



## **HERITAGE RANCH COMMUNITY SERVICES DISTRICT BOARD OF DIRECTORS REGULAR MEETING MINUTES**

December 18, 2025

### **1. CALL TO ORDER / FLAG SALUTE**

President Camou called the meeting to order at 4:00 p.m. and led the flag salute.

### **2. ROLL CALL**

Secretary Gelos called the roll. Director Swanson was absent. All other directors were in attendance.

Staff Present: General Manager, Scott Duffield, District Engineer, Doug Groshart, Operations Manager, Brian Vogel and District Counsel, Craig Steele.

### **3. ELECTION OF BOARD OFFICERS**

There were no public comments.

Director Burgess made a motion electing Director Barker for President, Director Camou seconded the motion following a roll call vote:

Ayes: Barker, Burgess, Camou, Yaffee  
Absent: Swanson

Director Barker made a motion electing Director Burgess for Vice President, Director Camou seconded the motion following a roll call vote:

Ayes: Barker, Burgess, Camou  
Noes: Yaffee  
Absent: Swanson

### **4. PUBLIC COMMENT ON MATTERS NOT ON THE AGENDA**

There were no public comments.

### **5. CONSENT ITEMS**

- a. Meeting Minutes: Receive/approve minutes of regular meeting of November 20, 2025.**
- b. Warrant Register: Receive/approve November 2025 warrants.**
- c. Treasurer's Report: Receive/file November 2025 report.**
- d. Fiscal Report: Receive/file November 2025 status report.**
- e. Office Report: Receive/file November 2025 report.**
- f. District Engineer Report: Receive/file December 2025 report.**
- g. Operations Manager Report: Receive/file December 2025 report.**
- h. Updates regarding disinfection byproducts.**
- i. Board of Directors Calendar: Receive/approve 2026 Calendar.**

There were no public comments.

Upon the motion of Director Barker and seconded by Director Camou, the board approved all items as presented following a voice vote:

Ayes: Directors Barker, Burgess, Camou, Yaffee

Absent: Swanson

## 6. BUSINESS ITEMS

- a. **Accept the Independent Auditor's Report and Financial Statements for the Year Ended June 30, 2025, prepared and to be presented by Moss, Levy & Hartzheim LLP.**

There were no public comments.

Adam Guise presented the report and answered any questions the board had.

Upon the motion of Director Barker, and seconded by Director Burgess, the board accepted the report following a roll call vote:

Ayes: Barker, Burgess, Camou, Yaffee

Absent: Swanson

- b. **Request to authorize the General Manager to execute the notice of award and execute an agreement in the amount of \$14,560,000.00 for construction of the Water Resource Recovery Facility project to W.M. Lyles Co., pending securing interim financing.**

There were no public comments.

Upon the motion of Director Burgess, and seconded by Director Barker, the board authorized the General Manager to execute the notice of award and execute an agreement in the amount of \$14,560,000.00 for construction of the Water Resource Recovery Facility project to W.M. Lyles Co. following a roll call vote:

Ayes: Barker, Burgess, Camou, Yaffee

Absent: Swanson

- c. **Submittal for approval Resolution 25-14 Approving a Term Sheet in Connection with the Issuance of Certain Obligations to Finance Wastewater System Improvements.**

There were no public comments.

Upon the motion of Director Burgess, and seconded by Director Barker, the board approved Resolution 25-14 following a roll call vote:

Ayes: Barker, Burgess, Camou, Yaffee

Absent: Swanson

## 7. GENERAL MANAGER REPORT

There were no public comments.

Manager Duffield presented the item and answered questions from the board.

The report was received and filed.

**8. COMMITTEE / DIRECTOR REPORTS (oral reports)**

There were no committee / director reports.

**9. FUTURE AGENDA ITEMS**

There were no public comments.

**10. ADJOURNMENT**

Upon a motion by Director Barker, and seconded by Director Camou, the meeting adjourned at 5:12 p.m.

**Minutes submitted by:** Kristen Gelos, *Secretary, Board of Directors*

**Minutes approved by:**

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
WARRANT REGISTER  
December 2025**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
12/3/2025	STAPLES CREDIT PLAN OFFICE SUPPLIES	176.30	\$ 176.30
12/3/2025	GREAT WESTERN ALARM ALARM / ANSWERING SERVICE	350.32	\$ 350.32
12/3/2025	CALPERS HEALTH BENEFITS CALPERS HEALTH BENEFITS	16,196.24	\$ 16,196.24
12/3/2025	FGL ENVIRONMENTAL LAB TESTING LAB TESTING	60.00 2,180.00	\$ 2,240.00
12/3/2025	FLUID RESOURCE MANAGEMENT PROFESSIONAL SERVICES	416.25	\$ 416.25
12/3/2025	EVOQUA WATER TECHNOLOGIES LLC MAINTENANCE FIXED EQUIPMENT	20,499.66	\$ 20,499.66
12/3/2025	VC3, INC. PROFESSIONAL SERVICES PROFESSIONAL SERVICES	2,000.00 1,569.75	\$ 3,569.75
12/3/2025	CALPERS HEALTH BENEFITS EMPLOYEE PAID HEALTH BENEFIT EMPLOYEE PAID HEALTH BENEFIT	746.95 746.95	\$ 1,493.90
12/9/2025	USA BLUEBOOK MAINTENANCE FIXED EQUIPMENT SUPPLIES	760.54 240.80	\$ 1,001.34
12/9/2025	BRENNTAG PACIFIC, INC CHEMICALS	3,840.87	\$ 3,840.87
12/9/2025	SWRCB LICENSES & PERMITS	6,197.00	\$ 6,197.00
12/9/2025	CALIFORNIA RURAL WATER ASSOCIA DUES & SUBSCRIPTIONS	992.00	\$ 992.00
12/9/2025	AMAZON OFFICE SUPPLIES MAINTENANCE FIXED EQUIPMENT	37.53 15.00	\$ 52.53

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
WARRANT REGISTER  
December 2025**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
12/9/2025	ROY ARNOLD CELL PHONE/INTERNET ALLOWANCE	80.00	\$ 80.00
12/9/2025	COUNTY OF SAN LUIS OBISPO WATER PURCHASE	14,300.00	\$ 14,300.00
12/9/2025	ABALONE COAST ANALYTICAL, INC. LAB TESTING	3,146.00	\$ 3,146.00
12/9/2025	KRISTEN GELOS CELL PHONE/INTERNET ALLOWANCE	80.00	\$ 80.00
12/9/2025	MATRIX IMAGING SOLUTIONS DECEMBER BILLING	1,630.70	\$ 1,630.70
12/9/2025	SCOTT DUFFIELD CELL PHONE/INTERNET ALLOWANCE	80.00	\$ 80.00
12/9/2025	RIVAL TECHNOLOGY INC. PROFESSIONAL SERVICES	1,281.66	\$ 1,281.66
12/9/2025	TABORDA SOLUTIONS COMPUTER / SOFTWARE	511.15	\$ 511.15
12/9/2025	BRIAN VOGEL CELL PHONE/INTERNET ALLOWANCE	80.00	\$ 80.00
12/9/2025	TROY SHOGREN CELL PHONE/INTERNET ALLOWANCE	80.00	\$ 80.00
12/9/2025	DOUGLAS GROSHART CELL PHONE/INTERNET ALLOWANCE	80.00	\$ 80.00
12/9/2025	SPEEDY COASTAL MESSENGER, INC. LAB TESTING	490.00	\$ 490.00
12/9/2025	AMERICAN WATER COLLEGE, LLC TRAINING & TRAVEL	1,554.00	\$ 1,554.00
12/9/2025	EVOQUA WATER TECHNOLOGIES LLC MAINTENANCE FIXED EQUIPMENT	1,501.50	\$ 1,501.50
12/9/2025	JERED MARTY CELL PHONE/INTERNET ALLOWANCE	80.00	\$ 80.00

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
WARRANT REGISTER  
December 2025**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
12/9/2025	JASON GULARTE CELL PHONE/INTERNET ALLOWANCE	80.00	\$ 80.00
12/9/2025	SITELOGIQ MAINTENANCE FIXED EQUIPMENT	12,750.00	\$ 12,750.00
12/9/2025	CHARTER COMMUNICATIONS INTERNET	131.25	\$ 131.25
12/9/2025	COLONY SAND TRAINING & TRAVEL	48.80	\$ 48.80
12/9/2025	FIRSTNET MAINTENANCE FIXED EQUIPMENT	80.48	\$ 80.48
12/9/2025	RING CENTRAL TELEPHONE	296.59	\$ 296.59
12/9/2025	STARLINK INTERNET	290.00	\$ 290.00
12/12/2026	R. ARNOLD NET PAYROLL	3,007.74	\$ 3,007.74
12/12/2026	T. SHOGREN NET PAYROLL	3,132.93	\$ 3,132.93
12/12/2026	J. MARTY NET PAYROLL	2,391.21	\$ 2,391.21
12/12/2026	J. GULARTE NET PAYROLL	2,907.19	\$ 2,907.19
12/12/2026	K. GELOS NET PAYROLL	3,360.38	\$ 3,360.38
12/12/2026	D. BURGESS NET PAYROLL	92.35	\$ 92.35
12/12/2026	B. BARKER NET PAYROLL	92.35	\$ 92.35
12/12/2026	S. DUFFIELD NET PAYROLL	4,575.57	\$ 4,575.57

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
WARRANT REGISTER  
December 2025**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
12/12/2026	B. VOGEL NET PAYROLL	3,294.58	\$ 3,294.58
12/12/2026	D. GROSHART NET PAYROLL	4,681.62	\$ 4,681.62
12/12/2026	M. CAMOU NET PAYROLL	184.70	\$ 184.70
12/12/2026	M. YAFFEE NET PAYROLL	92.35	\$ 92.35
12/12/2025	INTERNAL REVENUE SERVICE FEDERAL WITHHOLDING TAXES FICA WITHIHOLDING MEDICARE	4,171.22 62.00 1,185.31	\$ 5,418.53
12/12/2025	EMPLOYMENT DEVELOPMENT DEPARTM SDI STATE WITHHOLDING	470.08 1,471.27	\$ 1,941.35
12/12/2025	CALPERS RETIREMENT SYSTEM CALPERS UNIFORM ALLOWANCE PERS-IRC 457 CONTRIBUTIONS PERS-IRC 457 CONTRIBUTIONS PERS RETIREMENT PERS RETIREMENT TIER 2 PERS RETIREMENT PEPRA SURVIVOR BENEFIT	10.53 395.00 1,193.07 1,903.05 2,196.43 2,552.30 7.44	\$ 8,257.82
12/12/2025	PG&E ELECTRICITY	7,626.12	\$ 7,626.12
12/12/2025	PG&E ELECTRICITY	4,805.43	\$ 4,805.43
12/24/2025	CALPERS RETIREMENT SYSTEM CALPERS UNFUNDED LIABILITY	11,740.08	\$ 11,740.08
12/26/2026	R. ARNOLD NET PAYROLL	3,208.67	\$ 3,208.67
12/26/2026	T. SHOGREN NET PAYROLL	3,306.48	\$ 3,306.48

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
WARRANT REGISTER  
December 2025**

<b>DATE</b>	<b>NAME OF PAYEE</b>	<b>ITEM AMOUNT</b>	<b>WARRANT AMOUNT</b>
12/26/2026	J. MARTY NET PAYROLL	2,237.09	\$ 2,237.09
12/26/2026	J. GULARTE NET PAYROLL	2,341.21	\$ 2,341.21
12/26/2026	K. GELOS NET PAYROLL	3,360.38	\$ 3,360.38
12/26/2026	S. DUFFIELD NET PAYROLL	4,373.38	\$ 4,373.38
12/26/2026	B. VOGEL NET PAYROLL	3,294.58	\$ 3,294.58
12/26/2026	D. GROSHART NET PAYROLL	4,681.62	\$ 4,681.62
12/26/2025	INTERNAL REVENUE SERVICE FEDERAL WITHHOLDING TAXES MEDICARE	3,960.86 1,187.39	\$ 5,148.25
12/26/2025	EMPLOYMENT DEVELOPMENT DEPARTM SDI STATE WITHHOLDING	460.63 1,390.46	\$ 1,851.09
12/26/2025	CALPERS RETIREMENT SYSTEM PERS-IRC 457 CONTRIBUTIONS PERS-IRC 457 CONTRIBUTIONS PERS RETIREMENT PERS RETIREMENT TIER 2 PERS RETIREMENT PEPRA SURVIVOR BENEFIT	395.00 1,193.07 1,995.48 2,196.43 2,552.30 7.44	\$ 8,339.72
12/30/2025	CALPERS HEALTH BENEFITS EMPLOYEE PAID HEALTH BENEFIT EMPLOYEE PAID HEALTH BENEFIT	754.46 754.46	\$ 1,508.92
12/30/2025	JORANDA MARKETING, INC. / JAN- STRUCTURES & GROUNDS	304.60	\$ 304.60
<b>TOTAL ALL WARRANTS</b>			<b>\$ 207,236.58</b>

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
TREASURER'S REPORT  
December 2026**

**SUMMARY REPORT OF ALL ACCOUNTS**

Beginning Balance:	\$ 5,025,663
Ending Balance:	\$ 5,148,162
Variance:	\$ 122,498
Interest Earnings for the Month Reported:	\$ 15,394
Interest Earnings Fiscal Year-to-Date:	\$ 98,096

**ANALYSIS OF REVENUES**

Total operating income for water and sewer was:	\$ 275,169
Non-operating income was:	\$ 83,109
Franchise fees paid to the District by San Miguel Garbage was:	\$ 4,317
Interest earnings for the LAIF account was:	\$ -
Interest earnings for the California CLASS account was:	\$ 12,750
Interest earnings for the Five Star Bank checking account was:	\$ 21
Interest earnings for the Five Star Bank DWR Loan Services account was:	\$ 55
Interest earnings for the Five Star Bank DWR Reserve account was:	\$ 447
Interest earnings for the Mechanics Bank money market account was:	\$ 0

**ANALYSIS OF EXPENSES**

Five Star Bank checking account total warrants, fees, and Electronic Fund Transfers was:	\$ 133,570
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**STATEMENT OF COMPLIANCE**

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
STATUS REPORT FOR ALL ACCOUNTS  
December 2026**

<b>BEGINNING BALANCE ALL ACCOUNTS</b>		<b>\$5,025,663.17</b>
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<b>OPERATING CASH IN DRAWER</b>		<b>\$ 300.00</b>
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<b>FIVE STAR BANK DWR LOAN REPAYMENT (1994-2029):</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	2,490.22	
QUARTERLY DEPOSIT	25,907.00	
INTEREST EARNED	55.25	
SEMI-ANNUAL PAYMENT	-	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$ 28,452.47</b>
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<b>FIVE STAR BANK DWR RESERVE ACCOUNT</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	128,108.24	
INTEREST EARNED	447.17	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$ 128,555.41</b>
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<b>FIVE STAR BANK SDWSRF LOAN SERVICES ACCOUNT</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	16,588.18	
QUARTERLY DEPOSIT	14,685.00	
INTEREST EARNED	31.51	
SEMI-ANNUAL PAYMENT	(29,369.28)	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$ 1,935.41</b>
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<b>FIVE STAR BANK SDWSRF RESERVE ACCOUNT</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	66,294.56	
INTEREST EARNED	231.41	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$ 66,525.97</b>
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<b>MECHANICS BANK MONEY MARKET ACCOUNT</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	10,460.12	
DEPOSIT REVENUE - CASH	1,744.30	
INTEREST EARNED	0.15	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$ 12,204.57</b>
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<b>FIVE STAR BANK - MONEY MARKET</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	532,106.14	
INTEREST EARNED	1,857.37	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$ 533,963.51</b>
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**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
STATUS REPORT FOR ALL ACCOUNTS  
December 2026**

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<b>FIVE STAR BANK - CHECKING</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	133,570.03	
DEPOSIT REVENUE & MISCELLANEOUS INCOME	349,618.34	
INTEREST EARNED	21.03	
TOTAL CHECKS, FEES AND EFT'S	(255,670.41)	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$ 227,538.99</b>

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<b>LOCAL AGENCY INVESTMENT FUND (LAIF)</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	263,672.02	
INTEREST EARNED	-	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$ 263,672.02</b>

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<b>CALIFORNIA CLASS</b>		
<b>BEGINNING BALANCE 11/30/2025</b>	3,872,263.32	
INTEREST EARNED	12,749.95	
<b>ENDING BALANCE 12/31/2025</b>		<b>\$3,885,013.27</b>

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<b>ENDING BALANCE ALL ACCOUNTS</b>		<b>\$5,148,161.62</b>
<b>DIFFERENCE FROM LAST MONTH</b>	<b>Increase</b>	<b>\$ 122,498.45</b>

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
QUARTERLY TREASURER'S REPORT  
OCTOBER 1, 2025 – DECEMBER 31, 2025**

**SUMMARY REPORT OF ALL ACCOUNTS**

Beginning Balance	\$	4,784,784.47
Ending Balance	\$	5,148,161.62
Variance	\$	363,377.15
Interest Earnings	\$	48,846.98

**STATEMENT OF COMPLIANCE**

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

**ACCOUNT PROFILE INFORMATION**

1. Operating cash in drawer: Maintained to make change for cash transactions.
2. Five Star Bank DWR Loan Repayments: Quarterly deposits are made into the account. Semi-annual payments are made from the account by the bank, which functions as our fiscal agent, to DWR for repayment of a \$2 million loan to partially finance our water treatment plant and water pumping facilities. The interest rate at the end of the quarter was 4.19%. Statements are received monthly.
3. Five Star Bank DWR Reserve: The purpose of the Reserve Account was to build up over ten years an amount equal to debt service for one year, a DWR requirement. The interest rate at the end of the quarter was 4.19%. Statements are received monthly.
4. Five Star Bank SDWSRF (Safe Drinking Water State Revolving Fund) Loan Repayments: Quarterly deposits are made into the account. Semi-annual payments are made from the account by the bank, which functions as our fiscal agent, to SDWSRF for repayment of a \$714,000 loan to finance upgrades at the water treatment plant. The fund will provide for a twenty (20) year repayment period at a 1.7875 percent interest rate. The interest rate at the end of the quarter was 4.19%. Statements are received monthly.
5. Five Star Bank SDWSRF Reserve: The purpose of the Reserve Account was to build up over ten years an amount equal to debt service for one year, a SDWSRF requirement. The interest rate at the end of the quarter was 4.19%. Statements are received monthly.
6. Mechanics Bank Money Market: This account handles all cash transactions as Five Star Bank does not have a local branch. Any amount above the minimum required by the bank will be transferred to Five Star bank checking account. The interest rate at the end of the quarter was 0.02%. Statements are received monthly.

7. Five Star Bank Money Market: The interest rate at the end of the quarter was 4.19%. The purpose of this account is to facilitate cash flow and maximize interest within our Five Star Bank accounts. Statements are received monthly.
8. Five Star Bank Checking: Variable interest-bearing account currently at 0.10%, at Five Star branch in Roseville used for most of our transactions such as payroll, accounts receivable and accounts payable. Statements are received monthly.
9. LAIF: Local Agency Investment Fund, a variable interest-bearing investment fund administered by the California State Treasurer. LAIF Account interest rate at the end of the quarter was 4.19%. Statements are received monthly.
10. California Class: Joint Powers Authority Investment pool, a variable interest-bearing investment fund. The majority of our funds are retained in this account. CA Class Account interest rate at the end of the quarter was 3.8767%. Statements are received monthly.

## INTEREST EARNINGS: TRENDS & PROJECTIONS

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

## SUMMARY OF INTEREST EARNINGS

Account Profile by Reference Number

	<b>Beginning Balance</b>	<b>Credits</b>	<b>Debits</b>	<b>Interest Earnings</b>	<b>Ending Balance</b>
<b>1</b>	<b>300.00</b>	-	-	-	<b>300.00</b>
<b>2</b>	<b>2,472.84</b>	25,907.00	-	72.63	<b>28,452.47</b>
<b>3</b>	<b>127,214.18</b>	-	-	1,341.23	<b>128,555.41</b>
<b>4</b>	<b>16,472.41</b>	14,685.00	-29,369.28	147.28	<b>1,935.41</b>
<b>5</b>	<b>65,831.90</b>	-	-	694.07	<b>66,525.97</b>
<b>6</b>	<b>6,602.15</b>	5,602.03	-	0.39	<b>12,204.57</b>
<b>7</b>	<b>329,517.25</b>	200,000.00	-	4,446.26	<b>533,963.51</b>
<b>8</b>	<b>129,779.48</b>	1,102,391.12	-1,004,685.70	54.09	<b>227,538.99</b>
<b>9</b>	<b>260,822.84</b>	-	-	2,849.18	<b>263,672.02</b>
<b>10</b>	<b>3,845,771.42</b>	-	-	39,241.85	<b>3,885,013.27</b>
	<b>\$4,784,784.47</b>	<b>\$1,307,993.15</b>	<b>(\$1,004,685.70)</b>	<b>\$48,846.98</b>	<b>\$5,148,161.62</b>

## MANAGEMENT BY CONTRACTED PARTIES

For the reporting period, only the Local Agency Investment Fund (LAIF) and California Class (CA Class) are held under the Management By Contracted Parties.

LAIF is a treasury of pooled money made up of deposits from many of the over 5,000 local agencies within California. More than \$25 billion is vested in a variety of ways with a cumulative net yield of a conservative nature. State law requires, and the LAIF Pooled Money Investment

Board requires that pooled money first be invested in such a manner to realize the maximum return consistent with safe and prudent management after which yield is considered. In other words, because these are public money invested and managed by others, the investments are low risk, low yield.

CA Class is a Joint Powers Authority investment pool that provides public agencies with the opportunity to invest funds on a cooperative basis in rated pools that are managed in accordance with state law with the primary objective of offering Participants safety, daily and next-day liquidity, and optimized returns.

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

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET  
2025/26 Budget**

<b>OPERATING REVENUE</b>	<b>Budget FY 25/26</b>	<b>Actual December</b>	<b>Actual Year to Date</b>	<b>Percentage Year to Date</b>	<b>Variance Explanation</b>
Water Fees	1,791,637	136,518	1,026,413	57%	
Sewer Fees	1,600,609	135,047	787,303	49%	
Hook-Up Fees	2,400	0	600	25%	
Turn on Fees	3,500	200	1,125	32%	
Late Fees	20,790	3,404	21,855	105%	Fluctuates based on activity
Plan Check & Inspection	1,600	0	4,213	263%	
Miscellaneous Income	500	0	4,202	840%	
<b>TOTAL OPERATING</b>	<b>\$3,421,036</b>	<b>\$275,169</b>	<b>\$1,845,711</b>	<b>54%</b>	

<b>FRANCHISE REVENUE</b>					
Solid Waste Franchise Fees	46,336	4,317	35,159	76%	
<b>TOTAL FRANCHISE</b>	<b>\$46,336</b>	<b>\$4,317</b>	<b>\$35,159</b>	<b>76%</b>	

**TOTAL OPERATING**    \$3,467,372    \$279,486    \$1,880,869    54%

<b>NON-OPERATING REVENUE</b>					
Standby Charges	242,200	20,561	60,092	25%	
Property Tax	497,891	47,154	137,292	28%	
Interest	64,494	15,394	98,096	152%	Fluctuates based on activity
Connection Fees	28,232	0	14,910	53%	
<b>TOTAL NON-OPERATING</b>	<b>\$832,817</b>	<b>\$83,109</b>	<b>\$310,391</b>	<b>37%</b>	

<b>RESERVE REVENUE</b>					
Capital Reserves	223,288	0	44,705	20%	
Operating Reserves	24,429,683	0	194,135	1%	
<b>TOTAL RESERVE</b>	<b>\$24,652,971</b>	<b>\$0</b>	<b>\$238,839</b>	<b>1%</b>	

**TOTAL NON-OPERATING**    \$25,485,788    \$83,109    \$549,230    2%

<b>TOTAL ALL REVENUE</b>	<b>\$28,953,160</b>	<b>\$362,595</b>	<b>\$2,430,099</b>	<b>8%</b>	
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**HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET  
2025/26 Budget**

**OPERATING EXPENSES**

<b>SALARIES AND BENEFITS</b>	<b>Budget FY 25/26</b>	<b>Actual December</b>	<b>Actual Year to Date</b>	<b>Percentage Year to Date</b>	<b>Variance Explanation</b>
Salaries	1,095,291	74,088	496,249	45%	
Health Insurance	247,593	12,548	90,104	36%	
Health Insurance - Retirees	62,535	4,387	28,544	46%	
Pers Retirement	195,963	19,599	127,259	65%	
OPEB Funding/Transfer	35,000	0	0	0%	
Standby	34,380	2,369	14,961	44%	
Overtime	3,985	115	1,339	34%	
Workers Comp. Ins.	34,469	0	25,804	75%	
Directors' Fees	36,000	500	3,400	9%	
Medicare/FICA	16,405	1,163	7,754	47%	
Car Allowance	3,000	250	1,500	50%	
SUI/ETT	1,000	0	0	0%	
Uniforms	8,424	0	3,806	45%	
<b>TOTAL SALARIES &amp; BENEFITS</b>	<b>\$1,774,045</b>	<b>\$115,018</b>	<b>\$800,721</b>	<b>45%</b>	

**UTILITIES**

Electricity	140,535	12,432	63,787	45%	
Propane	1,649	0	430	26%	
Water Purchase	28,600	14,300	28,600	100%	Paid Semiannually
Telephone/Internet	13,846	1,358	8,772	63%	
<b>TOTAL UTILITIES</b>	<b>\$184,630</b>	<b>\$28,089</b>	<b>\$101,589</b>	<b>55%</b>	

**MAINTENANCE & SUPPLIES**

Chemicals	89,232	3,841	45,247	51%	
Computer/Software	38,134	511	8,100	21%	
Equip. Rental/Lease	2,812	0	0	0%	
Fixed Equip.	210,349	35,780	159,520	76%	
Fuel & Oil	16,873	0	10,131	60%	
Lab Testing	66,367	5,876	27,491	41%	
Office Supplies	1,687	0	415	25%	
Parks & Recreation	0	0	0	0%	
Struct./Grnds.	16,805	305	2,586	15%	
Small Tools/Equip.	3,375	0	116	3%	
Supplies	5,062	241	2,354	47%	
Meters/Equip.	13,498	0	0	0%	
Vehicles	6,750	0	5,457	81%	
<b>TOTAL MAINT. &amp; SUP.</b>	<b>\$470,944</b>	<b>\$46,553</b>	<b>\$261,418</b>	<b>56%</b>	

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT - CONSOLIDATED BUDGET  
2025/26 Budget**

<b>GENERAL &amp; ADMINISTRATION</b>	<b>Budget FY 25/26</b>	<b>Actual December</b>	<b>Actual Year to Date</b>	<b>Percentage Year to Date</b>	<b>Variance Explanation</b>
Ads./Advertising	1,622	0	463	29%	
Alarm/Answering Service	4,500	350	2,053	46%	
Audit	10,816	0	5,000	46%	
Bank Charges/Fees	0	0	0	0%	
Consulting/Engineering	10,000	0	0	0%	
Dues/Subscription	11,248	992	10,297	92%	
Elections	0	0	0	0%	
Insurance	50,754	0	0	0%	
LAFCO	8,652	0	9,227	107%	Paid Annually
Legal/Attorney	27,040	0	14,894	55%	
Licenses/Permits	32,621	6,197	13,015	40%	
Plan Check & Inspection	1,600	0	0	0%	
Postage/Billing	16,873	1,631	11,631	69%	
Professional Service	100,451	5,268	23,456	23%	
Tax Collection	7,847	0	0	0%	
Staff Training & Travel	13,499	1,554	5,623	42%	
Board Training & Travel	1,082	49	49	5%	
<b>TOTAL G &amp; A</b>	<b>\$298,605</b>	<b>\$16,040</b>	<b>\$95,709</b>	<b>32%</b>	

**CAPITAL PROJECTS & EQUIPMENT**

Structures/Improvements	24,582,971	0	238,839	1%	
Equipment	70,000	0	0	0%	
<b>TOTAL CAPITAL EXPENSE</b>	<b>\$24,652,971</b>	<b>0</b>	<b>238,839</b>	<b>1%</b>	

**DEBT**

State Loan Payment	103,628	0	51,814	50%	paid semiannually
State Loan Payment Phase II	58,740	29,369	29,369	50%	paid semiannually
Western Alliance Lease-PVS	152,321	0	76,109	50%	paid semiannually
<b>TOTAL DEBT</b>	<b>\$314,689</b>	<b>\$29,369</b>	<b>\$157,292</b>		

FUNDED DEPRECIATION	\$288,000	\$24,000	\$142,750	50%	
UNFUNDED DEPRECIATION	\$0	\$0	\$0	0%	

<b>TOTAL EXPENSE</b>	<b>\$27,983,884</b>	<b>\$259,071</b>	<b>\$1,798,319</b>	<b>6%</b>	
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CAPACITY CHARGES TRANSFER      \$28,232      \$0      \$14,910      53%

SOLID WASTE FEES TRANSFER      -\$25,630      -\$1,166      -\$4,615      18%

<b>FUND TOTAL</b>	<b>\$966,674</b>	<b>\$104,690</b>	<b>\$621,485</b>		
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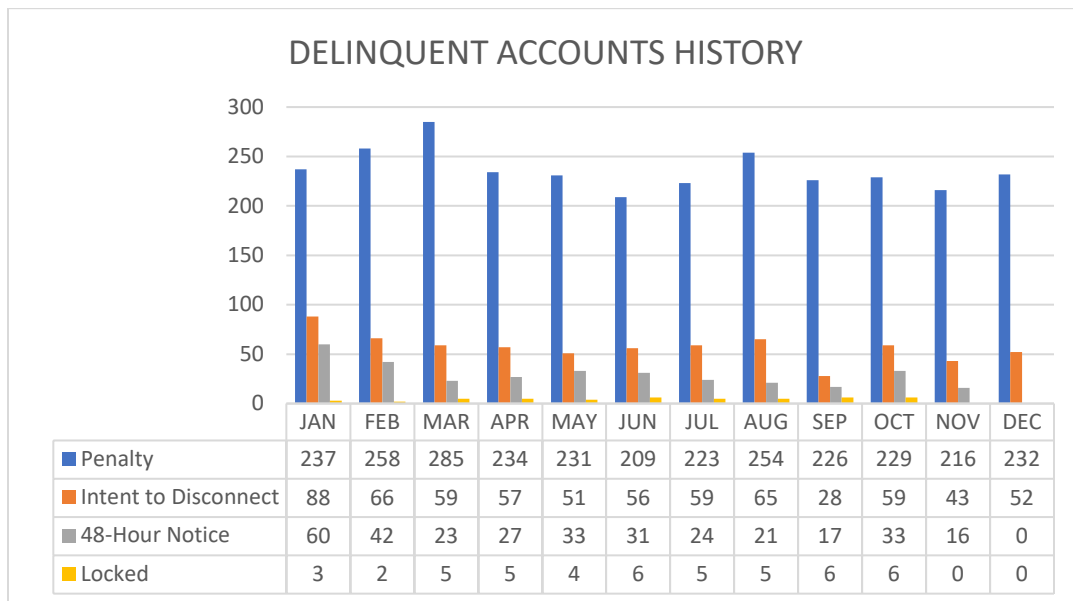
# HERITAGE RANCH COMMUNITY SERVICES DISTRICT OFFICE REPORT DECEMBER 2025

## Utility Billing

- On January 1<sup>st</sup>, 1,939 bills were processed for a total dollar amount of \$273,195 for water and sewer user fees for the month of November.

The table below reflects the following data over a twelve-month period:

- Number of late penalties posted for bills that were due by December 25<sup>th</sup>
- Intent To Disconnect letters mailed to customers that were more than 60 days delinquent
- 48-hour notices issued
- Number of meters locked off for non-payment



## Customer Service Orders

- Staff completed the following service orders for the month:
  - Occupant Change – 5
  - Dirty Water Complaint – 2
  - Unlock – 2
  - Sewer Inspection - 1

## Administration

- Staff has advertised for the open Administrative Assistant position.

## HERITAGE RANCH COMMUNITY SERVICES DISTRICT

### District Engineer Report For the Month of January 2026

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

#### Operations Support

- Working with Operations Staff re:
  - GAC project operation, planning for final GAC project
  - PRV project installation on Equestrian
  - Lift Station project scoping

#### Capital Improvement Projects

Projects / equipment replacement budgeted for this fiscal year and their status:  
(Note: projects are listed in the order shown on the Capital and Equipment Budget spreadsheet)

- Lift Station 1-5 rehabilitation design phase: As per last month's report, Staff has contracted with FRM and SPICE to install the improvements for LS 2. We are currently awaiting the arrival of some equipment, after which mobilization will take place (likely this month). Working with operations, contractors and vendors on scoping of LS 3, pump selection, etc. to follow after LS 2. LS 1 will follow LS 3.
- Pressure Reducing Valves (Waterview/Equestrian): Lower Waterview PRV complete and operational. Equestrian PRV insertion valves are complete. The next step is the installation of the new vault, lid, valves and piping. Awaiting arrival of valves and piping. Likely installation in February, 2026.
- Raw Water Vertical Intake No. 2: Contractor has is currently onsite performing preliminary work, awaiting the arrival of the pump. Project is currently on track to be complete in February 2026, pending equipment delivery.
- DBP Project: Staff is working with vendors re: sizing and specification for the permanent GAC equipment. The next step is to issue an RFP for procurement of the equipment. Once the equipment is ordered, we will complete the design and put the installation out to bid. The GAC equipment is a long lead item (up to 6 months), giving ample time to complete the design and bid process while awaiting delivery
- Wastewater collection system model & I/I: Staff continue to work on reducing I/I into the collection system. Recent storms have provided good data via SCADA to allow Staff to focus investigations on the areas where I/I is considered greater than other areas.

- Pump Station Covers (design): Staff contacted vendors for initial pricing and options.
- Electric Gate at Corp Yard: Work has not begun on this project.
- Rebuild Treater Water Pumps: Work has not begun on this project.

Additional Tasks

- Development: Responding to requests for existing water and sewer system documents as they come up. Discussing existing systems and future developments with potential developers as they make contact.

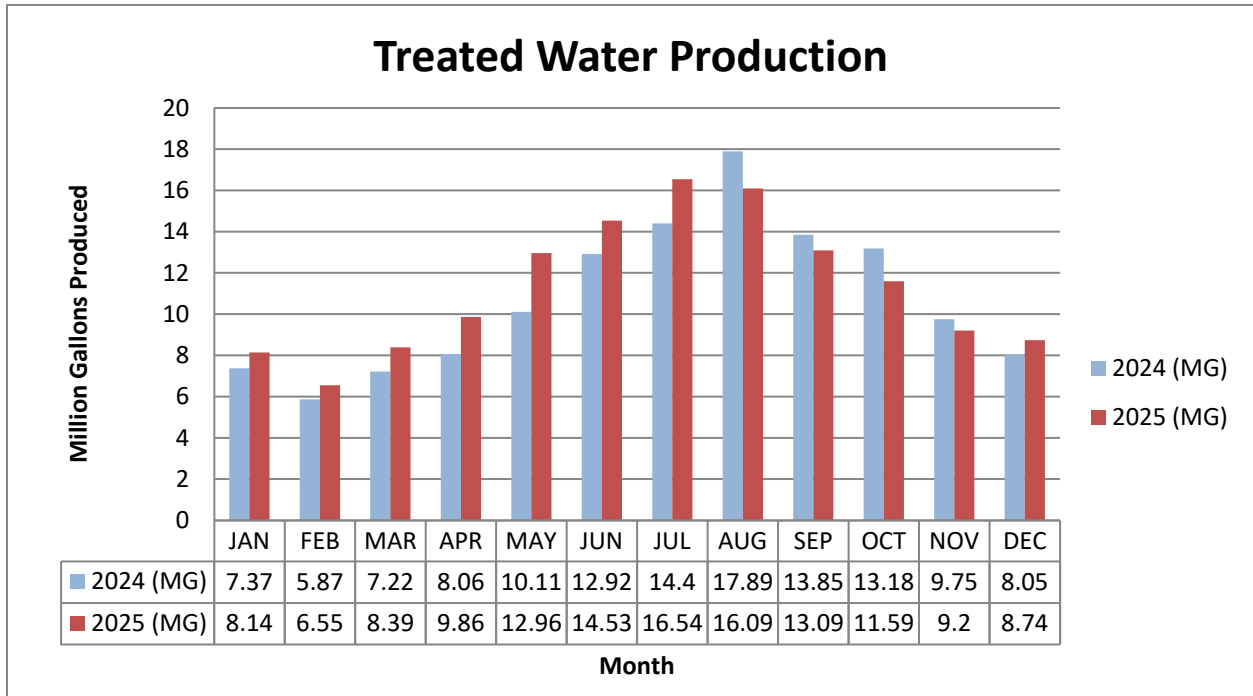
Project Name	Original CIP Budget	Estimated Design Completion	Estimated Construction Completion
Lift Station 1-5 Rehab (Construction Phase)	\$550,000	LS 2 - Complete LS 3 - TBD LS 1 - TBD	LS 2 - February, 2026 LS 3 - TBD LS 1 - TBD
Water System SCADA Upgrade	\$300,000	Complete	Complete
Pressure Reducing Valves (Waterview, Equestrian)	\$175,000	Complete	Waterview - Complete Equestrian - Estimated completion by 2/27/26
Raw Water Vertical Intake No. 2	\$225,000	Complete	Notice of Award - 10/17/25 Notice to Proceed - 11/14/25 Completion (90 days) - 2/12/26 (Pending Equipment Arrival)
DBP Project	\$1,000,000	TBD	TBD
Wastewater Collection System SCADA Upgrade	\$200,000	Complete	Complete
Wastewater Collection System Model & I/I	\$75,000	TBD	TBD
Pump Station Covers (Design and Construction)	\$85,000	TBD	TBD
Electric Gate at Corp Yard	\$50,000	TBD	TBD
Rebuild Treated Water Pumps	\$50,000	TBD	TBD
<b>Total</b>	<b>\$2,710,000</b>		

# HERITAGE RANCH COMMUNITY SERVICES DISTRICT

## Operations Report For the Month of December 2025

In addition to normal operations duties, below are other tasks / updates for several areas of work:

### Water production:



### Water treatment

- Produced 9.20 million gallons of treated water.
- Worked with spice integration to reinstate TOC analyzer on remote scada system to allow on staff engineer to track condition of new GAC vessels performance
- Flushed and cleaned Rosemount flow meter on filter #1
- Replaced broken hayward valve body on filter #2 polishing side air scour feed system
- Cleaned filters 1 and 2 contact clarifier interior basins due to algal growth from sunlight exposure
- Performed multiple dosing changes to filtration system due to rising turbidity in the Nacimientto river immediately following large storm events over holiday periods
- Performed weekly calibrations on turbidimeters.
- Collected monthly DBP samples.

## Water distribution

- Replaced wharf head assembly on tumbleweed way, had to replace 6" diameter 48" high nipple, 6" by 4" galvanized bushing, 4" close nipple and wharf head
- Responded to customer complaint of low pressure at the top of lakeside drive, adjusted on off setpoints to pump station 6 to accommodate customer needs
- Shoveled existing trench and drain lines at 8735 lake nacimiento to protect AC water main from storm run off
- Performed additional above and beyond sampling in response to a giardia complaint from customer on longhorn lane, all samples passed coliform testing

## Wastewater collection

- Realigned satellite dishes following storm to reinstate scada system with spice integration
- Placed order for new plc system to rehabilitate lift station 2, drop delivery to spice integration
- Replace PLC at lift station #7 on 12/25/25
- Performed sewer snake camera check to locate lateral tie in for new construction on sand harbor court
- Worked with homeowner/contractor to install new tie in for new construction that included privately owned lift station
- Performed monthly lift station checks.

## Wastewater treatment

- Treated 4.19 million gallons of wastewater
- Replaced broken sprinkler heads in right sand filter
- Performed time schedule order samples for final quarter of 2025
- Dropped lagoon freeboard levels to accommodate incoming high rainfall
- Batched pond #3 following storm events to relieve sand filtration systems
- Collected state required grease and oil samples.
- Adjusted aerator schedules to adapt to the changing weather conditions.
- Raked sand filters at effluent discharge area.
- Collected all state required Bac T samples along with BOD samples.

## Vehicles and equipment

Replaced thermostat on ford ranger and smogged, replaced battery on F150 2WD



## HERITAGE RANCH COMMUNITY SERVICES DISTRICT

### MEMORANDUM

**TO:** Board of Directors

**FROM:** Scott Duffield, General Manager  
Doug Groshart, District Engineer

**DATE:** January 15, 2026

**SUBJECT:** Discussion and direction regarding disinfection byproducts.

#### **Background**

The District water system was exceeding the maximum contaminant level for haloacetic acids, a disinfection byproduct. Your Board has been updated regularly on this issue.

#### **Discussion**

##### **Sample data**

The sample data for haloacetic acids (HAA5) over the last several quarters is shown below. This data is for individual samples.

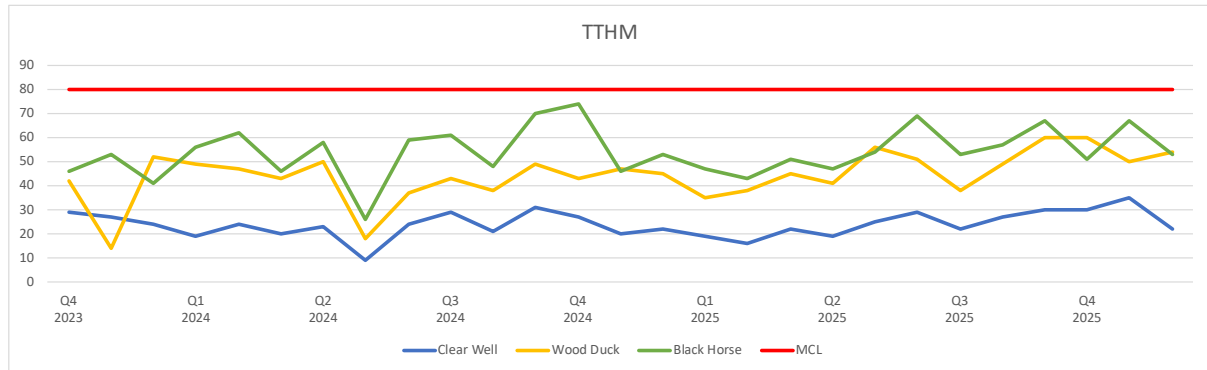
The maximum contaminant level for HAA5 is 60 parts per billion (ppb). In the table below, "Vintake TOC" is the TOC level of the water from the vertical intake; "RW TOC" is the TOC reading for Raw Water; "TW TOC" is the TOC reading for Treated Water; and "GAC Effluent" shows the TOC reading after the GAC vessels and before chlorination.

The reportable data required by the Division of Drinking Water (DDW) is the Locational Running Annual Average (LRAA) by calendar quarter. The maximum contaminant level (MCL) for HAA5 is 60 ppb.

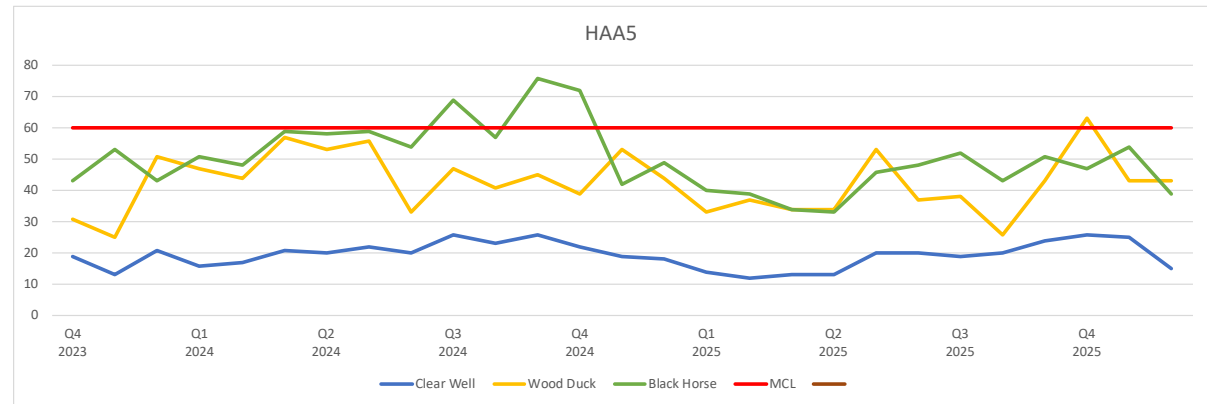
The most recent LRAA for HAA5 is 44 ppb at the Black Horse Lane location and 40 ppb at the Wood Duck Lane location; both under the MCL.

Results for individual months at both locations can be seen in the following tables and graphs.

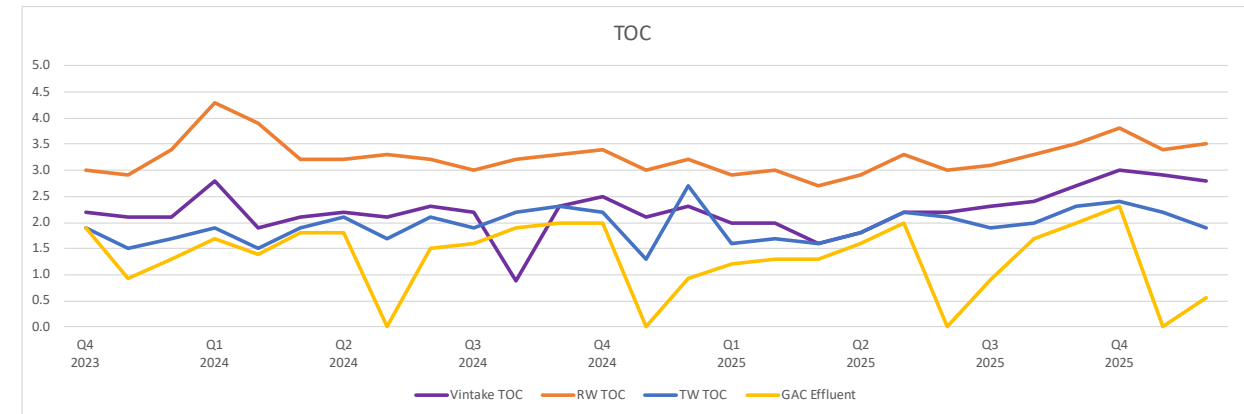
TTHM	Q4 2023			Q1 2024			Q2 2024			Q3 2024			Q4 2024			Q1 2025			Q2 2025			Q3 2025			Q4 2025		
Clear Well	29	27	24	19	24	20	23	9	24	29	21	31	27	20	22	19	16	22	19	25	29	22	27	30	30	35	22
Wood Duck	42	14	52	49	47	43	50	18	37	43	38	49	43	47	45	35	38	45	41	56	51	38	49	60	60	50	54
Black Horse	46	53	41	56	62	46	58	26	59	61	48	70	74	46	53	47	43	51	47	54	69	53	57	67	51	67	53
MCL	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80



HAAS	Q4 2023			Q1 2024			Q2 2024			Q3 2024			Q4 2024			Q1 2025			Q2 2025			Q3 2025			Q4 2025		
Clear Well	19	13	21	16	17	21	20	22	20	26	23	26	22	19	18	14	12	13	13	20	20	19	20	24	26	25	15
Wood Duck	31	25	51	47	44	57	53	56	33	47	41	45	39	53	44	33	37	34	34	53	37	38	26	43	63	43	43
Black Horse	43	53	43	51	48	59	58	59	54	69	57	76	72	42	49	40	39	34	33	46	48	52	43	51	47	54	39
MCL	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60



TOC	Q4 2023			Q1 2024			Q2 2024			Q3 2024			Q4 2024			Q1 2025			Q2 2025			Q3 2025			Q4 2025		
Vintake TOC	2.2	2.1	2.1	2.8	1.9	2.1	2.2	2.1	2.3	2.2	0.9	2.3	2.5	2.1	2.3	2.0	2.0	1.6	1.8	2.2	2.2	2.3	2.4	2.7	3.0	2.9	2.8
RW TOC	3.0	2.9	3.4	4.3	3.9	3.2	3.2	3.3	3.2	3.0	3.2	3.3	3.4	3.0	3.2	2.9	3.0	2.7	2.9	3.3	3.0	3.1	3.3	3.5	3.8	3.4	3.5
TW TOC	1.9	1.5	1.7	1.9	1.5	1.9	2.1	1.7	2.1	1.9	2.2	2.3	2.2	1.3	2.7	1.6	1.7	1.6	1.8	2.2	2.1	1.9	2.0	2.3	2.4	2.2	1.9
GAC Effluent	1.9	0.9	1.3	1.7	1.4	1.8	1.8	ND	1.5	1.6	1.9	2.0	2.0	ND	0.9	1.2	1.3	1.3	1.6	2.0	NM	0.9	1.7	2.0	2.3	NM	0.57



### Operations and project updates

The Operations staff has made no major operational changes to the water treatment process since last month's report. New GAC vessels were installed on November 21, 2025 and put into service. The current batch of GAC is the sixth batch we have used.

As of December 19, 2026, 28 days since the new ones were placed online, the GAC vessels were removing 75% of the organics from the flow being sent to them (approximately 150 gpm or 25% of the total flow.) With the previous batch, at 48 days, we were removing approximately 60% of the organics.

For updates regarding the GAC project and Vertical Intake No. 2, please refer to this month's District Engineer Report.

File: OPERATIONS\_DBP

## HERITAGE RANCH COMMUNITY SERVICES DISTRICT

### MEMORANDUM

**TO:** Board of Directors

**FROM:** Scott Duffield, General Manager

**DATE:** January 15, 2026

**SUBJECT:** Submittal for approval Resolution 26-01 Approving a Conveyance Agreement and an Installment Purchase Contract, Making Certain Determinations relating Thereto and Authorizing Certain Other Actions in Connection Therewith

#### **Recommendation**

It is recommended that the Board of Directors approve Resolution 26-01 in connection with the financing of certain wastewater system improvements described below via a private placement with Banner Bank (the "Lender").

#### **Background**

On December 18, 2025, the Board approved a resolution directing staff to accept the Term Sheet offered from the Lender for the interim financing (the "Interim Loan") for the Water Resource Recovery Facility Project (the "Project"). The Board also authorized District staff and the District's consultants to prepare legal documentation to be brought back to the Board tonight for final approval.

On January 7, 2026, the District received final credit approval for the Interim Loan from the Lender. As described and discussed at the December 18, 2025, meeting, the Interim Loan is structured to allow the District to draw down funds in the amounts and times needed for the construction of the Project in order to minimize the amount of interest the District pays under Interim Loan. These are the key terms of the Interim Loan:

- **Final Maturity:** February 1, 2029
- **Maximum Borrowing Amount:** \$22,647,000
- **Interest Rate:** 4.02% (fixed through maturity)
- **Interest Rate Lock:** Through the anticipated Closing Date of January 28, 2026. Interest Rate subject to change if the Interim Loan is not closed by January 30, 2026.
- **Bank Fees:** Bank Fee of \$28,350 and Bank Counsel Fee of \$12,000.
- **Undrawn Amounts:** There is no interest charge or ongoing fee for undrawn amounts.
- **Costs of Issuance:** Not-to-exceed \$175,350, which is less than having two separate direct placement issuances where costs were estimated to be \$260,000.
- **Optional Prepayment:** Interim Loan may be prepaid in whole or in part on any date with 15 days' notice to Lender and no prepayment penalty.

- **Establishment of Additional Accounts:** The District will be required to establish two separate checking accounts with the Lender for the Acquisition Fund and the Capitalized Interest Fund. Once invoices are approved by the USDA, funds will be deposited into the Acquisition Fund to pay vendors. The District will also be able to pay the costs of issuance, deposit money into the Capitalized Interest Fund and reimburse itself for prior approved expenditures, all from the initial draw.
- **Capitalized Interest Fund:** This account will be used to make the interest payments due on August 1, 2026, February 1, 2027, and August 1, 2027. Any amount remaining in the Capitalized Interest Fund after August 1, 2027, will be transferred to the Acquisition Fund for Project costs.
- **Additional Requirements:** Maintain rates and charges sufficient to provide debt service coverage from net wastewater enterprise revenue<sup>(\*)</sup> of at least 1.20x (120%) of annual debt service. Provide unaudited financial statements within 180 days of the close of the fiscal year and the final audited financial statements to the Lender within 15 days of being finalized.
- **Default Rate:** 6.02% in the event of default or a determination of taxability of the Interim Loan.

Note:

(\*) Net revenue is gross wastewater enterprise revenue each year less annual operations and maintenance costs.

## **Legal Documentation**

**Conveyance Agreement:** The District sells, conveys and transfers to the Lender all of its rights, title and interest in and to the Project and the Lender purchases, acquires and accepts the Project from the District.

**Installment Purchase Contract:** The Lender resells the Project back to the District and the District agrees to make installment payments to purchase the Project from the Lender equal to annual debt service payments. Contains the key terms of the Interim Loan described above.

A representative from Kutak Rock LLP, the District's bond counsel, will be available to answer any questions and explain the obligations of the District under the Installment Purchase Contract.

Approval of the recommended actions will further the District's mission to complete the Project by providing gap financing until such time as the Project is completed. As required by the USDA Letter of Conditions dated June 16, 2025, once the Project is completed, the District can close on the long-term USDA Loan.

## **Attachments:**

1. Resolution 26-01
2. Installment Purchase Contract
3. Conveyance Agreement

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
RESOLUTION NO. 26-01**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE  
HERITAGE RANCH COMMUNITY SERVICES DISTRICT  
APPROVING A CONVEYANCE AGREEMENT AND AN  
INSTALLMENT PURCHASE CONTRACT, MAKING  
CERTAIN DETERMINATIONS RELATING THERETO AND  
AUTHORIZING CERTAIN OTHER ACTIONS IN  
CONNECTION THEREWITH**

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

**WHEREAS**, the District desires to finance certain capital improvements, provide working capital for its wastewater system, including but not limited the Water Resource Recovery Facility (the “Project”), and capitalize interest while the Project is being constructed pending the execution of a long-term financing with the United States Department of Agriculture – Rural Development; and

**WHEREAS**, the District is authorized to sell and purchase its property to finance public capital improvements, including those improvements constituting the Project; and

**WHEREAS**, in order to finance the Project, the District desires to enter into a Conveyance Agreement, between the District and Banner Bank (the “Lender”), pursuant to which the District will sell the Project to the Lender in return for certain funds, which the District will use to acquire, construct and install the Project; and

**WHEREAS**, in order to finance the Project, the District has determined to enter into an Installment Purchase Contract between the District and the Lender, pursuant to which the District will repurchase the Project from the Lender; and

**WHEREAS**, under and pursuant to such Installment Purchase Contract, the District will be obligated to make certain installment payments to the Lender; and

**WHEREAS**, the Board of Directors of the District (the “Board”) has been presented with the form of each document that is referred to herein relating to the financing that is contemplated hereby, and the Board has examined and approved each document and desires to authorize and direct the execution of such documents and the consummation of such financing; and

**WHEREAS**, all acts, conditions and things that are required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the financing that are authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the District is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such financing for the purpose, in the manner and upon the terms herein provided;

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF**

THE HERITAGE RANCH COMMUNITY SERVICES DISTRICT:

**SECTION 1. Recitals True and Correct.** The foregoing recitals are true and correct and are a substantive part of this Resolution.

**SECTION 2. Approval of Conveyance Agreement.** The form of Conveyance Agreement on file with the Board Secretary and incorporated herein by this reference is hereby approved. The General Manager of the District, the President of the Board, the Vice President of the Board, the Board Secretary or any other officers duly designated by the Board (each, an “Officer” and collectively, the “Officers”), are hereby authorized and directed, for and on behalf of the District, to execute, acknowledge and deliver the Conveyance Agreement, in substantially the form attached hereto, with such changes therein as such Officers may require or approve, with the advice and approval of the District’s General Counsel and Kutak Rock LLP (“Special Counsel”), such approval to be conclusively evidenced by the execution and delivery thereof.

**SECTION 3. Approval of Installment Purchase Contract.** The form of Installment Purchase Contract on file with the Board Secretary and incorporated herein by this reference is hereby approved. The Officers are hereby authorized and directed, for and on behalf of the District, to execute, acknowledge and deliver the Installment Purchase Contract, in substantially the form attached hereto, with such changes therein as such Officers may require or approve, with the advice and approval of the District’s General Counsel and Special Counsel, such approval to be conclusively evidenced by the execution and delivery thereof. In connection therewith, the District approves the execution and delivery of the Installment Purchase Contract so long as the maturity does not exceed February 1, 2029, the interest rate with respect to the Installment Payments does not initially exceed 4.02% per annum (except in the event of default or taxability), and the total principal amount outstanding at any one time does not exceed \$22,647,000.

**SECTION 4. Other Acts.** The Officers and staff of the District are hereby authorized, empowered and directed, individually, to do any and all things, to execute and deliver any and all documents, including but not limited to a funds control agreement or other agreement related to the establishment and maintenance of the Acquisition Fund (as defined in the Installment Purchase Contract), which in consultation with the District’s General Counsel and Special Counsel, they may deem necessary or advisable in order to effectuate the purposes of this Resolution, and any and all such actions previously taken by such Officers or staff members are hereby ratified and confirmed.

**SECTION 5. Good Faith Estimates.** Good faith estimates with respect to the Installment Purchase Contract, as required by California Government Code Section 5852.1, are set forth in Exhibit A.

**SECTION 6. Effective Date.** This Resolution shall take effect upon adoption.

\* \* \* \* \*

**PASSED, APPROVED AND ADOPTED** by the Board of Directors of the Heritage Ranch Community Services District on the 15th day of January 2026, by the following roll call vote:

**AYES:**

**NOES:**

**ABSTAIN:**

**ABSENT:**

**APPROVED:** \_\_\_\_\_  
**President**  
**Board of Directors**

**ATTEST:** \_\_\_\_\_  
**Board Secretary**

## EXHIBIT A

### GOOD FAITH ESTIMATES

The following information was obtained from the District's Municipal Advisor and is provided in compliance with California Government Code Section 5852.1 with respect to the Installment Purchase Contract:

- (A) True Interest Cost of the Installment Purchase Contract: 4.02%
- (B) Finance Charge of the Installment Purchase Contract (Sum of all fees/charges paid to third parties): \$175,350
- (C) Net Proceeds of the Installment Purchase Contract to be Received (net of finance charges, reserves and capitalized interest, if any): \$21,686,102
- (D) Total Payment Amount through Maturity of Installment Purchase Contract: \$24,798,162

The foregoing constitute good faith estimates only. The principal amount of the Installment Purchase Contract, the true interest cost of the Installment Purchase Contract, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to: (a) the actual date of the execution of the Installment Purchase Contract being different than the date assumed for purposes of such estimates; (b) the actual principal amount of the Installment Purchase Contract being different from the estimated amount used for purposes of such estimates; (c) the actual amortization of the Installment Purchase Contract being different than the amortization assumed for purposes of such estimates; (d) the actual market interest rates at the time of sale of the Installment Purchase Contract being different than those estimated for purposes of such estimates; (e) other market conditions; or (f) alterations in the District's financing plan, or a combination of such factors.

The actual date of execution of the Installment Purchase Contract and the actual principal amount of the Installment Purchase Contract will be determined by the District based on a variety of factors.

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**INSTALLMENT PURCHASE CONTRACT**

**between the**

**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**

**and**

**BANNER BANK**

**Dated as of January 1, 2026**

**in the amount of up to \$22,647,000**

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## INSTALLMENT PURCHASE CONTRACT

This INSTALLMENT PURCHASE CONTRACT, dated as of January 1, 2026 (as amended and supplemented hereafter, the “Installment Purchase Contract”), between HERITAGE RANCH COMMUNITY SERVICES DISTRICT, a Community Services District that is duly organized and validly existing under the laws of the State of California (the “District”), and BANNER BANK, a Washington state-chartered bank (including its successors and permitted assigns hereunder, the “Lender”);

### WITNESSETH:

WHEREAS, the District is authorized by the laws of the State of California, including but not limited to California Government Code Sections 61060(d) and 61060(h), to purchase, lease or otherwise acquire, hold and enjoy, and lease or dispose of, real and personal property of every kind within or without the District through the execution of installment purchase contracts; and

WHEREAS, the District proposes to finance certain improvements to and provide working capital for the District’s wastewater system, as more particularly described in Exhibit B hereto (the “Project”), and capitalize interest while the Project is being constructed pending the execution of a long-term financing with the United States Department of Agriculture – Rural Development; and

WHEREAS, in order to finance the Project, the District has entered into a Conveyance Agreement, dated as of the date hereof, pursuant to which the District has sold the Project to the Lender, but only to the extent that the components of the Project could be legally transferred by the District; and

WHEREAS, the District proposes to purchase the Project pursuant to this Installment Purchase Contract; and

WHEREAS, the District has determined that it is in the best interests of the District, and it is necessary and proper for District purposes, that the District acquire the Project from the Lender in the manner described herein, and that the District pay the Lender for the costs of acquiring the Project in the manner described herein; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Installment Purchase Contract do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Contract;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I  
DEFINITIONS

Section 1.01. Definitions.

Unless the context otherwise requires, the terms defined in this Section 1.01 shall for all purposes hereof, and of any amendment hereof, and of any opinion or report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein.

“Acquisition,” “Acquire” or “Acquired” means, with respect to the Project or the Enterprise, the acquisition, installation or perfection of an ownership or capacity interest in the Project or the Enterprise, or the construction, financing or ownership of the Project or the Enterprise, including payment of Delivery Costs.

“Acquisition Costs” with respect to the Project means the contract price paid or to be paid for the Acquisition of the Project.

“Acquisition Fund” means the fund established and maintained by the District with the Lender, as described in Section 2.05.

“Advance” means each advance made by the Lender, pursuant to this Installment Purchase Contract, to the District, in accordance with the procedures set forth in this Installment Purchase Contract, on the corresponding Draw Down Date, subject to the terms and conditions of this Installment Purchase Contract.

“Available Commitment” means, on the Closing Date, an initial amount equal to \$22,647,000 less the initial Advance of \$[\_\_\_\_\_] on the Closing Date (reflecting the sum of: (1) Delivery Costs as set forth in the penultimate paragraph of Section 2.01; and (2) the deposit to the Capitalized Interest Fund as set forth in Section 2.06), and thereafter as adjusted from time to time as follows: (a) downward in an amount equal to any Advance (other than the initial Advance) made hereunder; (b) downward to the extent of any reductions in the amount of loans or grants from the amounts approved as of the Closing Date under the USDA Obligation; and (c) downward to zero upon termination of the Commitment in accordance with the terms hereof.

“Alternate Project” means an alternate project designated by the District pursuant to Section 2.01 hereof.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in Washington, California and/or New York.

“Closing Date” means January 28, 2026.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“Commitment” means the obligation of the Lender, pursuant to this Installment Purchase Contract, to make future Advances of the unfunded portion of the Available Commitment, subject to the terms and conditions of this Installment Purchase Contract.

“Commitment Termination Date” means the earliest to occur of: (a) February 1, 2029; and (b) the date that the Available Commitment is reduced to zero in accordance with the terms hereof, provided that the District has delivered written notice to the Lender of its intent to terminate the Commitment.

“Conveyance Agreement” means that Conveyance Agreement, dated as of January 1, 2026, between the District and the Lender, as amended and supplemented.

“Debt Service” means, for any Fiscal Year, the sum of: (a) the Installment Payments (except to the extent that interest has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the interest to which such amounts are pledged) required to be paid hereunder during such Fiscal Year; (b) the interest falling due during such Fiscal Year on all Parity Obligations (which are outstanding under the documents or agreements pursuant to which they were issued), assuming that all outstanding serial Parity Obligations are retired as scheduled and that all outstanding term Parity Obligations are redeemed from sinking fund payments as scheduled (except to the extent that such interest has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the interest to which such amounts are pledged); (c) the principal amount of all serial Parity Obligations (which are outstanding under the documents or agreements pursuant to which they were issued) falling due by their terms during such Fiscal Year; and (d) the minimum amount of term Parity Obligations (which are outstanding under the documents or agreements pursuant to which they were issued) required to be paid or called and redeemed during such Fiscal Year, together with the redemption premiums, if any, thereon; provided that, whenever interest as described herein accrues at other than a fixed rate, such interest shall be assumed to be a rate equal to the greater of: (i) the actual rate on the date of calculation, or if the Parity Obligations are not yet outstanding, the initial rate (if established and binding); (ii) if the Parity Obligations have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation; and (iii) (x) if interest on the Parity Obligations is excludable from gross income under the applicable provisions of the Code, the most recently published SIFMA Index (or comparable index if no longer published) plus fifty (50) basis points; or (y) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points.

“Debt Service Fund” means the fund established in Section 3.04 hereof.

“Debt Service Payments” mean the payments of Debt Service.

“Default” means any of the events specified in Section 7.01 which with the passage of time, the giving of notice or any other condition, would constitute an Event of Default.

“Default Rate” means 6.02% per annum.

“Delivery Costs” means all items of expense directly or indirectly payable by or reimbursable to the District or the Lender relating to the financing of the Project, including but not limited to filing costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Lender and its counsel, financing discounts, California Debt Investment Advisory Commission fees, legal fees and charges, financial and other professional consultant fees, and charges and fees in connection with the foregoing.

“Determination of Taxability” means any determination, decision or decree by the Commissioner, Internal Revenue of the Internal Revenue Service, or any court of competent jurisdiction, to the effect that: (a) interest paid or to be paid to the Lender hereunder is or will be includable for federal income tax purposes in the gross income of the Lender, but excluding the inclusion of interest as an item of tax preference for purposes of the calculation of an alternative minimum tax imposed on the Lender; or that (b) an Event of Taxability shall have occurred; provided, however, that the District shall have the opportunity to take such remedial action necessary to restore the tax-exempt status of the interest component of Installment Payments under this Installment Purchase Contract specifically afforded to it in such determination, decision or decree so long as such remedial action is promptly commenced by the District and in no event later than thirty (30) days after receipt of such determination, decision or decree. A Determination of Taxability also shall be deemed to have occurred on the date when the District files any statement, supplemental statement, or other tax schedule, return or document, which discloses that an Event of Taxability shall have occurred.

“Draw Down Date” means each date for funding an Advance.

“Enterprise” means the District’s wastewater collection, treatment and disposal system, including all facilities, works, properties, structures and improvements of the District for the collection, treatment, transmission and disposal of wastewater, including all contractual rights to easements, rights-of-way and other works, property or structures necessary or convenient for such facilities, together with all additions, betterments, extension and improvements to such facilities or any part thereof hereafter acquired or constructed.

“Environmental Regulations” means all Laws and Regulations, now or hereafter in effect, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, et seq.) (together with the regulations promulgated thereunder, “CERCLA”), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, et seq.) (together with the regulations promulgated thereunder, “RCRA”), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, et seq.) (together with the regulations promulgated thereunder, “Title III”), the Clean Water Act, as amended (33 U.S.C. Section 1321, et seq.) (together with the regulations promulgated thereunder, “CWA”), the Clean Air Act, as amended (42 U.S.C. Section 7401, et seq.) (together with the regulations promulgated thereunder, “CAA”) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601 et seq.) (together with the regulations promulgated thereunder, “TSCA”), and any state or local similar Laws and Regulations and any so-called local, state or federal “superfund” or “superlien” law and any other applicable state, local or federal environmental laws or regulations.

“Event of Default” means an event of default described in Section 7.01.

“Event of Taxability” means, with respect to the Installment Purchase Contract: (a) the application of the proceeds of the purchase price of the Project pursuant to the Conveyance Agreement in such manner that the Installment Purchase Contract becomes an “arbitrage bond” within the meaning of Code Sections 103(b)(2) and 148, and with the result that interest component of the Installment Payments is or becomes includable in a recipient’s gross income (as defined in Code Section 61); or (b) if as the result of any act, failure to act or use of the proceeds of the purchase price of the Project pursuant to the Conveyance Agreement or any misrepresentation or inaccuracy in any of the representations, warranties or covenants contained in the Installment Purchase Contract by the District

the interest component of Installment Payments is or becomes includable in a recipient's gross income (as defined in Code Section 61); and (c) with respect to (a) and (b), the District does not undertake any remedial action afforded to it by the Internal Revenue Service.

"Federal Securities" means direct obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States), or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

"Finance Officer" means the General Manager of the District.

"Fiscal Year" means the period commencing on July 1 of each year and terminating on June 30 of the following year, or any other annual accounting period hereafter selected and designated by the District as its Fiscal Year in accordance with applicable law.

"Generally Accepted Accounting Principles" means: (a) the uniform accounting and reporting procedures prescribed by the California State Controller or his or her successor for special districts in the State of California; or (b) failing the prescription of such procedures, generally accepted accounting principles as presented and recommended by the American Institute of Certified Public Accountants or its successor, or by the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such principles.

"Governmental Loan" means a loan from the State of California or the United States of America, acting through any of their respective agencies, to finance improvements to the Enterprise, and the obligation of the District to make payments to the State of California or the United States of America under the loan agreement memorializing said loan on a parity basis with the payment of Installment Payments.

"Gross Revenues" means all gross income and revenue received or receivable by the District from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees and property tax revenues) received by the District for wastewater service and all other income and revenue howsoever derived by the District from the Enterprise or arising from the Enterprise, together with any reimbursements from the United States Department of Agriculture – Rural Development under the USDA Obligation; provided, however, that: (a) any specific charges levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities; (b) grants which are designated by the grantor for a specific purpose and are therefore not available for other purposes; and (c) customers' deposits or any other deposits subject to refund until such deposits have become the property of the District, are not Gross Revenues and are not subject to the lien of the Installment Purchase Contract. Gross Revenues shall include amounts on deposit in the Revenue Fund which have been previously released from the pledge and lien of this Installment Purchase Contract.

"Independent Certified Public Accountant" means any certified public accountant or firm of certified public accountants duly licensed and entitled to practice, and practicing as such, under the laws of the State of California, appointed and paid by the District, and each of whom: (a) is in fact independent and not under the domination of the District; (b) does not have a substantial financial interest, direct or indirect, in the operations of the District; and (c) is not connected with the District as

a District Board of Directors member, officer or employee of the District, but may be regularly retained to audit the accounting records of and make reports thereon to the District.

“Independent Engineer” means any registered engineer or firm of engineers of national reputation generally recognized to be well qualified in engineering matters relating to systems similar to the Enterprise, appointed and paid by the District, and who or each of whom: (a) is in fact independent and not under the domination of the District; (b) does not have a substantial financial interest, direct or indirect, in the District; and (c) is not connected with the District as a District Board of Directors member, officer or employee of the District, but may be regularly retained to make reports to the District.

“Independent Financial Consultant” means any financial consultant or firm of such consultants of national reputation generally recognized to be well qualified in financial matters relating to systems similar to the Enterprise, appointed and paid by the District, and who, or each of whom: (a) is in fact independent and not under the control of the District; (b) does not have a substantial financial interest, direct or indirect, in the District; and (c) is not connected with the District as a District Board of Directors member, officer or employee of the District, but may be regularly retained to make reports to the District.

“Installment Payments” means the installment payments of principal and interest scheduled to be paid by the District hereunder.

“Insurance Consultant” means any nationally recognized independent actuary, insurance company or broker who has actuarial personnel knowledgeable with respect to insurance carried by, required for and available to municipalities operating facilities similar to the Enterprise, including a pooled self-insurance program in which premiums are established on the basis of the recommendation of an actuary of national reputation.

“Interest Payment Date” means August 1, 2026 and each February 1 and August 1 thereafter, and the Commitment Termination Date.

“Laws and Regulations” means federal, regional, state and local laws, statutes, rules, ordinances, regulations, codes, licenses, authorizations, decisions, injunctions, interpretations, orders or decrees of any court or other governmental authority having jurisdiction as may be in effect from time to time.

“Last Advance Request Date” means the Business Day which is ten (10) Business Days immediately prior to the day of the requested Advance and at least ten (10) Business Days immediately preceding the Commitment Termination Date.

“Letter of Conditions” means the letter dated June 16, 2025 by the United States Department of Agriculture – Rural Development addressed to the District, as the same shall be amended from time to time.

“Maintenance and Operation Costs” of the Enterprise means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Enterprise, as determined in accordance with Generally Accepted Accounting Principles, including but not limited to: (a) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and

preserve the Enterprise in good repair and working order; and (b) administrative costs of the District attributable to the Enterprise and the financing thereof; but excluding: (x) depreciation, replacement and obsolescence charges or reserves therefor; (y) in any Fiscal Year prior to setting aside an amount equal to the Installment Payments for such Fiscal Year, capital expenditures other than as set forth in subsection (a) above; and (z) amortization of intangibles, gain or loss (whether realized or unrealized) or other bookkeeping entries and non-cash items of a similar nature.

“Material Adverse Effect” means an event or occurrence which adversely affects in a material manner: (a) the assets, liabilities, condition (financial or otherwise), business, facilities or operations of the District; (b) the ability of the District to carry out its business in the manner conducted as of the date of this Installment Purchase Contract or to meet or perform its obligations under this Installment Purchase Contract on a timely basis; (c) the validity or enforceability of the Installment Purchase Contract; (d) the exclusion of the interest component of the Installment Payments from gross income for federal income tax purposes or the exemption of such interest for state income tax purposes; or (e) the ability of the District to obtain the loans and grant approved as of the Closing Date under the USDA Obligation.

“Maximum Annual Debt Service” means the largest annual Debt Service due hereunder and on any Parity Obligations during the period from the date of such determination through the date which is five years after the date of such determination.

“Net Proceeds” means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all reasonable expenses (including attorneys’ fees) incurred in the collection of such proceeds.

“Net Revenues” means, for any period, all of the Gross Revenues during such period less all of the Maintenance and Operation Costs during such period.

“Outstanding” when used as of any particular time with reference to this Installment Purchase Contract, means all Installment Payments except Installment Payments paid or deemed to have been paid within the meaning of Article VI.

“Parity Obligations” means all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the District payable from and secured by a pledge of and lien upon any of the Net Revenues incurred on a parity with the payment of the Installment Payments pursuant to Section 4.01.

“Project” means the improvements to the Enterprise described in Exhibit B hereto.

“Qualified Investments” means any investment that is a legal investment under the laws of the State of California for the moneys proposed to be invested therein.

“Revenue Fund” means the fund, funds, account or accounts maintained by the District into which it deposits Gross Revenues.

“USDA Obligation” means the long-term agreement to be entered into by and between the District and the United States Department of Agriculture – Rural Development pursuant to the Letter of Conditions, including both the Agency loans and the Agency grant (as such terms are used in the Letter of Conditions) thereunder.

ARTICLE II  
ACQUISITION OF THE PROJECT

Section 2.01. Acquisition of the Project.

The Lender agrees to use or permit the use of the proceeds received by the District pursuant to the Conveyance Agreement for the payment, as herein provided, of the costs and expenses of the Acquisition of the Project and the expenses incidental thereto (including reimbursement to the District for any such costs or expenses paid by it for the account of the Lender, including costs and expenses paid by the District prior to the date hereof).

Pursuant to the Conveyance Agreement, the District agrees to sell to the Lender all of its right, title and interest in and to the Project, but only to the extent that the components of the Project may be legally transferred by the District, and the Lender agrees to purchase, from the District, from time to time components of the Project on the Draw Down Dates, in the manner and in accordance with the provisions of this Installment Purchase Contract. In consideration for the Installment Payments as set forth in Article III, the Lender agrees to sell, and hereby sells, to the District, and the District agrees to purchase, and hereby purchases, from the Lender, from time to time components of the Project on the applicable Draw Down Dates in the manner and in accordance with the provisions of this Installment Purchase Contract. On each Draw Down Date, the Lender shall provide an updated draw down and prepayment schedule updated to show the date and amount of the Advance, to be attached as Exhibit A hereto, which updated schedule shall be deemed to be an amendment to this Installment Purchase Contract.

Subject to the terms and conditions of this Installment Purchase Contract and in reliance upon the representations, warranties and agreements set forth herein, including without limitation satisfaction of the conditions set forth below, the Lender agrees to make Advances to the District, on each Draw Down Date occurring after the Closing Date and prior to the Commitment Termination Date, not to exceed at any time outstanding the then-outstanding Available Commitment, in accordance with the procedures set forth below. The obligation of the Lender to make an Advance on any date is subject to the following conditions precedent: (a) all representations and warranties of the District set forth in this Installment Purchase Contract are true and correct as though made as of the date of such Advance, no Default or Event of Default shall have occurred and be continuing as of the date of such Advance, and no event or change shall be in effect or shall have occurred as of the date of such Advance that could reasonably be expected to have a Material Adverse Effect; (b) the Commitment and the obligation of the Lender to make Advances hereunder shall not have terminated pursuant to the terms of this Installment Purchase Contract; (c) Advance requests shall be in same form as USDA Obligation draw requests, including supporting documents, and shall have been previously approved by the United States Department of Agriculture – Rural Development; (d) an Independent Engineer certifies inspection and compliance with agreed scope of work, Project standards and Project progress in line with the Project schedule; (e) the District demonstrates that work adheres to budget and, if there are budget overruns, the District agrees to either secure additional funding or modify the Project scope with approval from the United States Department of Agriculture – Rural Development; and (f) the aggregate amount of the Advance does not exceed the Available Commitment. Unless the District shall have otherwise previously advised the Lender in writing, the District shall be deemed to represent and warrant on each Draw Down Date that each such condition is satisfied on such Draw Down Date.

Amounts outstanding under this Installment Purchase Contract, excluding funded issuance costs, after each Advance shall not exceed the remaining amounts available for disbursement under the USDA Obligation at the time of such Advance.

Subject to satisfaction of the conditions precedent set forth above, the Lender shall fund each Advance on the corresponding Draw Down Date into the Acquisition Fund.

Upon funding of each Advance, the District agrees to sell to the Lender, and the Lender agrees to purchase from the District, the component of the Project, including any Alternate Project, if applicable, with respect to the related Draw Down Date.

The District hereby covenants to use the proceeds received from the Lender pursuant to the Conveyance Agreement to pay for the costs and expenses, including capitalized interest, of the Project, including any Alternate Project, if applicable. The District may change the specifications of the Project, so long as such change does not substantially alter the nature of the Project; provided, however, that the District and the Lender, in their sole discretion, may jointly designate an Alternate Project and upon such designation, such Alternate Project shall be deemed part of the Project for the purposes of this Installment Purchase Contract and the Conveyance Agreement. In the event that an Alternate Project is designated, the District shall certify in writing to the Lender that Acquisition Costs shall not materially increase or decrease as a result from such change. In the event that Acquisition Costs shall materially increase as a result of the designation of an Alternate Project, prior to designating such Alternate Project, the District shall either deposit in the Acquisition Fund an amount sufficient to pay such increase, or shall certify in writing to the Lender that funds sufficient to pay such increase in Acquisition Costs are otherwise available to the District.

All right, title and interest in each component of the Project purchased and sold in connection with an Advance shall vest in the District immediately upon funding of such Advance. Such vesting shall occur without further action by the Lender or District and the Lender shall, if requested by the District, if necessary, to assure such automatic vesting, deliver any and all documents required to assure such vesting at the cost of the District.

The Lender further agrees to pay all Delivery Costs payable by the District, on behalf of the District, on the Closing Date in the amount of \$[\_\_\_\_, from the proceeds of the first Advance hereunder, including: (i) an irrevocable origination fee of \$ \_\_\_\_ (to be retained by the Lender); (ii) the fee of Mardikes Law LLC, the Lender's counsel, of \$ \_\_\_\_ (to be retained by the Lender and paid by the Lender to the Lender's counsel); (iii) the fees and expenses of Kutak Rock LLP, the District's Special Counsel, of \$ \_\_\_\_; (iv) the fees and expenses of Oppenheimer & Co. Inc., the District's Placement Agent, of \$ \_\_\_\_; (v) the fees and expenses of Tuckfield & Associates, the District's Rate Consultant, of \$ \_\_\_\_; (vi) the fees and expenses of A.M. Peche & Associates LLC, the District's Municipal Advisor, of \$ \_\_\_\_; and (vi) the fee of \$ \_\_\_\_ payable to the California Debt Investment Advisory Commission].

In the event that the Lender fails to observe or perform any material agreement, condition, covenant or term contained herein which is required to be observed or performed by it, the District, upon thirty (30) days prior written notice to the Lender, may institute such action or proceeding against the Lender as the District may deem necessary to compel the observance or performance of such agreement, condition, covenant or term, or to recover damages for the nonobservance or nonperformance thereof; provided, however, that the District shall have no right to terminate this

Installment Purchase Contract as a remedy to such failures. The District may, at its own cost and expense and in its own name or in the name of the Lender, prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to protect or secure its rights hereunder, and in such event the Lender agrees to cooperate fully with the District and to take all action necessary to effect the substitution of the District for the Lender in any action or proceeding if the District shall so request.

To the extent that the District obtains funds for the Project from third party financing sources other than the USDA Obligation, then such other funds shall be used for Acquisition Costs prior to approval of any additional Advances for the Project.

Section 2.02. Indemnification and Expenses of the Lender.

In addition to the provisions of Section 5.19 hereof, to the extent permitted by law, the District does hereby assume liability for, and agrees to defend, indemnify, protect, save and keep harmless the Lender and its directors, officers and employees and its successors and assigns from and against any and all liabilities, obligations, losses, damages (including consequential damages incurred by others), taxes and impositions, penalties, fines, claims, actions, suits, costs and expenses and disbursements (including legal fees and expenses (to include outside counsel fees and all allocated costs of the Lender's in-house counsel to the extent permissible)) of whatsoever kind and nature imposed on, asserted against or incurred or suffered by the Lender or its directors, officers or employees or its successors and assigns in any way relating to or arising out of the purchase or Acquisition of the Project or the District's use thereof, the execution and delivery or performance hereof or the assignment hereof (except with respect to any representations and warranties made by the Lender therewith) or any other agreements related thereto, or the enforcement of any of the terms thereof.

Section 2.03. District to Acquire Project; Lender not Liable.

The District shall cause the Acquisition of the Project to be completed as soon as is reasonably practicable and in accordance with this Installment Purchase Contract and any applicable requirements of governmental authorities and law, including the terms of the USDA Obligation. The Lender and its directors, officers and employees shall not be liable to the District or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on, or about or relating to the Project, and in no event shall the Lender be liable for any incidental, indirect, special or consequential damage in connection herewith or arising hereunder.

Section 2.04. Disclaimer of the Lender.

The District acknowledges and agrees that the Lender makes no representation or warranty, express or implied, as to the Enterprise or the Project, except as expressly set forth in this Installment Purchase Contract. The District acknowledges that all risks relating to the Project or the transactions contemplated hereby or by the Conveyance Agreement, are to be borne by the District, and the benefits of any and all implied warranties and representations of the Lender are hereby waived by the District.

Section 2.05. Acquisition Fund.

The District hereby agrees to establish and maintain, in an account held by the Lender, the Acquisition Fund until the completion of the Acquisition of the Project. Absent other written direction

from the District, the Lender is directed to invest moneys held in the Acquisition Fund in a Public Funds Checking Reserve with the Lender. The District covenants that the Acquisition Fund shall in all events be maintained and invested in Qualified Investments. Earnings on the Acquisition Fund shall be credited to said fund and disbursements to be made from said fund shall be transferred to a Public Operations Checking Account established by the District with the Lender for application to the Acquisition of the Project. The District hereby grants to the Lender a first priority security interest in the Acquisition Fund.

Section 2.06. Capitalized Interest Fund.

The District hereby agrees to establish and maintain, in an account held by the Lender, the Capitalized Interest Fund, in which \$[\_\_\_\_\_] shall be deposited on the Closing Date from proceeds of the initial Advance. Such amount shall be applied to pay interest on the Installment Payments on each Interest Payment Date through August 1, 2027. Should the amount in the Capitalized Interest Fund be insufficient to pay all interest due on any such Interest Payment Date, then the District shall either pay such interest from Net Revenues or from the proceeds of an additional Advance. Should there be any funds remaining in the Capitalized Interest Fund on August 2, 2027, the Lender shall transfer such funds to the Acquisition Fund to be applied in accordance with Section 2.05.

Absent other written direction from the District, the Lender is directed to invest moneys held in the Capitalized Interest Fund in a Public Funds Checking Reserve with the Lender. The District covenants that the Capitalized Interest Fund shall in all events be maintained and invested in Qualified Investments. Earnings on the Capitalized Interest Fund shall be credited to said fund and disbursements to be made from said fund shall be transferred to a Public Operations Checking Account established by the District with the Lender for application to pay interest on the Installment Payments. The District hereby grants to the Lender a first priority security interest in the Capitalized Interest Fund.

ARTICLE III  
INSTALLMENT PAYMENTS, REVENUES AND ACCOUNTS

Section 3.01. Payment of the Installment Payments.

The total principal amount of the Installment Payments owed and to be paid by the District to the Lender hereunder for the Acquisition of the Project is \$22,647,000 (or such lesser amount advanced by the Lender to the District hereunder), plus interest thereon. The interest rate applicable to the outstanding amount of each Advance, including, without limitation, the initial Advance made on the Closing Date, shall be 4.02% per annum; provided that, upon an Event of Default or a Determination of Taxability, such interest rate shall automatically, without any further action by the Lender, be increased to the Default Rate.

The Installment Payments shall, subject to any rights of prepayment of the District provided in Article VI, be due in installments in the amounts and on the dates as determined under this Installment Purchase Contract, and all amounts then outstanding shall be due in full on the Commitment Termination Date. Failure to make such payment on the Commitment Termination Date shall be an Event of Default and the Default Rate shall be applicable to the amount Outstanding under this Installment Purchase Contract. The District shall request Advances on any Business Day prior to the Last Advance Request Date in accordance with procedures established by the Lender, which requests

shall be in the form set forth in Exhibit C, and which requests shall be honored by the Lender within five (5) Business Days assuming that all conditions are met. The Lender shall maintain a schedule of Advances paid to or on behalf of the District in satisfaction of District Advance requests, which schedule shall be made available to the District upon reasonable notice.

Each Installment Payment shall be payable to the Lender in accordance with the terms hereof and at the times required by this Section 3.01 in lawful money of the United States of America. In the event that the District fails to make any of the payments required to be made by it under this Section 3.01, such payment shall continue as an obligation of the District until such amount shall have been fully paid and the District agrees to pay the same with the stated interest thereon at the rate set forth in the preceding paragraph. All Installment Payments received by the Lender shall be applied first to interest accruing to the date of such payment and then to principal Outstanding as of the date of receipt of such funds by the Lender.

Subject to Section 8.01 hereof, the obligation of the District to make the Installment Payments is absolute and unconditional, whether or not the Project shall be acquired, and until such time as all Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Article VI hereof), the District will not, under any circumstances, discontinue, abate or suspend any Installment Payments required to be made by it under this Section 3.01 when due, whether or not the Enterprise or any part thereof is operating or operable or has been completed, or whether or not the Enterprise is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained herein for any cause whatsoever.

Section 3.02. Interest Component of the Installment Payments.

The Installment Payments shall bear interest at the rate described in the first paragraph of Section 3.01 from the date of each Advance until the payment of the principal thereof and the prepayment premiums, if any, thereon, shall have been made or provided for in accordance with the provisions of Article VI hereof, whether at maturity, upon prepayment or otherwise. Interest accrued on the Installment Payments from the Closing Date and from each Interest Payment Date to, but not including, the next succeeding Interest Payment Date shall be paid on each such succeeding Interest Payment Date and shall be computed on the basis of a year of 360 days and twelve 30-day months. In the event of an Event of Default or a Determination of Taxability hereunder, the interest component of the portion of the Installment Payment shall be calculated based on the Default Rate.

Section 3.03. Establishment of Accounts.

The funds and accounts and flow of funds set forth in this Article III are hereby established and shall control to the extent inconsistent with any other terms of this Installment Purchase Contract.

Section 3.04. Pledge of Net Revenues and Other Funds; Debt Service Fund.

The District hereby irrevocably pledges all of the Net Revenues to the punctual payment of the Installment Payments and such Net Revenues, except as otherwise permitted herein, shall not be used for any other purpose while any of the Installment Payments are due hereunder. This pledge shall

constitute: (i) a first lien on any reimbursements from the United States Department of Agriculture – Rural Development under the USDA Obligation, including the Agency loans and Agency grant thereunder, for the payment of the Installment Payments; and (ii) a first lien on the Net Revenues other than reimbursements from the United States Department of Agriculture – Rural Development under the USDA Obligation for the payment of the Installment Payments and payments of all Parity Obligations, all in accordance with the terms hereof and thereof. No filing, registering, recording or publication of this Installment Purchase Contract is required to establish such pledges hereunder or to perfect, protect or maintain such liens created hereby on the Net Revenues.

All Installment Payments shall be transferred by the District from the Revenue Fund to the Debt Service Fund, which fund the District hereby agrees to establish and maintain so long as any Installment Payments are due hereunder, on or before the applicable Interest Payment Date. Such payments shall be held in trust by the District under the terms hereof.

Any reimbursements from the United States Department of Agriculture – Rural Development under the USDA Obligation received by the District shall be deposited in the Prepayment Account and applied to the optional prepayment of unpaid principal balance of the Installment Payments pursuant to subsection (b) and Article VI below.

Within the Debt Service Fund, the District shall establish a Debt Service Account and a Prepayment Account. Installment Payments made by the District shall be deposited in the Debt Service Account. Such payments shall be net of amounts already on deposit therein that are in excess of the amount required to accumulate therein pursuant to Section 3.01. The District shall transfer the money contained in the Debt Service Account and the Prepayment Account at the following respective times in the following respective accounts in the following order of priority in the manner hereinafter provided, each of which accounts the District hereby agrees to establish and maintain so long as any Installment Payments are due hereunder, and the money in each of such accounts shall be disbursed only for the purposes and uses hereinafter authorized:

(a) Debt Service Account. All moneys in the Debt Service Account shall be used and withdrawn by the District solely for the purpose of paying Installment Payments and principal of and interest on any Parity Obligations on each Interest Payment Date or mandatory redemption dates, as applicable, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference. The District shall be entitled to receive as a credit against Installment Payments an amount equal to the amount of any balance contained in (and in the amount scheduled to be applied from) the Capitalized Interest Fund as described in Section 2.06 and the Debt Service Account prior to the Interest Payment Date for such Installment Payments (excluding money designated or necessary for the payment of Parity Obligations).

(b) Prepayment Account. The District, on any optional prepayment date, shall deposit in the Prepayment Account moneys to accomplish any such optional prepayment. All money in the Prepayment Account shall be used and withdrawn by the District solely for the purpose of paying the Installment Payments to be optionally prepaid on their respective prepayment dates.

#### Section 3.05. Receipt and Deposit of Gross Revenues.

The District covenants and agrees that all Gross Revenues, when and as received, will be received and held by the District in trust hereunder and will be deposited by the District in the Revenue

Fund and will be accounted for through and held in trust in the Revenue Fund; provided that the District may withdraw such amounts in the Revenue Fund as may be necessary to make refunds for amounts paid in advance for services provided by the Enterprise, which such service was not thereafter made available or provided. All Net Revenues, whether held by the District as trustee or deposited with the Finance Officer, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes hereinafter in this Article III set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

Section 3.06. Establishment and Maintenance of Accounts for Gross Revenues; Use and Withdrawal of Gross Revenues.

The District covenants and agrees that all Gross Revenues, when and as received, will be received and held by the District in trust for the benefit of the Lender and payments with respect to Parity Obligations, and will be deposited by the District in the Revenue Fund (which the District hereby covenants and agrees to maintain so long as any Installment Payments are due hereunder) and will be accounted for and held in trust for the benefit of the Lender and for payments with respect to Parity Obligations. All Gross Revenues shall be disbursed, allocated and applied solely to the uses and purposes set forth in this Article III.

All Gross Revenues in the Revenue Fund shall be set aside by the District or deposited by the District with the purchasers, trustee or fiscal agent with respect to Parity Obligations, as the case may be, as follows and in the following order of priority:

(1) Maintenance and Operation Costs of the Enterprise. In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants to pay all Maintenance and Operation Costs of the Enterprise (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs of the Enterprise, the payment of which is not then immediately required) from the Revenue Fund as they become due and payable.

(2) Debt Service Funds. Installment Payments payable pursuant to Section 3.01 hereof and all other payments relating to principal and interest on or with respect to Parity Obligations, shall be paid in accordance with the terms hereof and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) Reserve Funds. Payments required to replenish debt service reserve funds, if any, established for Parity Obligations shall be made in accordance with the terms of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) General Expenditures. All Gross Revenues not required to be withdrawn pursuant to the provisions of (1) through (3) above shall be used for expenditure for any lawful purpose of the District, including payment of any rebate requirement or of any obligation subordinate to the payment of all amounts due hereunder or under Parity Obligations.

Although all Parity Obligations are secured equally and ratably by applicable Net Revenues, moneys with respect to obligations other than the Installment Payments may be held by trustees under documents and agreements other than this Installment Purchase Contract. The District shall make such

transfers from the Revenue Fund necessary to effectuate such obligations' parity claim on such Net Revenues contemplated hereby.

Section 3.07. [Reserved].

Section 3.08. Investment of Funds.

Amounts on deposit in any fund or account created pursuant to this Installment Purchase Contract shall be invested in Qualified Investments which will, as nearly as practicable, mature on or before the dates when such money is anticipated to be needed for disbursement hereunder. The Lender and any affiliates may act as sponsor, advisor, principal or agent in the acquisition or disposition of any such investment. Unless otherwise provided herein, interest or profit received on such investments shall be deposited to the Debt Service Fund. In computing the amount in any fund or account, Qualified Investments shall be valued at market value, exclusive of accrued interest.

If at any time after investment therein a Qualified Investment ceases to meet the criteria set forth in the definition of Qualified Investments and such obligation, aggregated with other non-conforming investments, exceeds five percent (5%) of invested funds, such Qualified Investment shall be sold or liquidated.

#### ARTICLE IV PARITY OBLIGATIONS

Section 4.01. Parity Obligations.

(a) So long as any Installment Payments are due hereunder: (i) the District shall not issue or incur any obligations payable from Gross Revenues other than Maintenance and Operation Costs; and (ii) the District shall not issue or incur any obligation payable from Net Revenues senior or superior to the Installment Payments. The District may at any time issue Parity Obligations payable from Net Revenues on a parity with the Installment Payments to provide financing for the Enterprise in such principal amount as shall be determined by the District. The District may issue or incur any such Parity Obligations subject to the following specific conditions which are hereby made conditions precedent to the issuance and delivery of such Parity Obligations:

(1) No Default or Event of Default shall have occurred and be continuing;

(2) The Net Revenues for the latest Fiscal Year, calculated in accordance with Generally Accepted Accounting Principles as shown by the books of the District, shall be at least equal to one hundred and twenty percent (120%) of the amount of Maximum Annual Debt Service (including the proposed Parity Obligations). For purposes of the foregoing test, principal payments due under this Installment Purchase Contract shall be omitted from the calculation of Debt Service; and

(3) The Lender has provided prior written consent to the issuance and delivery of such Parity Obligations, which consent shall not be unreasonably withheld or delayed.

The District may at any time execute contracts or issue bonds or other indebtedness payable from Net Revenues or the Revenue Fund payable on a subordinate basis to the payment of the Installment Payments.

(b) In order to maintain the parity relationship of the Installment Payments to all Parity Obligations permitted hereunder, the District covenants that all payments in the nature of principal and interest with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur monthly on the Interest Payment Dates and in each year as such payments are due with respect to the Installment Payments, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the Installment Payments and not prior thereto; provided that the District shall not make a payment on such Governmental Loan to the extent that it would have the effect of causing the District to fail to pay Installment Payments on a timely basis. In such event, the District shall make Installment Payments and payments on such Governmental Loan on a pro rata basis.

## ARTICLE V REPRESENTATIONS, COVENANTS AND WARRANTIES

### Section 5.01. Compliance with Installment Purchase Contract and USDA Obligation.

The District will not suffer or permit any material default by it to occur hereunder or under the USDA Obligation, but will faithfully comply with, keep, observe and perform all of the agreements, conditions, covenants and terms hereof and thereof which are required to be complied with, kept, observed and performed by it.

### Section 5.02. Observance of Laws and Regulations.

The District will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by it, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

### Section 5.03. Prosecution and Defense of Suits.

The District will promptly, upon request of the Lender, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Enterprise or any part thereof, whether now existing or hereafter developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Lender harmless from all cost, damage, expense or loss, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the Lender's in-house counsel to the extent permissible), which they or any of them may incur by reason of any such cloud, defect, action, suit or other proceeding.

Section 5.04. Accounting Records and Statements.

The District will keep proper accounting records in which complete and correct entries shall be made of all transactions made by the District relating to the receipt, deposit and disbursement of the Gross Revenues and Net Revenues, and such accounting records shall be available for inspection by the Lender or its agent duly authorized in writing on any Business Day upon reasonable notice at reasonable hours and under reasonable conditions prescribed by the District.

Section 5.05. Further Assurances.

Whenever and so often as requested to do so by the Lender, the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Lender all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by this Installment Purchase Contract.

Section 5.06. Against Encumbrances.

The District hereby represents that there is no pledge of or lien on Net Revenues senior to the pledge and lien securing the Installment Payments. The District will not make any pledge of or place any lien on the Net Revenues, provided that the District may at any time, or from time to time, pledge or encumber the Net Revenues in connection with the issuance or execution of Parity Obligations in accordance with Section 4.01 or other obligations permitted hereby, or subordinate to the pledge of Net Revenues herein.

Section 5.07. Against Sale or Other Disposition of Property.

The District will not sell, lease, encumber or otherwise dispose of the Enterprise or any part thereof in excess of one-half of one percent of the book value of the Enterprise in any Fiscal Year, unless a Finance Officer certifies that such sale, lease, encumbrance or disposition will not materially adversely affect the operation of the Enterprise or the Net Revenues; provided that any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has become worn out, may be sold or exchanged at not less than the fair market value thereof and the proceeds (if any) of such sale or exchange shall be deposited in the Revenue Fund.

The District will not enter into any agreement or lease which would impair the ability of the District to meet the covenant set forth in Section 5.16 hereof or which would otherwise impair the rights of the Lender or the operation of the Enterprise.

Section 5.08. Against Competitive Facilities.

Except for any utility system existing as of the date hereof, the District will not, to the extent permitted by law, acquire, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, authority, city or political subdivision or any person whomsoever to acquire, maintain or operate within the District any utility system competitive with the Enterprise; provided that the District may, with the prior written consent

of the Lender, assign all or a portion of the Enterprise to another entity upon delivery to the Lender of an opinion of nationally recognized bond counsel that such assignment will not adversely affect the tax-exempt status of the Installment Payments, and provided that such entity assumes the obligations of the District hereunder.

Section 5.09. Tax Covenants.

The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, the interest with respect to the Installment Payments to become includible in gross income for federal income tax purposes. To that end, the District hereby makes the following specific covenants:

(a) The District hereby covenants that it shall not make or permit any use of the proceeds of the Installment Payments that may cause the Installment Purchase Contract to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

(b) The District covenants that the proceeds of the Installment Purchase Contract will not be used so as to cause the proceeds of the Installment Purchase Contract to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

(c) The District covenants not to take any action or permit or suffer any action to be taken if the result of the same would be to cause the Installment Purchase Contract to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) The District covenants to not draw and cause an Advance hereunder if such draw and Advance will cause the Lender to have disbursed more than \$22,647,000 in total (disregarding any payment or prepayment hereunder) without prior delivery to the Lender of an approving opinion of nationally recognized bond counsel (and, if necessary, the filing of an additional IRS Form 8038-G, as may be determined by bond counsel).

In furtherance of the covenants stated in this Section, the District shall comply with the requirements of the Tax Compliance Certificate executed in connection with this Installment Purchase Contract.

Section 5.10. Maintenance and Operation of the Enterprise; Budgets.

The District will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner. The District will pay all Maintenance and Operation Costs of the Enterprise as they become due and payable.

Section 5.11. Payment of Claims.

The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof or on any funds in the control of the District prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Purchase Contract; provided that the District shall not be obligated to make such payment so long as the District contests such payment in good faith.

Section 5.12. Compliance with Contracts.

The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, expressed or implied, required to be performed by it contained in all contracts for the use of the Enterprise and all other contracts affecting or involving the Enterprise to the extent that the District is a party thereto.

Section 5.13. Insurance.

(a) The District will procure and maintain insurance on the Enterprise with commercial insurers or through participation in a joint powers insurance authority, in such amounts, with such deductibles and against such risks (including accident to or destruction of the Enterprise) as are usually insurable in accordance with industry standards with respect to similar enterprises and consistent with the District's current coverage.

In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the proceeds of such insurance shall be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Enterprise. The District shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible, and shall pay out of the proceeds of such insurance all costs and expenses in connection with such repair, reconstruction or replacement so that the same shall be completed and the Enterprise shall be free and clear of all liens and claims. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the excess shall be applied to the prepayment of Installment Payments as provided in Section 6.01.

Alternatively, if the proceeds of such insurance are sufficient to enable the District to retire all outstanding Parity Obligations and the Installment Payments and all other amounts due hereunder, the District may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Enterprise, and thereupon such proceeds shall be applied to the prepayment of Installment Payments as provided in Section 6.01 and to the payment of all other amounts due hereunder, and as otherwise required by the documents pursuant to which such Parity Obligations were issued.

(b) The District will procure and maintain commercial general liability insurance covering claims against the District for bodily injury or death, or damage to property, occasioned by reason of the ownership or operation of the Enterprise, such insurance to afford protection in such amounts and against such risks as are usually covered in connection with similar enterprises.

(c) The District will procure and maintain workers' compensation insurance against liability for compensation under the Workers' Compensation Insurance and Safety Act of California, or any act hereafter enacted as an amendment or supplement or in lieu thereof, such insurance to cover all persons employed in connection with the Enterprise.

(d) In lieu of obtaining insurance coverage as required by this Section, such coverage may be maintained by the District in the form of self-insurance so long as the District certifies that: (i) the District has segregated amounts in a special insurance reserve meeting the requirements of this Section; (ii) an Insurance Consultant certifies annually, on or before December 1 of each year in which self-insurance is maintained, in writing that the District's general insurance reserves are

actuarially sound and are adequate to provide the necessary coverage; and (iii) such reserves are held in a separate trust fund by an independent trustee. The District shall pay or cause to be paid when due the premiums for all insurance policies required hereby.

(e) Notwithstanding the foregoing provisions of this Section 5.13, the District also covenants to comply, or cause its contractors to comply, with the insurance and bonding requirements set forth in Section 30 of the Letter of Conditions.

Section 5.14. Books and Accounts; Financial Statements.

The District shall keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall be subject to the inspection by the Lender, or its representatives authorized in writing, upon not less than five (5) Business Days' prior notice to the District. The District shall provide the Lender with its unaudited annual financial statements prepared in accordance with Generally Accepted Accounting Principles within 180 days after the close of each Fiscal Year and the District shall provide the Lender its audited financial statements within fifteen (15) days of receipt each year. The District shall send to the Lender a copy of the annual budget of the Enterprise promptly after adoption by the District each year and any other financial information reasonably requested by the Lender.

Section 5.15. Payment of Taxes and Compliance with Governmental Regulations.

The District will pay and discharge all taxes, assessments and other governmental charges, if any, which may hereafter be lawfully imposed upon the Enterprise or any part thereof or upon the Net Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Enterprise or any part thereof, but the District shall not be required to make such payments, or to comply with any regulations or requirements, so long as the payment or validity or application thereof shall be contested in good faith.

Section 5.16. Amount of Rates and Charges.

(a) The District will, at all times while any of the Installment Payments remain outstanding, fix, prescribe and collect, at the commencement of each Fiscal Year, rates, fees and charges in connection with the Enterprise which are reasonably expected, at the commencement of such Fiscal Year, to yield Gross Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts in the order below set forth:

- (1) All Maintenance and Operation Costs of the Enterprise;
- (2) The Installment Payments and all payments (including payments of interest and under reimbursement agreements) with respect to related Parity Obligations issued or incurred after the date hereof as they become due and payable;
- (3) Amounts necessary to replenish Parity Obligation reserve funds to their required levels (or to reimburse any draws under any reserve surety or policy held for the account of

any such Parity Obligation reserve fund, and to pay any costs associated therewith, in accordance with the terms of such reserve surety or policy); and

(4) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon the Gross Revenues during such Fiscal Year.

(b) Furthermore, the District shall fix and prescribe, at the commencement of each Fiscal Year, rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are reasonably expected, at the commencement of each Fiscal Year, to yield estimated Net Revenues which are at least equal to one hundred and twenty percent (120%) of the aggregate amount of the Installment Payments, and principal of and interest on any Parity Obligations issued or incurred after the date hereof payable from Net Revenues coming due and payable during such Fiscal Year. The District may make adjustments, from time to time, in its rates, fees and charges as it deems necessary, but shall not reduce its rates, fees and charges below those in effect unless the Net Revenues resulting from such reduced rates, fees and charges shall at all times be sufficient to meet the requirements set forth in this paragraph. For purposes of the foregoing test, principal payments due under this Installment Purchase Contract shall be omitted from the calculation of Debt Service.

(c) If the District violates the covenants set forth in subsections (a) and (b) above, such violation shall not, in and of itself, be a default under this Installment Purchase Contract and shall not give rise to a declaration of an Event of Default if, within 120 days after the date such violation is discovered, the District hires an Independent Financial Consultant or an Independent Engineer to review the revenues and expenses of the Enterprise and abides by such consultant's recommendations to revise the schedule of rates, fees and charges, to revise any Maintenance and Operation Costs of the Enterprise insofar as practicable and to take such other actions as are necessary so as to produce Net Revenues to cure such violation for future compliance; provided, however, that if the District does not cure such violation within twelve (12) months succeeding the date such violation is discovered, an Event of Default shall be deemed to have occurred under Section 7.01(b).

#### Section 5.17. Collection of Rates and Charges.

The District will have in effect at all times rules and regulations requiring all users of the Enterprise to pay the assessments, rates, fees and charges applicable to the Enterprise provided or made available to such users. Such rules and regulations shall also provide for the billing thereof and for a due date and a delinquency date for each bill.

#### Section 5.18. Eminent Domain Proceeds.

If all or any part of the Enterprise shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If: (1) the District certifies: (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings; (ii) a general description of the additions, betterments, extensions or improvements to the Enterprise proposed to be acquired by the District from any Net Proceeds; and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements; and (2) on the basis of such certificate, determines that the estimated additional annual Net Revenues will

sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive); then the District shall promptly proceed with the acquisition of such additions, betterments, extensions or improvements substantially in accordance with such certification and such Net Proceeds shall be applied for the payment of the costs of such acquisition, and any balance of such Net Proceeds not required by the District for such purpose shall be applied to prepay the Installment Payments, and any Parity Obligations, on a pro rata basis in the manner provided herein and in the instruments authorizing such Parity Obligations.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied to prepay the Installment Payments, and any Parity Obligations, on a pro rata basis in the manner provided herein and in the instruments authorizing such Parity Obligations.

#### Section 5.19. Release and Indemnification Covenants.

To the extent permitted by law, the District shall and hereby agrees to indemnify and save the Lender, its officers, directors, agents, employees, successors or assigns harmless from and against all claims, losses and damages, including legal fees and expenses (to include outside counsel fees and all allocated costs of the Lender's in-house counsel to the extent permissible), arising out of: (a) the use, maintenance, condition or management of, or from any work or thing done on, the Enterprise or the Project by the District; (b) any breach or default on the part of the District in the performance of any of the District's obligations under the Installment Purchase Contract or the Conveyance Agreement; (c) any act of negligence of the District or of any of its contractors, servants, employees or licensees with respect to the Enterprise or the Project; (d) any act of negligence of any assignee or sublessee of the District, or of any agents, contractors, servants, employees or licensees of the assignee or sublessee of the District with respect to the Enterprise or the Project; (e) any environmental claims or issues; (f) the Acquisition of the Enterprise or the Project or authorization of payment of the costs of the Acquisition of the Enterprise or the Project, to the extent permitted by law; or (g) the preparation, negotiation, execution, delivery and administration of this Installment Purchase Contract and the other related documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated). Indemnification for any tort mentioned in this Section shall exclude those arising from the willful misconduct or gross negligence hereunder or under the Conveyance Agreement by the Lender, its officers and employees.

To the extent permitted by law, the District further covenants and agrees to indemnify and save the Lender harmless against any claim, loss, expense, advance and liabilities which it may incur arising out of or in the exercise and performance of their powers and duties hereunder and under the Conveyance Agreement, including the costs and expenses (including attorneys' fees and disbursements (to include outside counsel fees and all allocated costs of the Lender's in-house counsel to the extent permissible)) of defending against any claim of liability or enforcing any remedies, and which are not due to their gross negligence or willful misconduct. The District further covenants and agrees to advance to the Lender the amounts requested as the costs and expenses of such defense. Any and all special obligations of the District under this Section shall be and remain valid and binding special obligations of the District notwithstanding the payment in full of the Installment Payments and the termination of this Installment Purchase Contract.

Section 5.20. Further Representations, Covenants and Warranties of the District.

The District represents, covenants and warrants to the Lender as follows:

(a) The District is a duly organized and validly existing community services district established and existing under California Government Code Section 61000 *et seq.*

(b) The Constitution and the laws of the State of California authorize the District to enter into the Installment Purchase Contract and the Conveyance Agreement and to enter into the transactions contemplated thereby and to carry out its obligations under each of the aforesaid agreements, and the District has duly authorized and executed each of the aforesaid agreements in accordance with the laws of the State of California.

(c) Neither the execution and delivery of the Installment Purchase Contract or the Conveyance Agreement nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the District is now a party or by which the District is bound, or constitutes a default under either of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the District.

(d) The District has duly authorized and executed this Installment Purchase Contract and the Conveyance Agreement in accordance with the laws of the State of California.

(e) Subject to the applicable provisions of the California Constitution, the District is empowered to set rates and charges for services provided by the Enterprise provided to the users of the Enterprise without review or approval by any state or local governmental agency.

(f) This Installment Purchase Contract and the pledge of Net Revenues is a first lien and pledge on Net Revenues on a parity with the Parity Obligations.

(g) The District acknowledges that: (i) the Lender is acting solely for its own loan account and not as a fiduciary for the District or in the capacity of broker, dealer, placement agent, municipal securities underwriter or municipal advisor; (ii) the Lender has not provided, and will not provide, financial, legal (including securities law), tax, accounting or other advice to or on behalf of the District or with respect to this Installment Purchase Contract and the financing related thereto; and (iii) the Lender has expressed no view regarding the legal sufficiency of its representations for purposes of compliance with any legal requirements applicable to any other party, or the correctness of any legal interpretation made by counsel to any other party with respect to any such matters.

(h) The financial information concerning the District heretofore delivered to the Lender is complete and correct and fairly presents the financial condition of the District for the period(s) referred to and has been prepared in accordance with Generally Accepted Accounting Principles applied on a consistent basis throughout the period(s) involved. There are no liabilities (of the type required to be reflected on balance sheets prepared in accordance with Generally Accepted Accounting Principles, direct or indirect, fixed or contingent, of the District as of the date of such financial information which are not reflected therein. There has been no material adverse change in the financial condition or operations of the District since the date of such information (and to the

District's knowledge no such material adverse change is pending or threatened), and the District has not guaranteed the obligations of, or made any investment in or loans to, any person except as disclosed in such information. The District has good and marketable title to all of its properties and assets related to the Project, and all of such properties and assets are free and clear of encumbrances, except as reflected in such financial information. To the best of the District's knowledge, no document furnished nor any representation, warranty or other written statement made to the Lender in connection with the negotiation, preparation or execution of this Installment Purchase Contract contains any untrue or misleading statement of a material fact.

(i) The District has never non-appropriated or defaulted under any of its payment or performance obligations or covenants, either under any financing contract of the same general nature as this Installment Purchase Contract, or under any of its bonds, notes, or other debt obligations.

(j) The District is in full compliance with all Laws and Regulations, including Environmental Regulations, and the District shall remain in compliance with such Laws and Regulations, including Environmental Regulations.

(k) The District shall further provide to the Lender: (i) within three (3) Business Days after the District obtains knowledge thereof, notice by telephone, promptly confirmed in writing, of any event that constitutes an Event of Default under this Installment Purchase Contract, together with a statement by an Authorized Officer of the District of the steps being taken by the District to cure such Event of Default; (ii) within ten (10) days after the District obtains knowledge thereof, written notice of any Material Adverse Effect; and (iii) within ten (10) days after receipt of request therefor by the Lender, updates, if any, of the information described in Section 5.14 of this Installment Purchase Contract; and (iv) within ten (10) days after receipt of request therefor by the Lender, such additional information as the Lender may reasonably request.

(l) The District reasonably believes that sufficient funds can be obtained to make all Installment Payments and all other amounts required to be paid pursuant to this Installment Purchase Contract.

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

material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were or will be made, not misleading.

(n) The District does not enjoy any rights of immunity on the grounds of sovereign immunity in respect of its obligations under the Installment Purchase Contract or otherwise with respect to the Installment Payments. To the extent that the District has or hereafter may acquire under any applicable law any rights to immunity from legal proceedings on the grounds of sovereignty, the District hereby waives, to the extent permitted by law, such rights to immunity for itself in respect of its obligations arising under or related to the Installment Purchase Contract or otherwise with respect to the Installment Payments.

(o) Since the most current date of the information, financial or otherwise, supplied by the District to the Lender: (i) there has been no change in the assets, liabilities, financial position or results of operations of the District which might reasonably be anticipated to cause a Material Adverse Effect; (ii) the District has not incurred any obligations or liabilities which might reasonably be anticipated to cause a Material Adverse Effect; and (iii) the District has not: (1) incurred any material indebtedness, other than the payments and trade accounts payable arising in the ordinary course of the District's business and not past due; or (2) guaranteed the indebtedness of any other person.

(p) The District covenants to provide copies to the Lender of all material correspondence and reporting related to the USDA Obligation, including without limitation, the information required under Sections 43, 45 and 46 of the Letter of Conditions.

Section 5.21. Representations, Covenants and Warranties of the Lender.

The Lender represents, covenants and warrants to the District as follows:

(a) The Lender is a state-chartered bank under the laws of the State of Washington, has the power to enter into the Installment Purchase Contract and the Conveyance Agreement and to sell the Project and has duly authorized the execution and delivery of the aforesaid agreements.

(b) The Lender will not assign the Installment Purchase Contract or its right to receive Installment Payments from the District, or its duties and obligations under the Installment Purchase Contract to any other person, firm or corporation, except to affiliates of the Lender or to banks, insurance companies or other financial institutions or their affiliates, including participation arrangements with such entities; provided that no such assignment shall be made that would cause there to be more than 15 such assignees or any interest in the Installment Payments of less than \$100,000. Prior to any such assignment, the Lender shall provide written notice of such assignment to the District and the District shall retain all such notices as a register of all assignees and shall make all payments to the assignee or assignees or servicer last designated in such register.

ARTICLE VI  
PREPAYMENT OF INSTALLMENT PAYMENTS

Section 6.01. Prepayment.

(a) The District may or shall, as the case may be, prepay on any Interest Payment Date from the Net Proceeds of insurance or condemnation awards, as provided herein, all or any part,

in integral multiples of \$1,000, of the principal amount of the unpaid Installment Payments, pro-rata among the remaining Installment Payments, at a prepayment price equal to the sum of the principal amount prepaid, plus accrued interest to the date of prepayment, without premium.

(b) The District may prepay the unpaid principal balance of the Installment Payments in whole or in part, on any date after the Closing Date, by paying a prepayment price equal to the principal amount of the Installment Payments to be prepaid, without premium.

Except in connection with a security deposit as set forth in Section 6.03 hereof, the District shall be required to give the Lender written notice of its intention to prepay any Installment Payment under subsections (a) and (b) above at least fifteen calendar days prior to the proposed prepayment date.

In the event that the Installment Payments shall have been prepaid by the District pursuant to subsections (a) or (b) above, the total amount of all future payments set forth in the schedules attached hereto as Exhibit A shall be reduced by the aggregate amount of such Installment Payment so prepaid, as agreed to by the Lender. The Lender shall provide a draw down and prepayment schedule updated to show the date and amount of the prepayment to be attached as Exhibit A hereto, which updated schedule shall be deemed to be an amendment to this Installment Purchase Contract.

Notwithstanding any such prepayment, the District shall not be relieved of its obligations hereunder, including its obligations under Article III hereof, until the entire principal amount of the unpaid Installment Payments together with the interest accrued thereon, if any, and together with the ordinary and extraordinary fees, costs and expenses of the Lender, shall have been fully paid and the Installment Payments are no longer due hereunder (or provision for payment thereof shall have been made pursuant to Section 6.03 hereof).

#### Section 6.02. Method of Prepayment.

Before making any prepayment pursuant to Section 6.01(a), the District shall give written notice to the Lender describing such event and specifying the date on which the prepayment will be made, which date shall be not less than fifteen (15) days from the date such notice is given.

#### Section 6.03. Security Deposit.

Notwithstanding any other provision of this Installment Purchase Contract, the District may secure the payment of all or a portion of Installment Payments by a deposit with the Lender or, at the Lender's sole option, a bank or trust company acceptable to the Lender, as escrow holder under an escrow deposit and trust agreement, of either: (a) cash in an amount which is sufficient to pay such unpaid Installment Payments, including the principal and interest components thereof, in accordance with this Installment Purchase Agreement, either on the Commitment Termination Date or a date of prepayment in whole of the outstanding Advances; or (b) non-callable Federal Securities or pre-refunded non-callable municipal obligations rated "AAA" and "Aaa" by S&P Global Ratings and Moody's Investor's Service, respectively, together with cash if required, in such amount as will, without re-investment, in the opinion of an Independent Certified Public Accountant (which opinion shall be addressed to the Lender), together with interest to accrue thereon, be fully sufficient to pay such unpaid Installment Payments on their payment dates so that such Installment Payments shall be defeased; provided that prior to any such deposit or defeasance, the District must provide an opinion

of nationally recognized bond counsel addressed to the Lender to the effect that such deposit and defeasance will not cause the interest component of the Installment Payments to be included in gross income for federal income tax purposes. In the event of any shortfall, the District shall deposit from legally available funds such amounts as is necessary to make up such shortfall.

In the event of a deposit pursuant to this Section 6.03, and provided that all other amounts payable by the District hereunder have been paid in full, all obligations of the District under this Installment Purchase Contract shall cease and terminate, excepting only the obligation of the District to make, or cause to be made, all Installment Payments from the deposit made by District pursuant to this Section 6.03 and the obligation to pay amounts due the Lender. Said deposit shall be deemed to be and shall constitute a special fund that may be used solely for the payment of Installment Payments in accordance with the provisions of this Installment Purchase Contract, and pending such application shall be held in trust and pledged to and for the sole benefit of the Lender and any assignee or transferee of the Lender. The District hereby grants to the Lender a first priority security interest in any amounts so deposited.

## ARTICLE VII EVENTS OF DEFAULT AND REMEDIES

Section 7.01. Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities.

If one or more of the following Events of Default shall happen:

(a) default shall be made in the due (whether at maturity, by reason of acceleration or otherwise) and punctual payment by the District of any Installment Payment or any other amount payable hereunder or under the Conveyance Agreement when and as the same shall become due (whether at maturity, by reason of acceleration or otherwise) and payable; or

(b) default shall be made by the District in the performance of any of the agreements or covenants contained herein (other than those referenced in Section 7.01(a) hereof) required to be performed by it, and such default shall have continued for a period of thirty (30) days after the earlier of: (i) the District's knowledge of such default; and (ii) receipt by the District of written notice from the Lender of such default; or

(c) any financial statement or certificate furnished to the Lender in connection with this Installment Purchase Contract, or any representation or warranty made by the District shall prove to be incorrect, false or misleading in any material respect when furnished or made; or

(d) the District shall file a petition seeking arrangement or reorganization under federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or a court of competent jurisdiction shall approve a petition filed with the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property, or the District shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition, or the District shall be adjudicated a bankrupt, or an order for relief shall be entered against the District by

any court of competent jurisdiction under the United States Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors; or

(d) the entry or filing of any final, nonappealable judgment or any similar process in an amount in excess of \$1,000,000 against the District or against any of its property and failure by the District to stay the enforcement of such judgment or other process for a period of 60 days or failure to pay or satisfy the same within 60 days; or

(e) the District shall in writing claim, or repudiate its obligations under, or initiate any legal proceedings to seek an adjudication that, any of the provisions that provide for the payment of the Installment Payments is not valid or binding on the District, or any court of competent jurisdiction or other governmental authority with jurisdiction to rule on the validity of this Installment Purchase Contract shall find or rule that any of the provisions that provide for the payment of Installment Payments is not valid or binding on the District, or any provision of this Installment Purchase Contract shall cease to be valid and binding or shall be declared null and void; or the District or any governmental authority shall contest any such provision, or the District or any agent or trustee on behalf of the District shall deny that it has any further liability under any provision of this Installment Purchase Contract, or the District shall: (A) claim that this Installment Purchase Contract is not valid or binding on it; (B) repudiate its obligations under this Installment Purchase Contract; and/or (C) initiate any legal proceedings to seek an adjudication that this Installment Purchase Contract or the District's obligation to repay any Parity Obligation is not valid or binding on it; or

(f) the adoption of any resolution of the District to authorize any action or event that would constitute an Event of Default; or

(g) an event of default shall have occurred with respect to any Parity Obligations;  
or

(h) a material breach or default by the District under the terms of the USDA Obligation, or the District's failure to comply with the terms of the USDA Obligation;

then and in each and every such case during the continuance of such Event of Default, the Lender may invoke the Default Rate and may, by notice in writing to the District declare the principal amount of the unpaid Installment Payments, and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding.

This provision, however, is subject to the condition that, if at any time after such principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the District shall deposit with the Lender a sum sufficient to pay such unpaid principal amount of the Installment Payments due prior to such date and the accrued interest thereon, with any interest due on such overdue installments, and the reasonable expenses of the Lender, and any and all other defaults known to the Lender (other than in the payment of such principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Lender or provision deemed by the Lender to be adequate shall have been made therefor, then and in every such case the Lender, by written notice to the District, may (but shall be under no obligation

to) rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 7.02. Application of Funds Upon Default.

All moneys and investments in the funds and accounts held hereunder upon the date of the declaration of an Event of Default as provided in Section 7.01 and all Gross Revenues thereafter received shall be applied as follows:

(a) Unless the principal of all Installment Payments shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of the interest portion of all Installment Payments, with interest on overdue installments, if lawful, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons entitled thereto without any discrimination or privilege; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any of the Installment Payments which shall have become due, with interest at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Installment Payments due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons entitled thereto without any discrimination or privilege.

(b) If all of the Installment Payments shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the Installment Payments, with interest on overdue interest and principal, as aforesaid, without preference or priority over interest or of interest over principal or of any installment of interest over any other installment of interest, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Section 7.03. Other Remedies of the Lender.

The Lender may:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the District and compel the District to perform and carry out its duties under applicable law and the agreements and covenants contained herein required to be performed by it;

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Lender;

(c) by suit in equity upon the happening of an Event of Default require the District and its board members, officers and employees to account as the trustee of an express trust; or

(d) by suit in equity, to seek the appointment of a receiver or other third party to operate the Enterprise and collect the Gross Revenues.

Section 7.04. Non-Waiver.

Nothing in this Article VII or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Lender at the respective due dates or upon prepayment from the Gross Revenues, or, except as expressly provided herein, shall affect or impair the right of the Lender, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Lender shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Lender to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Lender by applicable law or by this Article VII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Lender.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Lender, the District and the Lender shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Section 7.05. Remedies Not Exclusive.

No remedy herein conferred upon or reserved to the Lender is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

ARTICLE VIII  
MISCELLANEOUS

Section 8.01. Liability of District Limited.

Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than the Net Revenues legally available therefor in the Revenue Fund and the other funds provided herein for the payment of the Installment Payments or for the performance of any agreements or covenants contained herein required to be performed by it. The District may, however, but shall not be required to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Installment Payments and the other amounts due hereunder is a special obligation of the District payable solely from Net Revenues and does not constitute a debt or pledge of the faith and credit of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Section 8.02. Benefits of Installment Purchase Contract Limited to Parties.

Except as provided in Section 8.03, nothing contained herein, express or implied, is intended to give to any person other than the District or the Lender any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the District or the Lender shall be for the sole and exclusive benefit of the other party.

Section 8.03. Successor Deemed Included in All References to Predecessor.

Whenever the District or the Lender is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Lender, and all agreements and covenants required hereby to be performed by or on behalf of the District or the Lender shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 8.04. Waiver of Personal Liability.

No board member, officer, employee or agent of the District shall be individually or personally liable for the payment of the Installment Payments, but nothing contained herein shall relieve any board member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 8.05. Article and Section Headings, Gender and References.

The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith," "hereunder" and other words of similar import refer to this Installment Purchase Contract as a whole and not to any particular article, section, subdivision or clause hereof.

Section 8.06. Partial Invalidity.

If any one or more of the agreements or covenants or portions thereof contained herein required to be performed by or on the part of the District or the Lender shall be contrary to the law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The District and the Lender hereby declare that they would have executed this Installment Purchase Contract, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 8.07. Assignment.

This Installment Purchase Contract and any rights hereunder, and any participation of the Installment Payments by the Lender, may be assigned by the Lender with notice to the District, subject

to the provisions of Section 5.21(b) hereof. The District may not assign any of its rights hereunder, except as otherwise provided in Section 5.08 hereof.

Section 8.08. California Law.

This Installment Purchase Contract shall be construed and governed in accordance with the laws of the State of California.

Section 8.09. Notices.

All written notices to be given hereunder shall be given by certified mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time namely:

If to the District: Heritage Ranch Community Services District  
4870 Heritage Road  
Paso Robles, CA 93446  
Attention: General Manager

If to the Lender: Banner Bank  
802 West Riverside Avenue  
Spokane, WA 99201  
Attention: Maik Asgaard

Section 8.10 Judicial Reference.

TO THE EXTENT PERMITTED BY APPLICABLE LAWS, EACH OF THE PARTIES HERETO HEREBY WAIVES ITS RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS INSTALLMENT PURCHASE CONTRACT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. IF AND TO THE EXTENT THAT THE FOREGOING WAIVER OF THE RIGHT TO A JURY TRIAL IS UNENFORCEABLE FOR ANY REASON IN SUCH FORUM, EACH OF THE PARTIES HERETO HEREBY CONSENTS TO THE ADJUDICATION OF ALL CLAIMS PURSUANT TO JUDICIAL REFERENCE AS PROVIDED IN CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638, AND THE JUDICIAL REFEREE SHALL BE EMPOWERED TO HEAR AND DETERMINE ALL ISSUES IN SUCH REFERENCE, WHETHER FACT OR LAW. EACH OF THE PARTIES HERETO REPRESENTS THAT EACH HAS REVIEWED THIS WAIVER AND CONSENT AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS AND CONSENTS TO JUDICIAL REFERENCE FOLLOWING CONSULTATION WITH LEGAL COUNSEL ON SUCH MATTERS. IN THE EVENT OF LITIGATION, A COPY OF THIS INSTALLMENT PURCHASE CONTRACT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT OR TO JUDICIAL REFERENCE UNDER CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638 AS PROVIDED HEREIN.

Section 8.11. Effective Date.

This Installment Purchase Contract shall become effective upon its execution and delivery, and shall terminate when all Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made to the written satisfaction of the Lender pursuant to Article VI hereof); provided, that the obligation of the District to indemnify the Lender shall survive the termination of this Installment Purchase Contract.

Section 8.12. Execution in Counterparts.

This Installment Purchase Contract may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 8.13. Amendments.

The District may at any time amend or modify the definition of Project as set forth in this Installment Purchase Contract to provide for the designation of an Alternate Project as provided for in Section 2.01 hereof with the consent of the Lender, which shall not be unreasonably withheld. This Installment Purchase Contract may be amended in writing as may be mutually agreed by the District and the Lender. Any amendment made in violation of this Section 8.13 shall be a nullity and void.

[Signatures on the following page]

IN WITNESS WHEREOF, the parties hereto have executed and attested the Installment Purchase Contract by their officers thereunto duly authorized as of the day and year first written above.

**HERITAGE RANCH COMMUNITY  
SERVICES DISTRICT**

By: \_\_\_\_\_  
Scott B. Duffield, P.E.  
General Manager

ATTEST:

By: \_\_\_\_\_  
Kristen Gelos, Board Secretary

**BANNER BANK**

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

**EXHIBIT A**

**ADVANCE AND PREPAYMENT SCHEDULE<sup>(1)</sup>**

Draw Down Date: January 28, 2026

Advance Amount: \$[ADVANCE AMOUNT]

Prepayment Date: \_\_\_\_\_

Prepayment Amount: (\$ \_\_\_\_\_)

<i>Date</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
8/1/2026	\$ -	\$ -	\$ -
2/1/2027	-	-	-
8/1/2027	-	-	-
2/1/2028	-	-	-
8/1/2028	-	-	-
2/1/2029	[ADVANCE AMOUNT]		
<b>TOTALS</b>	<b>\$[ADVANCE AMOUNT]</b>	<b>\$</b>	<b>\$</b>

<sup>(1)</sup> Reflects initial Advance. To be updated with subsequent Advances and prepayments. All Advances are due on the Commitment Termination Date, including all interest accruing to such Commitment Termination Date.

## **EXHIBIT B**

### **DESCRIPTION OF THE PROJECT**

Construction of a new [0.3] million gallon per day Water Resource Recovery Facility to treat wastewater collected by the District's wastewater collection system to current State-required standards, including the following components:

- Membrane Bioreactor
- Influent Pump Station
- Equalization Basin
- Piping
- Electrical Work
- Headworks
- Sludge Dewatering System
- Chemical Facility
- Effluent Pump Station
- Chemical Facility
- Operations Building
- Site Work
- Demolition
- Administration, Engineering and Construction Management

## EXHIBIT C

### FORM OF ADVANCE AND ACQUISITION FUND REQUISITION

#### REQUISITION NO. \_\_\_\_\_ FOR ADVANCE AND DISBURSEMENT FROM ACQUISITION FUND

The undersigned hereby states and certifies:

(i) that he/she is the duly appointed, qualified and acting General Manager of the Heritage Ranch Community Services District, a community services district that is duly organized and existing under and by virtue of the Constitution and laws of the State of California (the “District”), and as such, is familiar with the facts herein certified and is authorized to certify the same;

(ii) that, pursuant to Article II and Section 3.01 of the Installment Purchase Contract, dated as of January 1, 2026 (the “IPC”), by and among the District and Banner Bank, the undersigned hereby requests Banner Bank to fund this Advance to the Acquisition Fund and disburse, within five Business Days of the date hereof, from the Acquisition Fund established under the IPC, to the payees designated on the attached Exhibit 1, the amount(s) designated on the attached Exhibit 1;

(iii) that each obligation mentioned herein has been incurred by the District and is a proper charge against the Acquisition Fund and is reimbursable from financing under the USDA Obligation and that the United States Department of Agriculture – Rural Development has approved the payment to the payees designated on the attached Exhibit 1 in the amount(s) designated on the attached Exhibit 1;

(iv) that an Independent Engineer has certified the following: (a) with respect to the Project and the Project component funded by this Advance, inspection and compliance with agreed scope of work, Project standards and Project progress in line with the Project schedule; and (b) that the Project component has been budgeted for by the District (which certification is included herewith);

(v) that there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the payees named on the attached Exhibit 1, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen’s or mechanics’ liens accruing by mere operation of law;

(vi) that included herewith are copies of draw request(s) under the USDA Obligation and evidence of the approval of such draw request(s) by the United States Department of Agriculture – Rural Development;

(vii) that all representations and warranties of the District set forth in the IPC are true and correct as though made as of the date of this Advance, no Default or Event of Default shall have occurred and be continuing as of the date of this Advance, and no event or change shall be in effect or shall have occurred as of the date of this Advance that could reasonably be expected to have a

(viii) that amounts outstanding under the IPC, excluding funded issuance costs, after this Advance do not exceed the remaining amounts available for disbursement under the USDA Obligation at the time of this Advance or otherwise exceed the Available Commitment.

All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the IPC.

Dated: \_\_\_\_\_

HERITAGE RANCH COMMUNITY SERVICES  
DISTRICT

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**Acceptance and Acknowledgement:**

UNITED STATES DEPARTMENT OF  
AGRICULTURE – RURAL DEVELOPMENT

Date: \_\_\_\_\_

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

**EXHIBIT 1**

**ACQUISITION FUND DISBURSEMENTS**

<i>Item Number</i>	<i>Payee Name and Address</i>	<i>Purpose of Obligation</i>	<i>Amount \$</i>
_____			_____
_____			_____
_____			_____
_____			_____
_____			_____

---

**CONVEYANCE AGREEMENT**  
**between the**  
**HERITAGE RANCH COMMUNITY SERVICES DISTRICT**  
**and**  
**BANNER BANK**  
**Dated as of January 1, 2026**

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## CONVEYANCE AGREEMENT

THIS CONVEYANCE AGREEMENT, dated as of January 1, 2026 (as amended and supplemented hereafter, the “Conveyance Agreement”), between HERITAGE RANCH COMMUNITY SERVICES DISTRICT, a Community Services District that is duly organized and validly existing under the laws of the State of California (the “District”), and BANNER BANK (including its successors and permitted assigns hereunder, the “Lender”);

### RECITALS:

WHEREAS, the District and the Lender desire to provide funds to finance the Project (as defined in the herein-defined Installment Purchase Contract), to be repaid by installment purchase payments to be made by the District, as purchaser of the Project, to the Lender, as seller, pursuant to that certain installment purchase contract dated as of January 1, 2026 (the “Installment Purchase Contract”).

NOW, THEREFORE, in consideration of receipt of the amount of up to \$22,647,000 by the District as the purchase price of the Project and of the foregoing and the mutual covenants and conditions contained herein, the parties hereto agree as follows:

Section 1. The District hereby sells, conveys and transfers to the Lender all of its right, title and interest in and to the Project, as well as any Alternate Project, if applicable under the Installment Purchase Contract, but only to the extent that the components of the Project and any Alternate Project may be legally transferred by the District, and the Lender hereby purchases, acquires and accepts from the District, the Project and any Alternate Project, subject to the obligation of the Lender to resell the Project and any Alternate Project to the District pursuant to the Installment Purchase Contract.

Section 2. The District hereby agrees to cooperate and provide further assurances to the Lender in order to accomplish the purposes of this Conveyance Agreement. The District hereby agrees to indemnify and hold the Lender harmless against any and all claims, losses, costs or damages as a result of the District’s conveyance and acquisition of the Project and any Alternate Project to the Lender as provided herein, or the acquisition of the Project and any Alternate Project pursuant to the Installment Purchase Contract.

(Signatures on the following page)

IN WITNESS WHEREOF, the parties hereto have executed this Conveyance Agreement by their officers as of the date first above written.

**HERITAGE RANCH COMMUNITY  
SERVICES DISTRICT**

By: \_\_\_\_\_  
Scott B. Duffield P.E.  
General Manager

**BANNER BANK, as Lender**

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

# HERITAGE RANCH COMMUNITY SERVICES DISTRICT

## Manager Report For the Month of January 2026

### State of the District

For 2025 there were significant projects, initiatives, and other things that were both challenging and successful. Here is a summary, as well as a brief look ahead for 2026.

- Board of Directors – Thank you to the Board for volunteering time to lead the District, and to Director Michael Camou for performing the duties of Board President for 2025, great job everyone. The Board has shown significant growth in understanding the District's work and processes, and the governmental processes in general that we must follow as a public agency. The Board also hired a new District General Counsel in 2025.

Some Board of Directors metrics for 2025:

- Number of Board meetings = 13
- Number of Public Hearing Items = 6
- Number of Board Business Items = 25
- Number of Closed Session Items = 9
- Number of Resolutions = 14

For 2026 there are twelve regular Board meetings scheduled for the third Thursday of every month as shown on the Calendar of Activities approved by the Board at the December 2025 meeting.

There are three seats on the schedule for election this year: all 4-year term seats currently held by Directors Barker, Camou, and Yaffee. Although the election is not until November, candidates need to file candidacy forms sometime between July-August. The District typically provides with the election instructions and timeline which will be forwarded to the incumbent Directors.

- Water Operations – Staff worked exhaustively to fine tune the water treatment and distribution systems, specifically dialing in and adjusting chemical dosing, startup and integration of the Water System SCADA upgrades, and utilizing the granular activated carbon pilot study, Vertical Intake No. 1, and pressure reducing valves. All these efforts and more have provided a better consistency in water treatment, especially for disinfection byproducts. The disinfection byproducts have been within the acceptable regulatory requirements for all of 2025.

Some Water Operations metrics for 2025:

- Total raw water used = 157,542,000 gallons
- Total treated water made = 135,727,000 gallons
- Total service line repairs = 33
- Total main line repairs = 0

2026 will bring additional work to further improve quality and consistency by integrating Vertical Intake No. 2 and the full flow granular activated carbon projects. There are additional sampling and reporting requirements for PFAS this year.

- Wastewater Operations – Staff kept the existing wastewater treatment plant operating as efficient as possible while the new WRRF is in process. The only control we have with the current treatment plant is the adjustment of air to the lagoons. This is done by operating aerators on the lagoon surfaces which effects are dependent on many factors beyond our control such as sewer inflows, sewer concentration, temperature, weather, etc. When these factors change dramatically and/or quickly, or the aerators are not functioning, then there is potential for regulatory exceedances. Staff also repaired some sections of the side-slope liner of the lagoons that deteriorated and were torn in several places causing minor erosion of the lagoon side slopes.

Some Wastewater Operations metrics for 2025:

- Total influent collected = 79,192,000 gallons
- Total effluent disposed = 42,669,000 gallons
- Total service line repairs = 0
- Total main line repairs = 1

For 2026 staff will maintain the current treatment plant and will work to deliver the Lift Station 2-3 upgrades, as well as observe and consult on construction of the WRRF.

- Solid Waste Operations – The District is the solid waste authority at Heritage Ranch and has a Franchise Agreement with San Miguel Garbage Company to provide solid waste operations services within the District. District staff support solid waste operations by providing customer service and coordination, managing solid waste rates, managing the Franchise Agreement, enforcement of codes, and regulatory compliance to name a few. In addition, the District is a member of the Integrated Waste Management Authority (IWMA) and staff participate in their meetings and its associated Local Task Force Committee.

Some Solid Waste Operations metrics for 2025:

- Trash tonnage = 1018.46
- Comingle Recycle tonnage = 507.16
- Green Waste tonnage = 484.38
- Commercial Recycle = 305.13

For 2026 the IWMA is creating a technical support group subcommittee intended for a more focused technical discussion than the Local Task Force, diving deeper into topics like upcoming regulations and waste facility capacity planning.

- Administration – The administration of the District encompasses the water, wastewater, and solid waste departments. There are numerous daily, weekly, monthly, quarterly, and annual tasks and deliverables required to successfully run a District, including assistance with water, wastewater, and solid waste activities. These areas include but are not limited to typical office procedures and customer service, policy management, utility billing, Board administration and communication, payables, receivables, payroll,

human resources, information technology support, budget process, legal, and regulatory. The majority of this work is currently performed by the Administrative Manager, and the General Manager at some level.

Some Administration metrics for 2025:

- Total telephone calls received = 18,979
- Total service orders = 302
- Total USA requests = 85
- Total utility bills processed via autopay = 9,168
- Total utility bills processed via online = 4,238
- Total utility bills processed manually = 7,783 (Checks only)

For 2026 we have changed our information technology service provider to better manage and coordinate all our needs including the SCADA systems, security, managed users, and infrastructure. Staff anticipate working with them to obtain grants to increase our cyber security, which may include upgrading several workstations and other hardware.

- Capital Improvement Program – The current Capital Improvement Program (CIP) is for five years, 2022 – 2027. The 2022 CIP includes eight water projects estimated at \$1,925,000. Of that, two have been completed and approximately \$607,000 has been spent. The 2022 CIP includes five sewer projects estimated at \$22,345,000. Of that, one has been completed and approximately \$2,249,000 has been spent.

The CIP will be updated for 2028 – 2033.

- Fiscal Management

- Budget – The District is required, pursuant to various Government Code Sections, to designate a custodian for its money. We accomplish this by developing and adopting a budget that outlines anticipated revenue and expense for the year. The annual budget is basically a fiscal plan for the year. The budget year operates on a fiscal year basis, from July 1 to June 30. Each annual budget process starts around March and may involve a draft from the District Manager to the District Finance Committee who, after due diligence, reports to the full Board. This may be repeated several times until the Board considers a final draft usually in July.
- Water rates – The current water rate study was adopted establishing rates for 2023 – 2027. The water rate increases associated with that study occur on January 1 each year, through January 1, 2027.
- Sewer rates – The current sewer rate study was adopted establishing rates for 2025 – 2029. The sewer rate increases associated with that study occur on July 1 each year, through July 1, 2029.
- Solid Waste rates – The current solid waste rate study was adopted establishing rates for July 1, 2025 forward until to a date to be determined at which time a new rate study will be needed. In 2025, your Board approved reducing the District's Franchise Fee temporarily to 5%. In 2026, or at the time of the next rate study, the Board may want to consider adjustment of the District Franchise Fee percentage.

- Standby Charges – These charges are a parcel-based source of revenue used to defray the cost of providing certain benefits to the parcel. In the District’s case, the benefits are the water treatment plant and system, and the wastewater treatment plant and system. Both facilities were built and are maintained to serve a certain number of approved parcels at Heritage Ranch. Since we do not have build-out of those currently approved parcels, every (current) parcel regardless of a dwelling unit must pay for the facility to “standby”. The current standby charge for parcels with water and sewer service is \$119 annually, and those with only water service is \$98 annually.
- Capacity Charges – The District levies water and sewer system capacity charges on new or expanded connections to the District’s water and sewer systems. These charges are one-time charges levied as a condition of expansion or development and are designed to recover the proportional cost for infrastructure and assets benefiting new development. Capacity charges were last reviewed and adopted in 2018. The Board may want to update them soon, perhaps this year or prior to the next Capital Improvement Program update.
- Debt – The District currently has the debt in the following table. It should be noted that the Standby Charges described above pay the debt service on the two WTP loans and that the Board may want to investigate transferring the standby charges to pay on the new debt for the WRRF once the WTP loans are paid off.

FYE	1994 WTP Loan	2015 WTP Loan	2020 PVS Loan	TOTAL DEBT
2025	\$386,412	\$560,060	\$1,295,000	\$2,241,472

- Development – Development is slow with only the storage facility project of CJ Rudolph active. There are two subdivision projects that have been in the County planning process for years and the applicant requests renewed conditional will serve letters annually. There seems to be no rush by the applicant to build them anytime soon.
- Human Resources – At the end of 2025 there were ten budgeted positions with eight filled. One of the vacancies occurred in 2025 and the other at the end of 2024. Also in 2025, the Board approved reallocating budget associated with one of the vacant positions (Treatment Operator III) to a new administrative assistant position and promoting the other Treatment Operator III to Operations Manager – Wastewater. During 2025 these operations staff received the listed State certifications:
  - Roy Arnold – Wastewater Treatment Operator Grade III
  - Jason Gularte – Water Distribution Operator Grade D1
  - Jared Marty – Water Distribution Operator Grade D2

For 2026 it is anticipated we will fill the vacant Treatment Operator position and the new Administrative Assistant position. The Memorandum of Understanding between the District and the Employee Association (MOU) is due for negotiations in 2026 expiring on June 30. It is anticipated that meetings with the Personnel Committee and the Employee Association will need to take place over the first half of the year. The MOU will need to be approved by the Board.

- Community – Staff is very involved in community and civic institutions and participate in or attend numerous meetings, events, and functions associated with them.
  - California Special District Association (CSDA) – Staff and Directors were and continue to be involved in CSDA. The Administrative Manager is the Treasurer, and the General Manager is the Vice President of the SLO County Chapter of CSDA which typically has four member meetings annually. The General Manager is continuing with another term (2026-2028) as a Director on the State CSDA and is currently the chairperson of their Professional Development Committee, a member of their Member Services Committee, and a member of the Alliance Executive Council, which is the collaborative body with representatives from CSDA, CSDA Finance Corporation, and the Special District Risk Management Authority. HRCSD Directors and staff have attended several SLO CSDA Chapter meetings in 2025 and will need to maintain their required trainings for 2026. For 2026 and any year, there are also numerous learning opportunities through CSDA available to all District Directors and staff, many of which are free, as well as more comprehensive events and programs to learn, participate in, and network with colleagues.
  - CalFire – The District, property owners, the HROA, and CalFire are partners in maintaining the water system hydrants. In 2025 several hydrants were identified as needing some additional attention for access. The District met with CalFire and determined a plan to address them. Staff have been working on our part such as digging out the ground around the hydrant, replacing blue-dot reflectors, and marking the hydrants located in more rural areas to name a few.
  - Heritage Ranch Owners Association (HROA) – Staff maintains a good relationship with HROA and crosses paths frequently in the field and is always available to meet with them. The General Managers have met or talked on several occasions.
  - Heritage Village Seniors – The General Manager generally attends their monthly Board meetings and is always available to meet with them.
  - Monterey County Water Resources Agency (MCWRA) – The District monitors MCWRA activities as they effect Nacimiento Reservoir and water releases and attend meetings of their Reservoir Operations Committee and Board of Directors meetings as necessary.
  - SLO County – The District engages with SLO County regularly mostly being a member of the Regional Water Management Group and the Water Resources Advisory Committee. As previously reported, the District is being awarded some grant funding through the Integrated Regional Water Management program that is managed by SLO County and those groups mentioned above. The District also participates in development and updating of the Multi-Jurisdictional Hazard Mitigation Plan that is managed and lead by SLO County Office of Emergency Services. The plan update will be presented to your Board for adoption in 2026.

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