when water is recovered from storage, the water will be pumped from the ASR wells, disinfected, and delivered into Hollister’s distribution system. The ASR wells will be located along Fallon Road while the transmission pipeline will be located along San Felipe Road.

Various components of ADRoP are either under active construction or are in the final design phase. The final capital costs will not be known at the time this Agreement is executed. The current estimated capital cost of ADRoP is approximately \$54 million. The District has been awarded \$20 million in grant funding from DWR and USBR and will be applying for up to \$6 million in additional grant funding from USBR. Any grant funds received will offset the Wholesale Customer’s capital obligation for ADRoP. The District intends to fund the remaining capital costs with the issuance of \$40 million in revenue bonds, which will be used for cashflow during construction and the bulk of which will need to be repaid through the Reliability Fee described in this Agreement.

### **Summary of Estimated Capital Costs**

<b>Component</b>	<b>Estimated Capital Cost*</b>
West Hills Water Treatment Plant Expansion	\$13,500,000
ASR Wells and Pipelines	\$27,800,000
Consulting Services	\$11,000,000
<b>Total Estimated Capital Costs</b>	<b>\$52,300,000</b>

Note: Capital costs are estimated as of August 25, 2025. Costs include program management, legal, financial, stakeholder outreach, design, environmental permitting and mitigation, construction, construction management, and engineering services during construction.

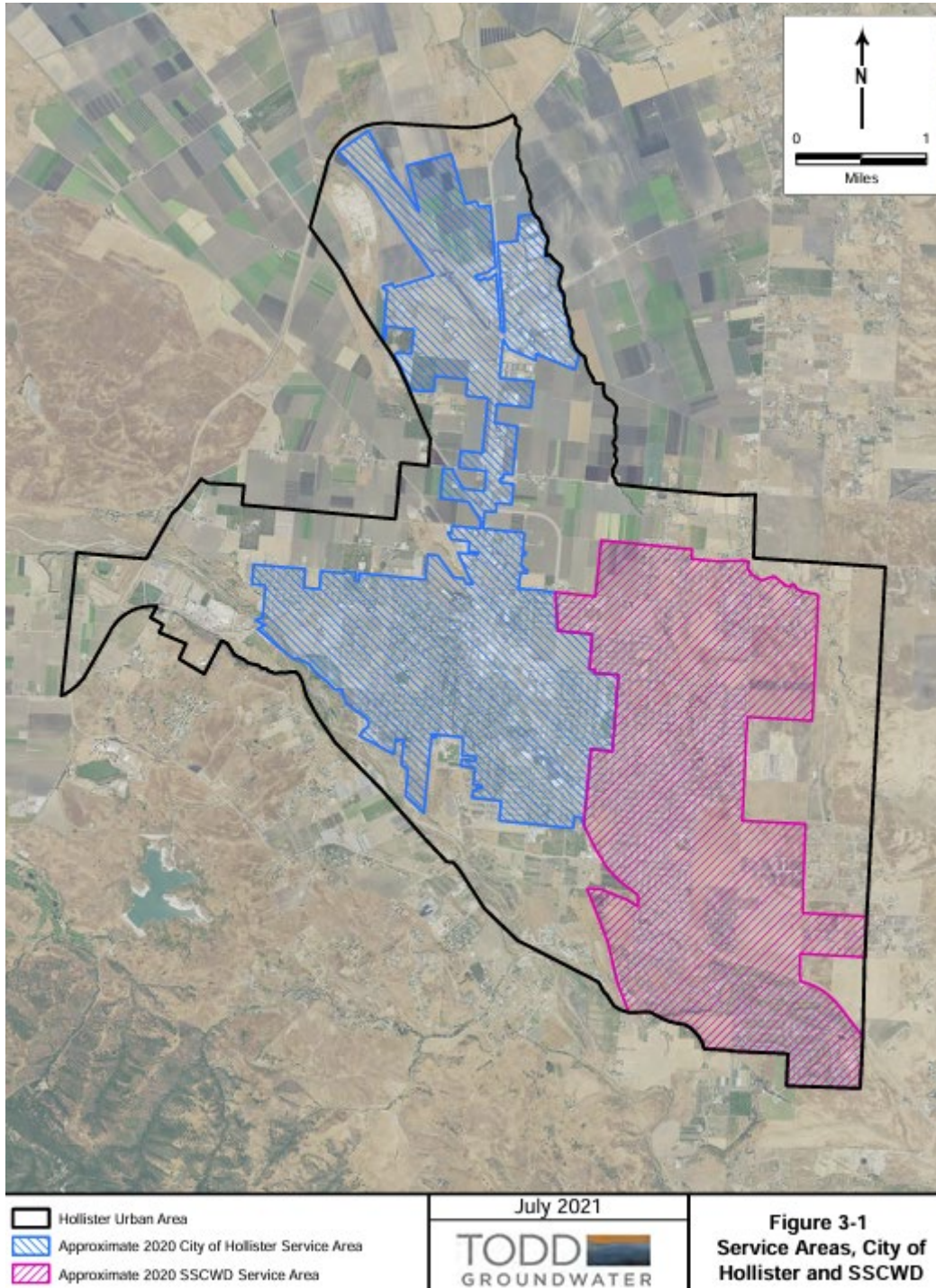
**EXHIBIT C: Explanation of Cost Components**

	<b><u>Explanation of Cost Component</u></b>	<b><u>Calculation Methodology</u></b>
<b>CAPITAL COSTS</b>	<p><i>Each Wholesale Customer shall be obligated to pay a respective share of the capital costs of the Treatment Facilities and ADRoP, the terms of which vary for each cost component as described below.</i></p> <p><b><i>The Capital Treatment Component and Capital Replacement Reserve Component are “take or pay.” Each Wholesale Customer must pay the whole of their respective amount of these cost components regardless of whether a Wholesale Customer takes delivery of water.</i></b></p>	
<u>Capital Treatment Component</u>	The Capital Treatment Component includes the costs District incurred for the development and construction of the Treatment Facilities, including costs for legal review, financing, planning, design, engineering, permitting, construction, and construction management.	The Capital Treatment Component will be collected from Wholesale Customers on a monthly amortized basis, with each Wholesale Customer paying a percentage reflecting the treatment capacity they are entitled to, as set forth in Article 5.2(f) of the Agreement.
<u>Reliability Fee Component</u>	The Reliability Fee Component includes the remaining principal of the costs District incurred for the development and construction of ADRoP (wells, pipelines, and expansion of the West Hills WTP) not recovered by District via grant funding, including costs for legal review, financing, planning, design, engineering, permitting, construction, and construction management.	The Reliability Fee will be collected from Wholesale Customers on a monthly basis at the rate established by District multiplied by the number of acre feet delivered to each Wholesale Customer. The Reliability Fee will also be collected from each of District’s other M&I customers.
<u>Capital Replacement Reserve Component</u>	The Capital Replacement Reserve Component shall be an amount established by District each year to cover annual depreciation of the Treatment Facilities.	The annual amount established by District will be collected from each Wholesale Customer on a monthly amortized basis.
<b>FIXED OPERATIONAL COSTS</b>	<p><i>Each Wholesale Customer’s obligation for their respective amount of the aggregate Fixed Operational Costs shall be based on the percentage of the treatment capacity to which each Wholesale Customer is entitled pursuant to this Agreement.</i></p> <p><b><i>These costs are “take or pay.” Each Wholesale Customer must pay the whole of their respective amount of the Fixed Operational Costs regardless of whether a Wholesale Customer takes delivery of water.</i></b></p>	
<u>Administrative Fee Component</u>	The Administrative Fee Component includes, but is not limited to, District’s actual costs for owning, managing, and operating the Treatment Facilities and ADRoP; general overhead for general and administrative expenses necessary for operations; employee benefits and payroll expenses, including, but not limited to, compensated absences, retirement benefits, Medicare, worker’s compensation, unemployment insurance, payment for cafeteria tax benefits, life insurance, employee assistance programs, and other post-retirement benefits.	The aggregate amount of the Administrative Fee Component shall be 5% of District’s total payroll expenses, collected from Wholesale Customers on a monthly basis, with each Wholesale Customer paying a percentage reflecting the treatment capacity they are entitled to, as set forth in Article 5.2(f) of the Agreement.
<u>Direct Cost Component</u>	The Direct Cost Component includes District’s fixed costs of ownership of the Treatment Facilities and ADRoP, including property insurance, DPH fees, and other similar costs of ownership.	The Direct Cost Component will be collected from Wholesale Customers the following month in which such costs were incurred, with each Wholesale Customer paying a percentage reflecting the treatment capacity they are entitled to, as set forth in Article 5.2(f) of the Agreement.
<u>Fixed Treatment Component</u>	The Fixed Treatment Component includes the costs for treating raw water that remain constant regardless of the volume of water that is treated.	The Fixed Treatment Component will be collected from Wholesale Customers on a monthly basis, with each Wholesale Customer paying a percentage reflecting the treatment capacity they are entitled to, as set forth in Article 5.2(f) of the Agreement.

<b>VARIABLE OPERATIONAL COSTS</b>	<p><i>Each Wholesale Customer's obligation for their respective amount of the aggregate Variable Operational Costs shall be based on the percentage of treated water delivered to each Wholesale Customer pursuant to this Agreement.</i></p> <p><i>(Example: Assume District delivers 10,000 AF of water in a given year. Wholesale Customers A and B each received 40% of those total deliveries, and Wholesale Customer C received 20%. In this case, Wholesale Customers A and B will each pay 40% of the Variable Operational Costs, and Wholesale Customer C will pay 20% of the Variable Operational Costs.)</i></p>	
<u>Water Supply Component</u>	<p>The Water Supply Component includes District's costs of obtaining raw water for the ensuing year from the CVP and other sources to the Treatment Facilities.</p>	<p>District will calculate the aggregate of the Water Supply Component each year during its normal rate-setting process based on the sources and costs of water supplied during the prior three years of deliveries, together with projections of water availability and costs for the ensuing 36 months of water deliveries as requested by Wholesale Customers. The Water Supply Component will be collected from Wholesale Customers on a monthly basis, with each Wholesale Customer paying its respective percentage of the water delivered to the Wholesale Customers.</p>
<u>Variable Treatment Component</u>	<p>The Variable Treatment Component includes the costs for treating raw water that vary depending upon the volume of water that is treated by the Treatment Facilities, including such variable costs associated with delivering treated water to the ASR Wells for purposes of ADRoP.</p>	<p>District will calculate the aggregate of the Variable Treatment Component based on actual costs, which will be collected from the Wholesale Customers on a monthly basis, with each Wholesale Customer paying its respective percentage of the water delivered to the Wholesale Customers.</p>
<b>ADROP – DEFERRED PAYMENT OF COSTS INCURRED DURING STORAGE YEARS</b>	<p>In years when District's total water supply is determined by District to be sufficient to store water using the ASR Wells, payment for any costs associated with the Water Supply Component or Variable Treatment Component attributable to water stored using the ASR Wells and ASR Pipelines shall be deferred and those costs shall be borne by District until such time that any stored water is recovered from the ASR Wells and delivered to Wholesale Customers.</p>	<p>District shall account and bill for water recovered from the ASR Wells in the same manner it would account and bill for transfer water acquired by District, calculated by multiplying the amount of recovered water by the aggregate unit cost of all water previously stored, into its subsequent rate study. District shall recover such deferred payments through the Water Supply Component.</p> <p>District shall also recover such unpaid costs for water stored using the ASR Wells and ASR Pipelines from its other M&amp;I customers, including those not receiving water pursuant to this Agreement, in the same manner as from the Wholesale Customers.</p>
<b>EXTRAORDINARY OPERATIONS AND MAINTENANCE</b>	<p>Extraordinary operations and maintenance costs outside of the anticipated annual budgeted amount shall be discussed by the Advisory Committee before District commits to such costs or includes them in a Wholesale Customer's invoice. Nevertheless, if District determines after discussion with the Advisory Committee that such costs are necessary to provide a safe reliable source of potable water that meets all regulatory requirements, or if such costs are required to provide for the continuing safe operation of the Treatment Facilities or ADRoP, District shall have authority to incur such costs and include them in the Wholesale Customers' invoice, itemizing such costs under the cost component District determines is appropriate, amortized over a 12 month period.</p>	

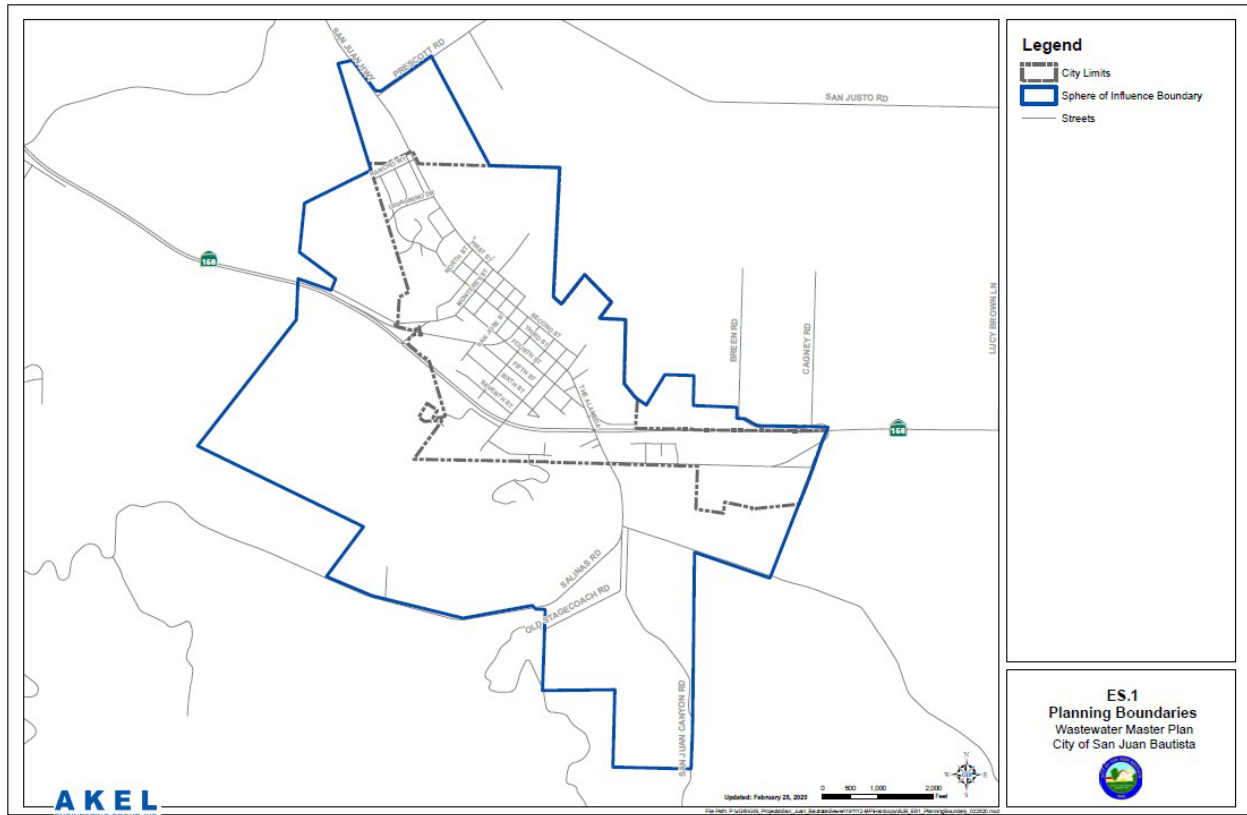
**EXHIBIT D: Wholesale Customers' Water Service Areas**

*City of Hollister and Sunnyslope County Water District Service Areas*



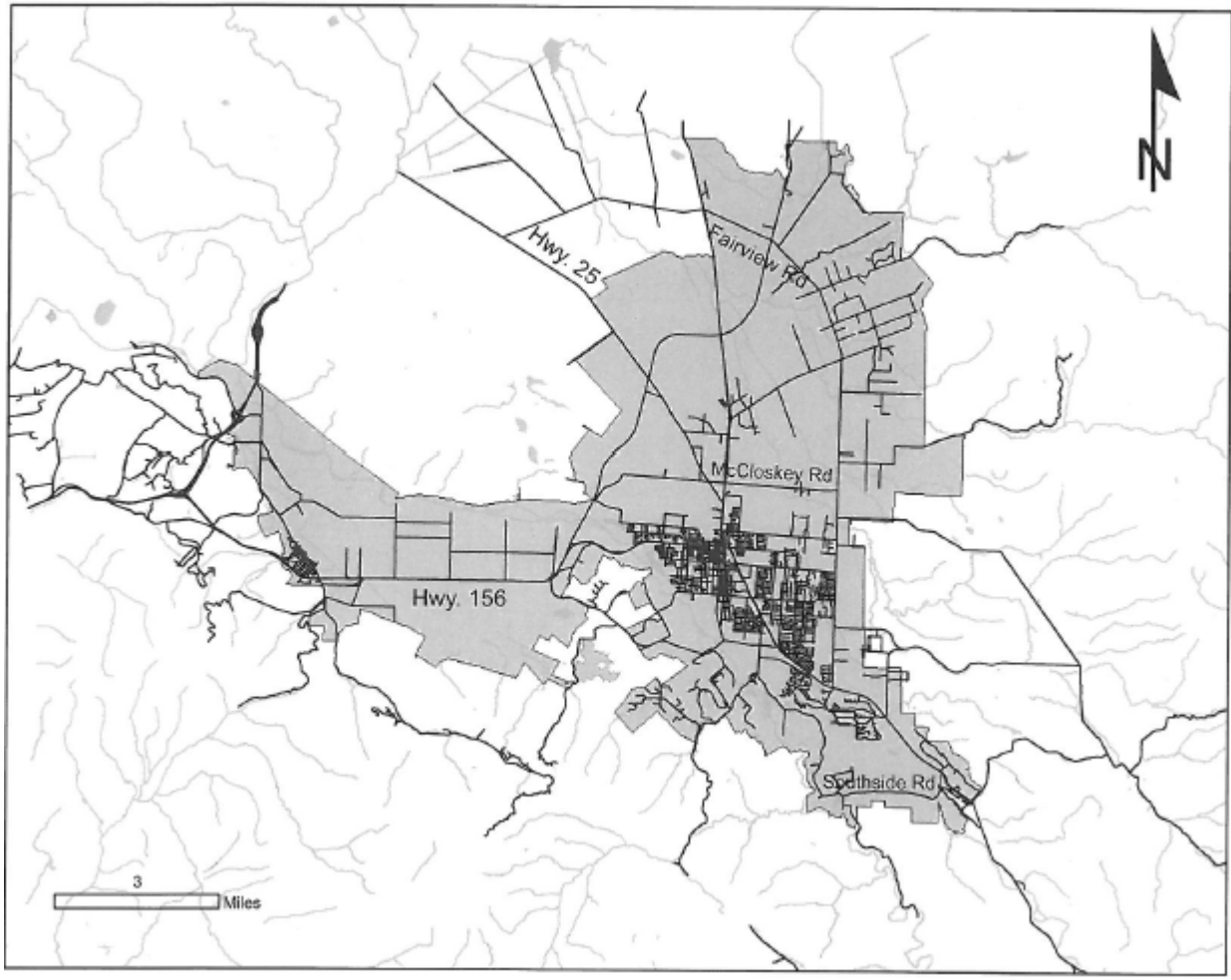
Source: Hollister Urban Area Urban Water Management Plan, July 2021

City of San Juan Bautista Service Area



Source: City of San Juan Bautista Water Master Plan, November 2020

**EXHIBIT E: District's Zone 6 Boundary**



## **EXHIBIT F: District Policy on Restriction and Designation of Net Assets/Cash**

*The District Policy on Restriction and Designation of Net Assets/Case as set forth herein was adopted by the San Benito County Water District on May 28, 2025, pursuant to Resolution No. 2025-12. This Policy may be amended by the District annually.*

### **PURPOSE:**

Adequate reserved funds (net assets/cash) are a necessary component of the District's overall financial management plan and are required to meet various externally imposed constraints.

Funds are reserved to meet specific future financial obligations and to mitigate natural, economic, political and regulatory risks. This policy is intended to document the business practices of the District and accurately reflect the nature, purpose and management of restricted and designated net assets and accurately reflect the financial condition of the District to its constituents, creditors, financial institutions, regulatory agencies, State and Federal agencies and the general public.

### **POLICY:**

#### **Restricted Net Assets/Cash**

In accordance with GASB Statement 34 and FASB Statement 71, net assets are restricted when constraints placed on their use are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. They are also restricted if their use is constrained by law through constitutional provisions or enabling legislation. Restricted Net Assets/Cash, the source of Restriction, the purpose of the Restriction, the method of determining the amount of Restriction and the treatment of interest is shown on Table 1.

#### **Designated Nets Assets/Cash**

In accordance with GASB Statement 34, designations of net assets represent management's intended use of resources and should reflect plans approved by the government's senior management. Designations reflect a government's self-imposed limitations on the use of otherwise available current financial resources. Designated Net Assets/Cash, the purpose of the Designation, the method of determining the amount of Designation and the treatment of interest is shown on Table 2.

### **PROCEDURE:**

- Restrictions are to be reviewed by the Finance Committee annually including but not limited to a review of statutory and regulatory changes impacting or creating Restriction of District Net Assets/Cash together with any new or pending constraints resulting from business relationships with creditors, grantors or contributors.
- For any new or amended contract or other business relationship or action that creates or changes a restriction of Net Assets/Cash, the nature and amount of that restriction or change in restriction shall be specifically and fully detailed in the documents supporting action by the Board and only the Board shall have the authority to take or approve any action which has the effect of creating or changing such restriction(s) of Net Assets/Cash.

- Designations are to be reviewed by the Finance Committee annually and any changes approved by the Board on or before June 30 each year.
- Adding a designation category requires specific approval of the Board. This action will include: 1) the purpose of the designation, 2) the dollar amount of the designation, 3) the method for calculating any annual adjustment(s), if the dollar amount is to change each year, and 4) whether or not the interest accrued on the designated amount is to be added to the designation at the end of each fiscal year.
- Removing a designation category requires specific approval of the Board.
- Changing the method for calculating the annual adjustment(s) of the designation requires approval of the Board.
- The actual dollar amounts of the designation shall be calculated based on the defined method and adjusted at year-end for financial reporting purposes.
- Designated net assets will be segregated into separate financial accounts.
- An identical amount of cash will be designated for annual financial reporting purposes in order to reflect management's intention to fund the commitment of designated net assets. Designated cash will not be segregated from undesignated cash either in bank/investment accounts or in financial accounts except when that cash is separately invested in a manner specifically approved by the Board.

The General Manager shall have full authority and responsibility to carry out actions of this policy.

Table #1

**RESTRICTED NET ASSETS/CASH**

<b>Name of Restricted Net Asset/Cash</b>	<b>Source Of Restriction</b>	<b>Purpose</b>	<b>Method for Calculating Amount of Restriction</b>	<b>Treatment of Accrued Interest</b>
District Revolving Fund	San Benito County Water Conservation and Flood Control District Act (Section 70-7.1(a))	To provide funds which may be used for emergencies and to pay costs necessary for the establishment of a zone within the District.	Amount specified in the District Act.	Interest accrued as specified in the District Act.
San Felipe-Hollister Conduit Reserve	USBR Contract Central Valley Project-Contract Between the United States and the San Benito County Water Conservation and Flood Control District for Water Service and for Operation and maintenance of Certain Works of the San Felipe Division (Contract #8-07-20-W0130)	To meet unforeseen extraordinary costs and emergencies.	Amount specified in the Contract.	As specified in contract.

Table #1

**RESTRICTED NET ASSETS/CASH**

<b>Name of Restricted Net Asset/Cash</b>	<b>Source Of Restriction</b>	<b>Purpose</b>	<b>Method for Calculating Amount of Restriction</b>	<b>Treatment of Accrued Interest</b>
San Felipe-Reach 1 Reserve	USBR San Felipe Division- Contract for the Transfer of the Operation and Maintenance of Certain San Felipe Division Facilities (Contract # 6-07-20- X0290): United States, Santa Clara Valley Water District, and San Benito County Water Conservation and Flood	To meet operations and maintenance costs incurred during period of special stress and extraordinary repair or replacement costs associate with Reach 1.	Amount specified in the Contract	As specified in contract.

Table #1

**RESTRICTED NET ASSETS/CASH**

<b>Name of Restricted Net Asset/Cash</b>	<b>Source Of Restriction</b>	<b>Purpose</b>	<b>Method for Calculating Amount of Restriction</b>	<b>Treatment of Accrued Interest</b>
USBR Contract Repayment and Rate Management Reserve	Agreement Between Santa Clara Valley Water District and San Benito County Water District for Repayment and Management of San Felipe Division Facilities.	Funds to pay for San Felipe Division costs, including existing foreseeable and unforeseeable costs that may result from catastrophic failure of San Felipe Division facilities. Funds from this restricted reserve are to be used for USBR Amendatory Contract Repayment . This USBR Contract Repayment and Rate Management Reserve is intended to provide funds to make interest and principal payments on the Amendatory contract in an effort to minimize the impact of the repayment schedule on water rates and taxes.	At each fiscal year end, the amount added to the reserve would be the annual allocation from the land tax, interest accrued on the restricted reserve, and the amount associated with the interest component in M&I water rates. Withdrawals may be made for the USBR principal and interest payments required during the fiscal year as outlined in Exhibit D of the Amendatory contract NO. 8-07-20-W0130A and for costs associated with WIIN Act USBR in-basin capital repayment costs. Effective fiscal year end 2017-2018, the annual allocation for the Zone 6 land tax is 30% of the land tax and is subject to annual review by the Board. For fiscal year end 2013, the reserve balance will be adjusted to the target minimum of one and one half years of USBR Amendatory Contract payments and the remaining balance will be transferred to the Designation for Hollister Urban Area Water Treatment Plants. The Capital Recovery components (principal and interest) as identified in the Water Supply and Treatment Agreement will be added to the reserve each year in relative proportion to the reserves funding of the project costs. Repayment costs associated with repayment of the in-basin capital costs will be added back to the reserve on an amortized basis over the remaining life of the USBR Amendatory Contract (2036).	Added to the Restricted Reserve to meet future obligations associated with San Felipe Division costs.

Table #1

**RESTRICTED NET ASSETS/CASH**

<b>Name of Restricted Net Asset/Cash</b>	<b>Source Of Restriction</b>	<b>Purpose</b>	<b>Method for Calculating Amount of Restriction</b>	<b>Treatment of Accrued Interest</b>
Reach 1 Major Repair and Replacement Reserve	Agreement Between Santa Clara Valley Water District and San Benito County Water District for Repayment and Management of San Felipe Division Facilities.	To provide funds for major repair and replacement associated with Reach 1.	Initial balance to be transferred from the fiscal year end 2006 balance of the designation USBR Contract Renewal. Review amount of restriction annually to be in compliance with Section 4(a) of the Agreement Between Santa Clara Valley Water District and San Benito County Water District for Repayment and Management of San Felipe Division Facilities. When funds are used from this reserve to pay for Reach 1 Major repair and replacement, they will be replenished from the operating budget over 5 to 10 years, depending on life of asset, beginning in the initial project year. Replenishment will also include a 3% inflation factor. Target minimum established at \$500,000.	Accrued interest is to be added to the Restricted Reserve until such time that the minimum aggregate amount is achieved. Once the minimum aggregate amount is achieved, the interest will be added to the undesignated cash of the District.

Table #1

**RESTRICTED NET ASSETS/CASH**

<b>Name of Restricted Net Asset/Cash</b>	<b>Source Of Restriction</b>	<b>Purpose</b>	<b>Method for Calculating Amount of Restriction</b>	<b>Treatment of Accrued Interest</b>
Reserved for Water Treatment Plants-Asset Replacement Reserve	Hollister Urban Area Water Supply and Treatment Agreement: Article 6.3(a)(4)	To provide funds for capital replacement of assets of the Water Supply and Treatment Program, and funds so expended will be replaced through subsequent contributions.	Annual contribution of \$190,000 for the Lessalt water treatment plant through fiscal year end 2017. Effective fiscal year 17-18, the annual amount collected is established at 1.5% of constructed cost of water treatment plants. Amount is collected through the capital replacement cost component of the monthly billing to the Hollister Urban Area retailers to cover anticipated costs for future capital replacements for both water treatment plants as reviewed annually by District Engineer. Effective fiscal year end 2018-2019, any balance remaining in the <i>Reserve for Hollister Urban Area Water Treatment Facilities</i> will be transferred to the <i>Reserve for Water Treatment Plants-Asset Replacement Reserve</i> .	Interest will accrue. Interest accrued on restricted balance is added to the restriction each fiscal year-end. Average LAIF interest rate is applied to the amount of restriction during that fiscal year.
Reserve for Other Post-Employment Benefits (OPEB) Trust	CERBT Trust Account	To provide restricted funds for retiree future medical payments.	Amount will be reviewed annually by the Board during the budget process.	As specified in CERBT contract.

Table #2

**DESIGNATED NET ASSETS/CASH**

<b>Name of Designated Net Asset/Cash</b>	<b>Purpose</b>	<b>Method for Calculating Amount of Designation</b>	<b>Treatment of Accrued Interest</b>
Reserved for Operations	The reserves designated for operating contingencies are established to provide for unforeseen needs, revenue shortfalls, and emergency appropriations during the year.	At fiscal year-end, the District will move from fifty percent to one hundred percent of an average of the most recent 3 years' annual operating expense (excluding depreciation, amortization and operating expense associated with the Hollister Urban Area water treatment plants) by increasing the amount to be sixty seven percent, then the next fiscal year to eighty four percent, and then final one hundred percent in the next following fiscal year.	No interest accrual.
Reserved for Capital Improvements	Established by board action(s) to fund future capital improvement projects. The purpose of this designation is to accumulate funds for specific projects or utility purpose to provide all or a portion of the cost.	These designations are for specific new capital improvement projects. The board decides how much to fund and for which projects. Funding level is reviewed annually. Any use of funds is replenished from the operating budget on an amortized basis over the assigned life of the project. Use of funds from this reserve for preliminary survey and investigation, will be replenished from the operating budget on an amortized basis over 5 years.	No interest accrual.
Reserved for Self-Insurance	Established by board policy to fund the contingent liability for the District's self-insured portion of vehicle coverage.	Adequacy of funding level will be reviewed annually.	No interest accrual.

Table #2

**DESIGNATED NET ASSETS/CASH**

<b>Name of Designated Net Asset/Cash</b>	<b>Purpose</b>	<b>Method for Calculating Amount of Designation</b>	<b>Treatment of Accrued Interest</b>
Reserved for Capital Asset Replacement	This designation is to accrue funding for asset purchase and replacement in the period of use. Through this funding reservation, monies are set aside for planned future asset expenditures within specified categories. In addition, this reserve provides a funding source for unanticipated asset needs, mitigates the impact of large budget expenditures, and assists with asset management and long range planning.	The designation will be increased by the amount of the annual depreciation expense for each asset multiplied by a factor for each asset group based on their assigned life. Assets with assigned lives of 1-15 years are reserved at 100% of their annual depreciation expense. Assets with assigned lives of 16 to 49 years are reserved at 50% of their annual depreciation expense. Assets with assigned lives of 50+ years and land are not reserved for.	Interest will accrue. Interest accrued on designated balance is added to the designation at fiscal year end. Average LAIF interest rate is applied to the amount of designation during that fiscal year.
Water Supply Revolving Reserve	To provide additional source of funds for Zone 6 water supply augmentation through local or imported water purchases.	Amount of administrative fee from water sales/transfers and/or funding from operations. Funding level is reviewed annually. Use of funds will be replenished from the operating budget over 5 years on an amortized basis. Target minimum of \$3 million funded over 5 years.	No interest accrual
Expanded Pacheco Reservoir	To provide funds for the pre- construction (planning and design) phase of the project.	Effective July 1, 2018, the reserve will be initially funded at \$1,000,000. At FYE Amount will be reviewed annually by the Board during the budget process.	No interest accrual.
Reserved for Reliability Charge M&I	Established to fund future water reliability improvement projects. The purpose of this designation is to accumulate funds for specific reliability projects to provide all or a portion of the cost.	These designations are for specific new reliability capital improvement projects. The funds are accumulated from the reliability fee charged each fiscal year.	No interest accrual.