



AGENDA REPORT

CITY OF SAN CLEMENTE

City Council Meeting

Meeting Date: 9/6/2022

Agenda Item: 10C

Department: Utilities

Prepared By: David Rebensdorf, Utilities Director

Subject:

APPROVAL OF LONG-TERM WASTEWATER SERVICES AGREEMENT WITH SANTA MARGARITA WATER DISTRICT (SMWD).

Fiscal Impact:

Yes. The City will receive approximately \$800,000 per year in revenue for wastewater conveyance and treatment to the Sewer Operating Fund from SMWD. Future revenue for the sale of recycled water and for Advanced Water Treatment Capital expenditures will be received into the Water Operating Fund. The City will receive a one-time payment for the use of the City's existing recycled water system in the amount of \$1,100,000 to the Water Operating Fund.

The City will incur expenditures to purchase 100 acre-feet (AF) of capacity in SMWD's Trampas Recycled Water Reservoir and the Pico Recycled Water Pump Station in the amounts of \$3,100,000 from account number 054-477-45300-000-12207 and \$611,800 from account number 054-477-45300-000-12206. A transfer of \$11,800 is recommended from account number 054-477-47250-000-12605 to account number 054-477-45300-000-12206.

Summary:

Staff recommends the City Council approve a mutually beneficial Long-Term Agreement (Agreement) with SMWD for the conveyance and treatment of wastewater from SMWD's Talega Service Area, including future production of recycled water for sale to SMWD, which also provides the City storage rights in Trampas Regional Recycled Water Reservoir and capacity in the Pico Recycled Water Pump Station. The Agreement also requires the City to provide improved recycled water quality through the construction of an Advanced Water Treatment Facility. Benefits of the project include improved water quality for City customers, and revenue from recycled water sales to SMWD will reduce the City's financial obligation for the project.

Background:

SMWD originally requested that the City accept and treat SMWD's wastewater from the Talega Service Area due to several force main failures and odor issues created by the length of pipe from Talega to SMWD's Chiquita Wastewater Plant. Due to reductions in indoor water use by City customers, the City's Water Reclamation Plant (WRP) and collection system had excess capacity to accommodate SMWD's request. In response, the City has been conveying and treating approximately 650,000 gallons per day since December 6, 2017 for \$59,000 per month while an Agreement was developed. The City's WRP was designed with a capacity of 6.976 million gallons per day (MGD), but due to the proliferation of water efficient plumbing devices and water conserving behaviors in its customers' homes and businesses, current wastewater influent flows to the WRP are approximately only 3.6 MGD including flows from SMWD's Talega service area.

The Agreement has been delayed due to COVID-19 and differences in recycled water quality standards between the agencies' respective systems. The City's recycled water has a higher salt content due to the proximity to the ocean, urban runoff diverted to the City's wastewater system, and water softeners within the City's service area. The City's current recycled water supply has a salt content, quantified as total dissolved solids (TDS), of approximately 1,350 parts per million (ppm).

To improve water quality and to allow the agencies to meet permit requirements, Trussell Technologies, Inc. has prepared a study to lower the TDS to 800 ppm through the construction of an Advanced Water Treatment Facility. The proposed facility will treat approximately 1.2 MGD of recycled water through microfiltration and reverse osmosis. This highly treated water is then blended with recycled water to produce final product water with a TDS below 800 ppm. The location of the facility is proposed to be at the City's WRP with an estimated cost of \$10.5 million.

SMWD is in need of additional recycled water supply to offset imported potable water and to meet its future irrigation customer demands. While the City is updating its Recycled Water Master Plan to evaluate an expansion of the system to include an approximate additional 300 acre-feet per year (AFY) of demand, there is stranded capacity in the WRP during the non-peak irrigation periods. The City can produce up to 3,360 AFY and has a current demand of approximately 1,200 AFY; the remaining 2,160 AFY is a stranded supply source that has a regional benefit to reduce imported potable water to South Orange County.

The Agreement is a unique opportunity for the City to utilize its stranded assets while cost sharing improvements with SMWD. It will create additional sources of revenue to offset future rate increases for the City's customers and reduce the financial burden on the City of improving recycled water quality.

Discussion:

The proposed Agreement covers three primary issues: wastewater treatment/conveyance, recycled water production and distribution, and storage rights in the Trampas Regional Recycled Water Reservoir. The term is for 30-years due to the investment in infrastructure, with the option to extend for up to two additional 10-year terms if mutually agreed upon. Raftelis Financial Consultants, the City's consultant hired to evaluate proposed contract rates, and the City Attorney have reviewed and provided comments on the proposed Agreement. The Agreement is retroactive to July 1, 2022 to include an entire fiscal year of expenses for wastewater services. The attached Agreement provides details related to each of the issues as described below.

Wastewater Treatment - Due to City customers' indoor water use efficiency, the City has excess capacity within the WRP and conveyance system to accept approximately 650,000 gallons per day of raw wastewater from SMWD's Talega service area. The Agreement includes operation and maintenance (O&M) payment based on a proportionate share of capacities by asset for administrative, fixed and variable costs. In addition, the City will receive payment from SMWD for capital costs based on the capacities of its various facilities. In total, the Agreement identifies approximately \$582,000 in O&M and administration, and \$219,000 in capital revenue in the first year. All costs will be subject to a true-up process based on actual City costs incurred.

The City has already realized benefits to its collection system during the past several years of

treating wastewater from SMWD. The increased flow has lowered maintenance for the Los Molinos Wet Well and the gravity sewer line along Avenida Pico has been self-cleaning. At the same time, no additional staff have been needed to treat and convey the wastewater.

Recycled Water - The City's existing recycled water customer demand is approximately 1,200 AFY and the WRP has the capacity to produce up to 3,360 AFY. The City expanded its recycled water system and customer base in 2017 and is in the process of evaluating an expansion to include an approximate 300 AFY of additional demand from existing customers. At the same time, SMWD also needs additional recycled water to serve its customers, and they have the ability to store recycled water from the City during non-peak periods in the Trampas Regional Recycled Water Reservoir.

Under the Agreement, the City would commit to providing 1,000 AFY of recycled water to SMWD on a take-or-pay basis and would be able to sell recycled water, in excess of its own customers' needs, to SMWD. In return, SMWD will contribute towards fixed and variable costs based on a percentage of flow and capacity, including a share of capital costs to construct and maintain the new Advanced Water Treatment Facility. SMWD will contribute \$1.1 million to the City for future repair and replacements of the existing recycled water system for the initial term of the Agreement. The estimated revenue from recycled water sales to SMWD is expected to range from \$875,000 for 1,000 AFY to \$1.6 million for 2,195 AFY, depending upon how much SMWD purchases.

Prior to the City producing recycled water for distribution to SMWD, the Agreement requires the City to address the necessary improvements to its recycled water quality, so the City must award a construction contract for the Advanced Water Treatment Facility within 18 months of when the Agreement is adopted. In the event that this timeframe is not met by the City, all Agreement provisions regarding recycled water will terminate. However, the City and SMWD can mutually agree to extend the deadline.

Trampas Reservoir and Pico Recycled Water Pump Station Capacity - The City will purchase 100 AF of storage in the Trampas Reservoir for a cost of \$3.1 million. At no additional cost, the City will also have access to a second 100 AF of capacity as a condition of the City selling its excess recycled water at a reduced rate. The City will benefit from the seasonal storage to serve its customers during peak demands and plant outages, and to improve service to Bella Collina Golf Course.

The City will also purchase approximately 24% of the capacity of SMWD's Pico Recycled Water Pump Station for \$611,800 to pump recycled water to the Trampas Reservoir, back feed the City's system from SMWD through a pressure reducing system, and serve Bella Collina Golf Course. The City will pay a proportionate share of O&M costs, as well as capital repair and replacement costs for the facilities.

Plan and Policy Consistency:

The approval is consistent with the following General Plan Goals and Policies:

- Goal: Maintain and improve a comprehensive system of potable water supply, storage and distribution, and wastewater treatment, reclamation, and reuse to meet daily and emergency needs in San Clemente.
- Policy PSFU-5.05 Water Supplies. We provide and maintain adequate water supplies and distribution facilities capable of meeting existing and future daily and peak demands, including

fire flow requirements.

Council Strategy:

The approval is consistent with Council Strategy 3 - Update and maintain Infrastructure that reflects best available technology and service - in that Utilities is generating revenue from stranded assets and building infrastructure to improve its service to City customers.

Recommended Actions:

Staff Recommendation

STAFF RECOMMENDS THAT the City Council:

1. Approve and authorize the City Manager to execute, Contract No. C22-54, by and between the City of San Clemente and the Santa Margarita Water District, for wastewater Treatment Services and Recycled Water Purchases from July 1, 2022 to June 30, 2052;
2. Transfer \$11,800 from account number 054-477-47250-000-12605 to account number 054-477-45300-000-12206; and
3. Authorize expenditures in the amount of \$3,100,000 from account number 054- 477-45300-000-12207 for Trampas Regional Recycled Water Reservoir and \$611,800 for Pico Recycled Water Pump Station from account number 054-477- 45300-000-12206.

Attachments:

1. Long-Term Wastewater Services Agreement between the City of San Clemente and the Santa Margarita Water District.
2. PowerPoint Presentation titled "Agreement for Wastewater Services and Recycled Water Purchases between the City and SMWD."

Notification:

None.

AGREEMENT FOR WASTEWATER TREATMENT SERVICES AND RECYCLED WATER PURCHASES

This Agreement for Wastewater Treatment Services and Recycled Water Purchases (“Agreement”) is made and entered into as of July 1, 2022 by and between the City of San Clemente, a California municipal corporation (“City”), and the Santa Margarita Water District, a California water district (“SMWD”), each individually referred to as a “Party” and collectively referred to as the “Parties.”

RECITALS

- A. The City owns and operates a wastewater collection and treatment system (“City System”), which includes a wastewater reclamation plant that treats wastewater and produces recycled water that complies with Title 22 of the California Code of Regulations (“Plant”). The Plant currently has excess capacity available for wastewater treatment.
- B. SMWD’s service area for water and wastewater collection and treatment is within the City, specifically, the Talega planned community and golf course (“Talega Area”). SMWD currently provides wastewater, potable-water, and recycled-water services to Talega Area residents.
- C. SMWD’s system for the delivery and storage of recycled water (“SMWD System”) includes the Trampas Canyon Dam and Reservoir (“Trampas Reservoir”).
- D. Government Code section 56133(e) allows local agencies to contract for the sale of non-potable and non-treated water outside their jurisdictional boundaries.
- E. SMWD and the City have determined that it would be mutually beneficial and efficient for SMWD to deliver wastewater flows from the Talega Area (and potentially other areas in the future) to the Plant for treatment utilizing the excess capacity in the Plant.
- F. SMWD and the City desire to enter into a long term wastewater treatment service agreement to enable SMWD to have SMWD System wastewater treated at the Plant that will facilitate operational and capital planning for the Parties within their respective service areas and provide for greater utilization of the Plant over the remainder of its useful life, all as set forth with particularity in the terms and conditions that are set forth herein.
- G. Additionally, SMWD desires the option to purchase from the City recycled water generated from the SMWD System flows that the City treats at the Plant, as well as any excess recycled water available from the Plant, and the City desires to sell such recycled water to SMWD.
- H. The City has encountered occasional difficulty providing recycled water service to its customers and seeks to purchase recycled water from SMWD to provide that service to its customers during an interim 30-month period, to meet demands such as during Plant production outages and peak customer demand.

- I. The purpose of this Agreement is for the Parties to share in the capitalization of the improvements necessary for the services contemplated hereunder, to maximize the efficiency and quality of their collective wastewater treatment and water recycling infrastructure, and to enhance water conservation and water quality.

IN WITNESS WHEREOF, in consideration of the foregoing recitals and the mutual covenants, conditions, and agreements in this Agreement, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows.

1. Effective Date; Term; General Provisions.

1.1 Effective Date. This Agreement will become effective as of the date first set forth above and the obligations of the Parties shall become binding and enforceable as of that date.

1.2 Term. The term of this Agreement shall commence on the Effective Date and shall continue thereafter for an initial term of thirty (30) years ("Initial Term"). [SMWD hereby delegates to its General Manager and the City hereby delegates to its City Manager the authority to] [The Parties may] extend the initial term for two (2) additional terms of ten (10) years each ("Extension Term") on terms identical to the term set forth herein. The parties may otherwise extend this Agreement on different terms subject to the approval of their respective governing bodies. The Initial Term and any Extension Term are collectively referred to herein as the "Term."

1.3 Contract Year. A contract year for the purposes of this Agreement will run from July 1 to June 30. Any reference in this agreement to a "year" or "per annum" will refer to a contract year.

1.4 Consumer Price Index ("CPI"). Certain costs in the Agreement are indicated as subject to annual increases based on the year over year change in the Consumer Price Index – Los Angeles-Long Beach-Anaheim (All Urban Consumers) from January through December. Unless otherwise noted, such increases will occur each July, commencing July 1, 2023.

1.5 Wastewater Treatment Service Option. During the Term of this Agreement, City shall provide SMWD the right to City wastewater treatment services of up to 0.65 MGD of the wastewater treatment capacity of the Plant based on average dry weather flows of untreated raw sewage from the SMWD System ("Reserved Capacity"). The City shall set aside the capacity for the treatment of SMWD wastewater effluent conveyed by SMWD to the Plant. SMWD flows may exceed the Reserved Capacity from time to time in the event of peak or emergency flows from weather-related or other events beyond the reasonable control of SMWD, provided, however, that such peak or emergency flows do not cause exceedances in the capacity of the Plant and conveyance system and that SMWD bears the additional proportional cost of the use of such excess capacity in the same manner as if SMWD had contracted for Additional Services as set forth in Section 1.6.

1.6 Additional Wastewater Treatment Services. During the Term of this Agreement, no later than March 1 of each year, City shall notify SMWD if City has additional Plant capacity in excess of the Reserved Capacity during the upcoming fiscal year. SMWD shall have sixty (60) days to notify City in writing of its desire to have City dedicate all or a portion of the additional capacity, on an as-needed basis, for City to set aside during the upcoming fiscal year. The amount of capacity which SMWD chooses to utilize will be referred to in this Agreement as the “Additional Capacity.” The determination Additional Capacity will be in the sole discretion of the City and the City may reserve or withhold capacity for its use or the use of third parties. The City and SMWD may agree to allocate Additional Capacity on a multi-year basis by mutual agreement. The use of Additional Capacity will be subject to all of the terms and conditions of this Agreement. The Reserved Capacity and the Additional Capacity allocated during any given contract year shall be the “SMWD Capacity” for that contract year which will require modifications to capacity allocations, such as, capital, fixed and variable.

2. Fees for Treatment.

2.1 Definitions.

2.1.1 “Aggregate Capacity” shall mean the total aggregate average day liquid treatment capacity of the Plant on the Effective Date, excluding any Plant expansion after the Effective Date, without regard to actual capacity usage as the same may change from time to time. The Plant’s current aggregate average day liquid treatment capacity is 6.976 MGD.

2.1.2 “Capital Repair and Replacement Costs” shall mean the annual costs of capital repairs, replacements and modifications to the Plant, whether on a planned or emergency basis, as the City deems necessary to maintain the operation of the Plant in good condition and repair and with discharge effluent in compliance with applicable federal and state laws, permits and approvals. Capital Repair and Replacement Costs shall exclude:

- i. The cost of expanding the Plant’s capacity beyond the Aggregate Capacity,
- ii. Maintenance and repair costs constituting Fixed O&M costs as defined below, and
- iii. Maintenance and repair costs constituting Variable O&M Costs as defined below.

2.1.3 “Fixed O&M Costs” means those operating and maintenance costs and expenses incurred regardless of actual treatment activities. The schedule attached hereto as Exhibit A defines Fixed O&M Costs based on the City’s current cost categories. Labor costs for the Plant shall be based on the actual salary and benefit costs paid for all employees operating and maintaining the Plant. Equipment, materials and supplies shall be charged at actual cost. Fixed O&M Costs exclude non-cash items such as depreciation, recognition of changes in pension liabilities,

or any obsolescent charges or any reserves therefore, or amortization of intangibles or other bookkeeping entries of similar nature.

2.1.4 “Variable O&M Costs” means those costs incurred in wastewater treatment and disposal that are dependent on the quantity of the wastewater treated, which includes power, chemicals, solids disposal, and other consumables. The schedule attached hereto as Exhibit A defines Variable O&M Costs based on the City’s current cost categories.

2.1.5 “Volumetric Flow Measurement” Influent from SMWD shall be measured at the Pico Lift Station. The actual total influent flow to the Plant from SMWD shall be measured by the plant influent meter in Avenida Pico adjacent to the Pico Lift Station. The meter shall be calibrated for accuracy annually unless the Parties agree otherwise so that wastewater flow measuring is accurate within 5% of actual flow throughout the anticipated flow range. SMWD volumetric flow information will be provided to the City as indicated in Section 3.4 – Flow Monitoring.

2.2 SMWD Payment for Treatment.

2.2.1 Treatment Service Payments - Plant. SMWD shall make quarterly estimated treatment service payments as follows:

- i. SMWD’s share of Fixed O&M Expenses at the Plant based on the proportion of the Reserved Capacity to the Aggregate Capacity of the Plant. For example, based on the Reserved Capacity only, the share of Fixed O&M Expenses would be 9.32% (0.65 MGD divided by 6.976 MGD) SMWD’s share of Fixed O&M will be initially based on 0.65 MGD, which is subject to increase only if SMWD’s three (3) year rolling average flows increases more than 0.05 MGD; and
- ii. SMWD’s share of Variable O&M Expenses based on the proportion of SMWD Volumetric Flows to the total volumetric flows of the Plant. This will be calculated at the end of each year based on actual flows, and will initially be 18.21%, based on the Reserved Capacity of 0.65 MGD divided by 3.57 MGD, the estimated current City and SMWD total volumetric flows.

SMWD’s estimated treatment service payments shall be subject to the City Invoice Process described in Subsection 2.3 below, with information provided in form of Exhibit A.

2.2.2 Future Adjustments to Variable O&M Expenses and Fixed O&M Expenses.

- i. The share of Variable O&M Expenses will be subject to review if the solid loadings in the SMWD flow increase or decrease relative to the solid loadings in the City’s flow over each five (5) year period, the

intent being that both the SMWD and the City solid loadings remain consistent with typical domestic wastewater flows over time. The baseline for the City and the SMWD solid loading will be established based on 2022 flows to the Plant. For example, if the SMWD solid loading concentrations during the first five (5) year period were to increase relative to the City solid loading concentrations by ten (10) percent, then in year six through ten, the percentage of the Variable O&M Expense payable by SMWD would be increased to take into account the higher burden placed on the Plant as a result of higher solid loading in the SMWD flows. Similarly, if the City solid loading were to increase relative to the SMWD solid loading, then the percentage of the Variable O&M Expense payable by SMWD would be decreased to take into account the lower burden placed on the Plant as a result of the higher solid loading in the City flows. In the event the parties wish to bill for flows and loadings separately, the parties may agree on a cost allocation methodology or commission a study by an independent consultant to develop the methodology. The cost of the study will be shared evenly by both parties.

- ii. SMWD’s share of Fixed O&M Expenses will be payable regardless of whether SMWD treatment services require the entire Reserved Capacity. O&M expenses do not include annual or emergency capital expenditures for repair and replacement. The estimated Fixed O&M Expenses and Variable O&M Expenses for the first year are indicated in Exhibit A. Notwithstanding the statements above, the City and SMWD may adjust the annual average flow and loading to account for one-time emergency events.

2.2.3 Collection System Services - Payment. SMWD will make quarterly payments to cover its allocable share of costs for that portion of the City System used to convey wastewater from the interconnection point to the Plant (“City System Expenses”) as follows:

- i. Los Molinos Pump Station – Operating Costs shall be based SMWD’s proportionate share of flows at the Pump Station, and amounts will be based on actual costs and flows. Initial costs are **\$29,745** based on costs as indicated in Exhibit B. Subsequent year costs shall be based initially on estimated costs by the City and subject to year-end actual reconciliation.
- ii. Los Molinos Pump Station - Capital Contributions will equal **\$30,950** in the first fiscal year of the contract and increase annually based on CPI.
- iii. Pico Trunk Sewer Line - **\$13,126** per year for operation, maintenance, and capital costs. Costs will increase annually based on CPI.

The City will provide SMWD with quarterly invoices for the costs for the Pico Trunk Sewer Line and Los Molinos Pump Station – Capital Contributions, including applicable CPI information. The costs for the Los Molinos Pump Station – Operating Costs shall be subject to the City Invoice Process described in Section 3.2, with cost information provided in the form of Exhibit B.

2.2.4 Capital Charge. SMWD will pay an annual capital charge for its exclusive rights to the Reserved Capacity only, which amount is intended to compensate the City for Capital Repair and Replacement Costs associated with the use of the Plant (“Capital Charge”). The Capital Charge for the first year of the Agreement will be One Hundred and Seventy-Five Thousand Dollars (\$175,000). The City will provide SMWD with quarterly invoices for the Capital Charge. The Capital Charge will increase each year by CPI, with a true-up of the Capital Charge to the average annual actual Capital Repair and Replacement Costs at the end of each five (5) year period. If the amount collected from SMWD in the prior five (5) year period differs from SMWD’s proportional share of the actual expenditures over such period, then the difference will be credited or added to SMWD’s next invoice(s) for Capital Charges. SMWD’s Capital Charge shall also be reset based on the actual proportional share average over the prior five (5) year period and will remain subject to CPI annual increases over the next five (5) year period.

The Capital Charge will be based on a combination of capacity and volumetric capital expenditures as defined in 2.2.1 and as adjusted in 2.2.2. Capacity capital expenses will be considered structures, electrical, liquid piping and instrumentation/SCADA. Volumetric capital expenses are considered pumps, motors, piping related to moving solids, electrical associated solid handling equipment and aeration, and equipment associated with headworks, primary, secondary and solid handling treatment. The Capital Charge will not include the replacement of the entire plant or a substantial portion thereof.

2.2.5 Administration Costs. As fees for City services, SMWD will pay its proportional share of City administrative charges that are properly allocated to the Plant (not inclusive of the City’s general collections system) based on the Reserved Capacity (“Administrative Charge”). In no event will the Administrative Charge exceed fifteen percent (15%) of Fixed O&M and Variable O&M Expenses paid by SMWD pursuant to the Agreement in any given year. The following costs will be excluded from administrative charges: South Orange County Wastewater Authority, Utility Billing, and the salary and benefit costs of the Utility Director.

Administration Costs shall be subject to the City Invoice Process described in Section 2.3 below, with cost information provided in the form of Exhibit C.

2.3 City Invoice Process. Where specified herein, the City will invoice SMWD for service charges under this Agreement through the following process (“City Invoice Process”): At the end of each of the first three (3) fiscal quarters of each year, the City will provide SMWD an invoice of estimated service fees calculated based on 25% the relevant costs from the City’s adopted budget for the current year. For the fourth fiscal

quarter, the City will send SMWD an invoice based on its actual operating expenses throughout the year, reconciling any over- or under-payments in the previous three quarters. The City will send the fourth quarter invoice by August 31, which shall include detailed cost information utilizing the relevant referenced Exhibit or comparable form agreed to by the two parties. SMWD will pay all invoices within thirty (30) days of receipt.

2.4 Cost Information. The City will provide SMWD with the detailed information necessary, on an annual basis, for SMWD to validate the charges owed for the Fixed O&M Expenses, Variable O&M Expenses, City System Expenses, Capital Charge, and Administrative Costs.

3. General Terms of Use for City Treatment Services.

3.1 Delivery of Wastewater. SMWD will be responsible for all costs of delivery through the SMWD System and interconnection with the City System and the maintenance of such facilities to the interconnection point in Avenida Pico near the intersection of Avenida La Pata. The City will be responsible for the maintenance of its facilities to convey wastewater from the interconnection point through the City System to the Plant.

3.2 Quantity of Wastewater. The flow of SMWD wastewater to the interconnection point shall not exceed a maximum peak of two million gallons per day so as not to overload the City System between the interconnection point and the Plant. The City may agree in writing to take higher daily volumes if there is sufficient capacity.

3.3 Quality of Wastewater. SMWD wastewater delivered to the interconnection point with the City System shall be of the quality normally associated with predominantly domestic sewage and shall meet all federal, state and local laws, rules and regulations and shall not result in any violation of the permits and approvals of the Plant, including its NPDES permit. It is anticipated that SMWD and the City will require industrial pre-treatment with respect to solid loading of a commercial or industrial nature. SMWD shall be solely responsible for any actual direct costs associated with the violation of the quality requirements set forth herein. In the event additional primary solids pretreatment is necessary due to near limit or exceeds of the treatment plants solid design capacity, SMWD will be required to pay associated costs, such as, chemically enhanced pretreatments or other capital costs to meet treatment regulatory requirements.

3.4 Flow Monitoring. Subject to completing a feasibility and procurement process for the interconnection site, SMWD will install a real time flow meter at the interconnection point and the City will have access to the data from such meter. SMWD will provide flow data to the City on a monthly basis until real time monitoring becomes available. Twice annually, samples will be taken from SMWD's sampling manhole upstream of the interconnection point by SMWD and results will be provided to the City. Samples will be tested for a range of particulates to be agreed upon from time to time by SMWD and the City. Periodically, there may be a need for additional sampling and testing. Changes in flow rates and loading will be measured to provide a basis for adjustments to the capacity and volumetric calculations as set forth in Sections 2.2.1 and 2.2.2.

3.5 Covenant on Industrial Discharge. Neither the City nor SMWD will issue a permit or approval to a customer for the discharge of industrial wastewater in excess of one hundred (100) gallons per day without giving the other Party no less than thirty (30) days written notice prior to taking final action on such permit.

4. Purchase of City Recycled Water

4.1 Definition of City Recycled Water. For the purposes of this Agreement, “City Recycled Water” means liquid effluent which has been treated at the City Plant and made available for non-potable use as further defined in Title 22 of the California Code of Regulations.

4.2 Definition of Modified Permits. As of the Effective Date of the Agreement, SMWD and the City expect to be pursuing a modification of its existing recycled water permits with the appropriate regulatory agencies (“Modified Permits”). The Modified Permits are required to be in place for SMWD to purchase the City’s recycled water, deliver the City’s recycled water to the Talega area, and to transport or store any recycled water pursuant to the City’s Trampas Capacity Right under Section 4.11. The City and SMWD shall coordinate and utilize best efforts to assist each other in procuring the Modified Permits not later than 30 months following the Effective Date of this Agreement.

4.3 Definition of City Recycled Water Quality Threshold. The City intends to construct an additional treatment facility (the “Advanced Water Treatment Facility” to reduce the Total Dissolved Solids (“TDS”) of the City recycled water produced at the Plant. SMWD shall require TDS of 800 mg/l or less for City recycled water to be used and stored in the SMWD system. As of the Effective Date of the Agreement, the City recycled water does not meet the maximum TDS 800 mg/l level (“Water Quality Threshold”).

4.4 Requirement to meet the Water Quality Threshold; Partial Agreement Termination. The City commits to undertake best efforts to achieve the Water Quality Threshold. The City shall award a contract for the construction of an Advanced Water Treatment Facility at the Plant within 18 months following the Effective Date of this Agreement. Such contract shall be mutually acceptable to both the City and SMWD, as evidenced by mutual written concurrence. Notwithstanding the foregoing, however, the City and SMWD may extend the 18-month timeframe by mutual written concurrence.

4.5 Recycled Water Purchase Option. The City hereby grants to SMWD the option to purchase one thousand (1,000) acre feet (AF) (“Base Purchase Amount”) of recycled water each year (“Base Purchase Option”). SMWD shall pay the Base Purchase Option amount annually on a “take or pay basis,” subject to the following conditions: If the Base Purchase Amount is produced and made available by the City, SWMD will pay the City for the full amount, irrespective of the actual quantity of Base Purchase recycled water SMWD may request for delivery. SMWD will not, however, be obligated to pay the Base Purchase Amount for recycled water to the extent the City is unable to produce or deliver such quantities at the desired TDS pursuant to the Modified Permits.

4.6 Right of First Refusal. In addition to the Base Purchase Option, SMWD will have the right of first refusal to purchase additional recycled water the City generates at the Plant in excess of the Base Purchase Amount and the recycled water the City uses for its own retail customers (“Excess Recycled Water”).

During the Term of this Agreement, no later than March 1 of each year, City will provide SMWD with an estimate of the Excess Recycled Water it anticipates having for delivery during the upcoming fiscal year. SMWD will have sixty (60) days to notify City in writing of its desire to purchase all or a portion of the Excess Recycled Water for the upcoming fiscal year. Any remaining portion of Excess Recycled Water not purchased by SMWD would remain subject to the City’s sole discretion for sale within the upcoming fiscal year. The amount of Excess Recycled Water that SMWD agrees to purchase will be referred to in this Agreement as the “Additional Recycled Water” and the City will deliver such Additional Recycled Water to SMWD during the upcoming fiscal year subject to availability based on actual influent flows. SMWD acknowledges that the actual availability of Excess Recycled Water is based on an estimate of recycled water production and City retail customer demand, both of which may vary during the actual contract year. The purchase of Additional Recycled Water will be subject to all of the terms and conditions of this Agreement. The Base Recycled Water and the Additional Recycled Water shall be collectively referred to as the “Purchased Recycled Water” for a contract year.

4.7 Purchase Price for Recycled Water. Purchased Recycled Water shall be charged to SMWD based on the Base Purchase Amount, plus actual purchases of Excess Recycled Water on a per acre-foot basis, utilizing the City Invoice Process described in Section 2.3. The charges shall be based on certain of the City’s adopted budgeted costs in its recycled water system, as shown in further detail in Exhibit D. The charges will be based on the following components defined below:

A. Fixed Costs per AF

The Fixed Costs means those operating and maintenance costs and expenses that are incurred regardless of actual treatment capacity use. The schedule attached hereto as Exhibit D indicates the Fixed Costs based on the City’s current cost categories. Labor costs shall be based on the actual salary and benefit costs paid for all employees operating and maintaining the system. Equipment, materials, and supplies shall be charged at actual cost. Fixed Costs do not include the cost to construct the Advanced Water Treatment Facility, capital repairs and replacements of any sort, or any non-cash items such as depreciation, recognition of changes in pension liabilities, or any obsolescent charges or any reserves therefore, or amortization of intangibles or other bookkeeping entries of similar nature.

Fixed Costs per AF shall be calculated based on the total Fixed Costs in a given Contract Year divided by the system’s total recycled water production capacity. Total production capacity is 4,932 acre-feet as of the Effective Date.

B. Variable Costs per AF

Variable Costs means those costs which are incurred for treating and moving of recycled water, including primarily costs for power, chemicals, other related volumetric-driven supplies and costs. The schedule attached hereto as Exhibit D indicates the Variable Costs based on the City's current cost categories. To the extent the City's Plant has a single power meter (covering both wastewater treatment and recycled water production), variable power costs shall be allocated appropriately to recycled water production.

Variable Costs per AF shall be calculated based on the total Variable Costs for a given Contract Year divided by the actual acre-feet of recycled water produced. Variable Costs per AF shall be reduced by SMWD's proportional share of production use for any rebates, subsidies, or other revenues received by the City for its production of recycled water, such as from the Local Resources Program of the Metropolitan Water District of Southern California unless they are directly attributed to SMWD.

For billing purposes, and subject to the City Invoice Process described in Section 2.3, the Variable Cost per AF may initially be based on the recycled water expected to be produced.

C. Annualized Capital Costs for Advanced Water Treatment Facility per AF (Base Purchase Option)

The City expects to construct an Advanced Water Treatment Facility to meet the Water Quality Threshold requirements described under Section 5.3 and to fund the Facility with grants and bond or loan financing. Debt service on said financing in any given Contract Year may be recovered as an "Annualized Capital Cost" as provided below.

To the extent the City funds any portion of the Facility construction with cash (excluding any grant funding), such cash funding shall be converted to an amortized annual amount and recovered as an Annual Capitalized Cost, subject to the Parties' mutual written concurrence. To the extent SMWD pre-pays all or a portion of its share of Facility capital costs with cash up front, such cash contribution shall be converted to an amortized annual amount which shall offset SMWD's Annualized Capital Cost Requirements, subject to the Parties' mutual written concurrence.

SMWD's share of Annualized Capital Costs shall be based on its proportionate share of Plant production, including its share of the Base Purchase Amount as calculated below. If SMWD purchases Additional Recycled Water, the costs of such Additional Recycled Water shall be calculated as provided in Subsection (D) below.

SMWD's share of the Annualized Capital Costs for the Base Purchase Option shall be calculated based on the total Annualized Capital Costs of the Facility multiplied by a fixed 46.2% (based on the Base Recycled Water amount (1,000 AF) divided by the total Base Recycled Water plus the current recycled water produced for the City's customers (approximately 1,165 AF)).

D. Annualized Capital Costs for Advanced Water Treatment Facility per AF – Additional Recycled Water

If SMWD purchases Additional Recycled Water in a given year, SMWD shall pay additional Annualized Capital Costs for such water. Because a fixed percentage of such costs are recovered over the Base Purchase Option, the remaining amount owed for Additional Recycled Water will be calculated as follows:

- 1) **SMWD's percentage** of total Plant recycled water production shall be determined as the total Additional Recycled Water purchased plus the Base Purchase Option, divided by the total Plant production in the given year.
- 2) **SMWD's total Annualized Capital Cost obligation** shall be the product of the City's total Annualized Capital Costs of the Facility and the percentage determined under 1)
- 3) **SMWD's net remaining Annualized Capital Costs** owed shall be the amount determined under 2), reduced by the Annualized Capital Costs attributable to the Base Purchase Option.
- 4) SMWD's net remaining Annualized Capital Costs determined under 3) shall be divided by the acre-feet of Additional Recycled Water purchased and included as a cost for the Additional Recycled Water.

The price for City recycled water paid by SMWD will depend on the total quantity delivered over a Contract Year based on the following formula:

- Tier 1 – Base Purchase Option
 - Per AF for First 1,000 AF = [A] + [B] + [C]
- Tier 2 – Additional Recycled Water
 - Per AF for Next 1,400 AF = [A] + [B] + [D]

4.8 Capital Repair and Replacement Costs for Advanced Water Treatment Facility.

In addition to its payments for recycled water described above, in accordance with Section 4.9 below, SMWD shall make a one-time payment to the City for SMWD's proportionate share of capital repair and replacement projects related to the Advanced Water Treatment Facility, primarily expected to include membrane and filter replacements. The proportionate share shall be fixed at 46.2%, which is based on the Base Recycled Water amount (1,000 AF) divided by the total Base Recycled Water plus the current recycled water produced for the City's customers (approximately 1,350 AF). Upon the completion of the Advanced

Water Treatment Facility, SMWD shall provide the City with an initial deposit of \$30,000, which the City will deposit into a Short-Term Working Capital Fund (Fund). Additional funding required by SMWD for the Fund shall be determined annually based on an expected list of such repair and replacement projects developed by the City and agreed to by SMWD.

4.9 Existing System Capital Contribution.

No later than 60 days following the effective date, SMWD shall pay City \$1,100,000 to fund future capital repair and replacement projects for the existing recycled water treatment facilities for the following thirty (30) years. The City may use these funds for capital repair and replacement at its discretion. However, if the City is unable to deliver the Base Purchase Right of 1,000 AF of recycled water to SMWD, it will repay SMWD three (3) percent of the original payment per year that Base Purchase Right is not delivered on each July 1 through and including 2052. If the project is not built, the City will repay SMWD \$1,100,000 within 60 days upon written notice from SMWD 36 months after the Agreement is approved.

4.10 Delivery of Recycled Water.

4.10.1 SMWD will be responsible for all costs associated with the interconnection of the SMWD recycled water system with the City's recycled water system. The City will be responsible for delivery of recycled water to the interconnection point with SMWD's recycled water system pressurized from Reservoir 11 or equal. SMWD will be responsible for delivery from the interconnection to its customers or to storage. Delivery of recycled water from the City to SMWD will be provided when there is capacity within the City's system. During high demand periods throughout the summer months, the City may limit the delivery of recycled water to SMWD, but only as necessary to deliver water to City's retail customers. City will provide SMWD with an estimate of delivery restrictions prior to the beginning of each month. The City and SMWD will communicate through a mutual control and communications system, which will be how the City indicates the volume per day of recycled water available, and how SMWD will indicate its daily call for recycled water. SMWD will operate the SMWD system such that a minimum water surface elevation in Reservoir 11 is maintained.

4.10.2 Recycled water delivered from the City to SMWD or from SMWD to City shall be measured at the interconnection point. The meters shall be calibrated for accuracy annually or at a mutually agreed upon lesser or greater frequency. Recycled water flow measuring shall be accurate within 5% of actual flow throughout the anticipated flow range.

4.11 Trampas Reservoir Capacity.

As additional consideration for the obligations of the City pursuant to this Section 4, and notwithstanding the Term of this Agreement, SMWD hereby grants to the City a right to storage capacity in the Trampas Reservoir of two hundred (200) AF ("Trampas Capacity Right") for the useful life of the Reservoir. The City shall pay for the first one hundred (100) AF of this Capacity Right with a one-time capital contribution payment of \$3,100,000 no later than sixty (60) days following the Effective Date. Notwithstanding the Term of this Agreement, the City

shall retain its ownership of the first 100 AF of the Capacity Right for the useful life of the reservoir.

SMWD may use these funds at its discretion. However, if SMWD, once the Modified Permit is effective, is unable to store and transmit the City recycled water as contemplated under City's Trampas Capacity Right, SMWD shall repay the City three (3) percent of the original payment per year that capacity is not provided on each July 1 through and including 2052. If the advanced recycled water quality project is not built, SMWD will repay the City \$3,100,000 within 60 days upon written notice from SMWD 36 months after the Agreement is approved.

.The City's ledger for water delivered and stored in Trampas Reservoir will be subject to adjustment for losses incurred as a result of evaporation on an annual basis based on (i) data maintained and updated from time to time by SMWD; or (ii) such factors for evaporation loss as are generally utilized and accepted for use by public water agencies in the State of California. At the signing of the agreement evaporation losses are estimated at 8%, annually.

4.12 Cost Allocations – Trampas and Recycled Water Conveyance System. The City will make quarterly payments to SMWD to cover its allocable share of the operational costs for the Trampas Reservoir, conveyance system, and pumping facilities. SMWD will provide the City with quarterly invoices basis, based on actual costs and operational usage, which shall include detailed backup information. The City will pay all invoices within thirty (30) days of receipt.

Payments shall be determined as follows:

- i. Trampas Reservoir Storage Fee (Fixed, Variable, and Capital Components)

The City will pay fixed operating and maintenance costs for its proportionate share such costs based on its first 100 AF (2%) of capacity right. (Fixed operating and maintenance costs and expenses include those incurred regardless of actual use, including labor, equipment, materials and supplies, excluding any non-cash items such as depreciation, recognition of changes in pension liabilities, or any obsolescent charges or any reserves therefore, or amortization of intangibles or other bookkeeping entries of similar nature).

The City will pay variable operating and maintenance costs based on its proportionate share of water stored in Trampas Reservoir. Variable operating and maintenance costs will include those incurred for the storing and moving of water which are dependent on the quantity of water, for example costs of power, chemicals, and other material and supplies.

The City will also pay its proportionate share of capital repair and replacement costs at the Trampas Reservoir proportionate to its first 100 AF of capacity.

- ii. Pico Recycled Water Pump Station Costs (Power, Fixed, and Capital Components)

The City will pay for power costs based on its percentage share of actual metered water.

The City will pay for fixed operation and maintenance costs based on its ownership percentage of 24%, as described in Section 5. (Fixed operating and maintenance costs and expenses include those incurred regardless of actual use, including labor, equipment, materials and supplies, excluding any non-cash items such as depreciation, recognition of changes in pension liabilities, or any obsolescent charges or any reserves therefore, or amortization of intangibles or other bookkeeping entries of similar nature).

The City will pay for its proportionate share of capital repair and replacement costs based on its ownership percentage of 24%

4.13 Option to Repurchase. To the extent that SMWD has stored water purchased from the City in the Trampas Reservoir or another SMWD storage facility that SMWD has not contractually committed to provide to SMWD customers, the City will have the option, during a water emergency or such other event to be agreed upon with SMWD, to repurchase recycled water from SMWD in any given water year. The amount of recycled water that City repurchases and leaves in storage will be subject to adjustment for transportation and evaporation losses as determined pursuant to Section 4.11. The price for repurchased water will be the price paid by SMWD for the last tier of water acquired in the most recent calendar year as described in Section 4.7.D, plus the actual cost to deliver the recycled water back to the interconnection point with the City's recycled water system. The quality of the repurchased water will be the quality of water held in the Trampas Reservoir.

5. Projects Under Construction and Future Coordination.

Pico Recycled Water Pump Station. SMWD has completed construction of the Pico Recycled Water Pump Station, which will facilitate the conveyance of recycled between the City and SMWD. The Pump Station consists of three pumps, one of which will specifically facilitate the City's needs to provide recycled water service an area known as Bella Collina. In order for SMWD to provide recycled water from SMWD to the City, two pressure reducing valves have been incorporated into this pump station. The City shall pay SMWD \$611,800 for an ownership share of 24% of the of the Pico Recycled Water Pump Station no later than sixty (60) days following the date that SMWD completes the project and provides the City with an invoice for its share of the final project costs. Notwithstanding the Term of this Agreement, the City shall retain its ownership in its share of the pump station for the useful life of the pump station. If the advanced recycled water quality project is not built, SMWD will repay the City \$611,800 within 60 days upon written notice from SMWD 36 months after the Agreement is approved.

5.1 Coordination on Communication Systems. The City and SMWD contemplate coordinating the installation of mutually beneficial data gathering and telecommunication systems, such as antennae, metering, or other monitoring devices. The systems are intended to share information on the availability and movement of recycled water within the Talega Area, and to track usage and costs at the Pico Recycled Water Pump Station. The City and SMWD expect to grant mutual access to their respective facilities to install such systems in the area, as may be needed, to facilitate this mutually beneficial objective. SMWD will pay the cost for an antennae and installation on an existing tower at the City's Reservoir 9 facility to complete a communications link between the City and the District for coordination of water recycled water

deliveries between the City and SMWD, and other operational communications. The antennae shall be acceptable to the City. The antennae is expected to be approximately 36-inch by 4-inch by 4-inch, with cable to switch box cabinet 16-inch by 12-inch by 6-inch. The City shall provide 120-volt ac power maximum 5 amps. Additional communications for the benefit of the City or the District may be provided through this antennae or other City or District facilities if mutually agreed upon.

5.2 Coordination on Mutually Beneficial Power Rates and Costs. The City and SMWD contemplate coordinating and pursuing the most advantageous power rates and costs for the Pico Recycled Water Pump Station and all other SMWD facilities related to the wastewater and recycled water intertie with the City in the Talega Area. The parties contemplate that, to the extent cost savings can be generated on facilities which the City does not pay a proportionate share of costs, the City would be entitled to receive up to 30% of such savings, in the form of an annual credit to charges owed to SMWD.

5.3 Financing of City Treatment Facility. The City contemplates constructing a new treatment facility adjacent to the Plant in order to meet the Water Quality Threshold, as discussed under Section 4. In the event the City seeks outside financing for the costs to construct the treatment facility, the Parties contemplate that SMWD and the City may seek to develop a mutually acceptable loan or financing arrangement. SMWD may consider loaning the City all or portion of the necessary funds, subject to repayment and legal provisions to be approved by the Parties' governing bodies.

6. City Purchase of SMWD Recycled Water.

6.1 Definition of SMWD Recycled Water. For the purposes of this Agreement, "SMWD Recycled Water" will be liquid effluent which SMWD produces, stores, and delivers to the City for non-potable use as further defined in Title 22 of the California Code of Regulations.

6.2 Quantity of SMWD Recycled Water available to the City. For a period not to exceed 30 months from the effective date, the City shall inform SMWD, by March 1 of each year of its anticipated purchases for the upcoming Fiscal Year commencing July 1. SMWD commits to supply the City up to 200 AF of SWMD recycled water within each Fiscal Year. The quantity and timing requested of delivery of SMWD recycled water shall be at the discretion of the City but shall be subject to the delivery provisions and availability in Section 6.4. The purchase terms contained in Section 6 may be extended beyond the initial 30-month period, subject to mutual written agreement by the City and SMWD.

6.3 Purchase Price for SMWD Recycled Water. The City shall pay for water delivered based on the then-current SMWD recycled water rate charged for uniform commercial users (\$2.51 per ccf or approximately \$1,093 per AF as of January 1, 2022). SMWD shall provide the City with monthly invoices and payment shall be due within 30 days.

6.4 Delivery of Recycled Water by SMWD. SMWD will be responsible for delivery of SMWD recycled water to the interconnection point with SMWD's recycled water system pressurized to the City upper pressure zone. Delivery of SMWD recycled water to the City will be provided when there is capacity within SMWD's system, as determined by SMWD.

During high demand periods throughout the summer months, SMWD may limit the delivery of recycled water the City, but only as necessary to deliver water to SMWD's retail customers. SMWD will provide the City with an estimate of delivery restrictions prior to the beginning of each month. The City and SMWD will communicate through a mutual control and communications system or other methods as may be mutually agreed upon.

6.5 Recycled water delivered from SMWD to City shall be measured at the interconnection point. The meters shall be calibrated for accuracy annually or at a mutually agreed upon lesser or greater frequency. Recycled water flow measuring shall be accurate within 5% of actual flow throughout the anticipated flow range.

7. Indemnity and Liability Provisions.

7.1 Indemnity by SMWD. SMWD hereby agrees, at its sole cost and expense, to indemnify, protect, hold harmless and defend City, its elected officials, officers, employees, agents, successors and assigns (collectively, the "SMWD Indemnified Parties") from and against any and all claims, demands, damages, losses, liabilities, obligations, penalties, fines, actions, causes of action, judgments, suits, proceedings, costs, disbursements and expenses (including, without limitation, fees, disbursements and cost of attorneys, consultants and experts) (collectively "Damages") which may at any time be imposed upon, incurred, or suffered by, or asserted or awarded against, any SMWD Indemnified Party directly or indirectly relating to or arising from (i) the breach of the obligations of SMWD under this Agreement; (ii) the operation of the SMWD System; or (iii) the acceptance and treatment of wastewater from SMWD that is non-conforming with the quality requirements for wastewater set forth herein. This indemnity shall not apply to any Damages or Third Party Claims which result from the failure of the City to properly treat wastewater which conforms with the terms of this Agreement.

7.2 Indemnity by City. City hereby agrees, at its sole cost and expense, to indemnify, protect, hold harmless and defend SMWD, its elected officials, officers, employees, agents, successors and assigns (collectively, the "City Indemnified Parties") from and against any and all Damages which may at any time be imposed upon, incurred, or suffered by, or asserted or awarded against, any City Indemnified Party directly or indirectly relating to or arising from (i) the breach of the obligations of City under this Agreement; (ii) the operation of the City System and the Plant; or (iii) the supply of recycled water to SMWD that does not meet the quality requirements for recycled water as described in this Agreement. This indemnity shall not apply to any Damages or Third Party Claims which are the responsibility of SMWD pursuant to Section 6.1.

7.3 Defense of Third Party Claims. Promptly following receipt of any written claim or legal proceeding asserted by a person or entity which is not a party to this Agreement (a "Third Party Claim"), the indemnified parties shall notify the indemnifying party. The indemnifying party shall have a period of 30 days (or such lesser period as may be required to timely respond to a Third Party Claim) following the receipt of such notice to undertake and diligently pursue the defense of the Third Party Claim with legal counsel reasonably acceptable to the indemnified parties. The indemnifying party shall reimburse the indemnified parties for any legal expense reasonably incurred by indemnified parties to

timely respond to a Third Party Claim prior to the indemnifying party assuming the defense thereof. The indemnifying party shall not consent to entry of judgment or enter into any settlement agreement, without the consent of the indemnified parties, which does not include a complete and unconditional release of the indemnified parties or which imposes injunctive or other equitable relief against the indemnified parties. If the indemnifying party fails to assume and diligently pursue the defense of a Third Party Claim, the indemnified parties may defend against such Third Party Claim in such manner as it may deem appropriate, including without limitation settlement thereof on such terms as the indemnified parties may reasonably deem appropriate, and to pursue such remedies as may be available to the indemnified parties against the indemnifying party.

8. Termination and Remedies. In the event of a material breach of any material term or provision of this Agreement by either party, and such breach is not cured within ninety (90) days after service of written notice of such breach upon the breaching party, then the non-breaching party shall have the right and option to terminate this Agreement, provided, however, that should the breaching party, prior to the expiration of the ninety (90) day cure period, diligently commences to cure such breach, but is unable to do so within the ninety (90) day period, then such period shall be extended for an additional ninety (90) day period. Default on the any of the following obligations shall not constitute a material breach of the Agreement and shall be subject to the specific remedies corresponding to these minor defaults, as described in the sections cited below:

8.1 The following shall be cause for termination of Section 4 of this Agreement by either Party and subject exclusively to the remedy of return of capital as prescribed under Sections 4.9, 4.11, and 5.1 within 30 days following termination:

8.1.1 The City's and SMWD's commitment to obtain Modified Permits as described in Section 4.2,

8.1.2 The City's failure to award a contract for the construction of an Advanced Water Treatment Facility at the Plant within 18 months following the Effective Date Section 4 of the Agreement, which deadline may be extended by mutual written agreement of the Parties;

8.1.3 The City's failure to complete the Advanced Water Treatment Facility within 36 months of the Approval of this Agreement;

8.1.4 The City's commitment to achieve the Water Quality Threshold as described in Section 4.4;

8.1.5 The City's commitment to deliver 1,000 AF of recycled water to SMWD pursuant to Section 4.5;

8.2 SMWD's commitment to make Trampas Reservoir capacity available to the City pursuant to Section 4.11, subject exclusively to the remedies provided therein.

Except as noted above, each Party shall have all of the remedies available at law or equity for a breach of this Agreement by the other Party. Such remedies will include the remedy of

specific performance to enforce the terms of this Agreement. Notwithstanding the foregoing, neither Party shall be liable to the other for any special, indirect or consequential damages of any kind resulting from a breach of this Agreement, whether or not such damages were reasonably foreseeable by the other party.

8.3 Replacement of City Water Reclamation Plant, Los Molinos Pump Station and Pico Trunk Sewer Line. If during the Term it becomes necessary to do a major renovation or replacement of the Plant, the Los Molinos Pump Station or the Pico Trunk Sewer Line either as a result of a force majeure event or such facilities reaching the end of their normal design life, then City will give SMWD written notice of the need to undertake such renovation or replacement and SMWD will have the option to terminate the Agreement, continue a service arrangement on new terms agreed upon by the parties, or buy into the capacity of the Plant or other such facilities by paying its proportional share of the cost of such renovation or replacement. If SMWD has not given written notice of its election to the City within one hundred eighty (180) days of receipt of the City's notice, then SMWD will be deemed to have elected to terminate.

9. California Law. In the event of a breach of any term or provision of this Agreement by either party, both parties shall have all rights and remedies granted by California law. Nothing contained in this Agreement shall be construed as limiting any of the rights and remedies of either party upon any breach of a term or provision of this Agreement.
10. Force Majeure. If by reason of acts of God, earthquakes, droughts, floods, storms, explosion, fires, labor troubles, strikes, insurrection, riots, acts of the public enemy, or federal, state, or local law, order, rule, or regulation, a Party is prevented, in whole or in part, from fulfilling its obligations under this Agreement, then such Party shall be excused from such non-performance for such reasonable period as is necessary to restore performance provided that the non-performing party is working diligently to mitigate the conditions created by the force majeure. Notwithstanding the foregoing, if the force majeure continues for a period in excess of one hundred eighty (180) days, then the other Party may terminate this Agreement.
11. Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and verbal, between the parties with respect to the subject matter hereof.
12. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties thereto and their successors and assigns. The Agreement may not be assigned by either party without the prior written consent of the other party.
13. Amendments. This Agreement may not be amended, altered or modified except in writing signed by the parties hereto. No waiver by either party of any breach by the other party of any provisions of this Agreement shall be construed as a waiver of any subsequent breach, whether of the same or of any different provision of this Agreement. No course of conduct or series of dealings shall constitute a waiver hereunder.

14. Notice. In the event that written notice must or may be given hereunder, such notice shall be sent via a commercial overnight courier such as Federal Express or UPS to the other party at the following address or such other address as a party may notify the other in writing:

If to City: Utilities Director
 City of San Clemente
 380 Avenida Pico, Building N
 City of San Clemente, CA 92672

If to SMWD: General Manager
 Santa Margarita Water District
 26111 Antonio Parkway
 Rancho Santa Margarita, CA 92688

Notice shall be sent to the above referenced persons unless the parties are otherwise notified in writing of a change in the name or address of the person to be notified.

15. Governing Law. This Agreement shall be governed by and construed under the laws of the State of California and venue for any action arising out of this Agreement shall be in the Superior Court of the State of California located in the County of Orange.
16. Attorney's Fees and Costs. The prevailing party in any action brought to enforce the terms of this Agreement in court or arbitration shall be entitled to an award of its reasonable attorney's fees and costs, including without limitation, the costs of discovery and expert witnesses in connection with any such action.

Signature Page Follows

IN WITNESS WHEREOF, the parties hereto have by their duly authorized officers or representatives executed this Agreement all on the day and year first above written.

CITY OF SAN CLEMENTE

Dated: _____

By: _____

Its: _____

ATTEST:

City Clerk of the City of
San Clemente, California

**SANTA MARGARITA WATER
DISTRICT**

Dated: _____

By: _____

Its: _____

ATTEST:

Board Secretary of the
Santa Margarita Water District

Exhibit A - Leased Wastewater Costs

City Sewer Fund (472) Cost Items*	Cost Categories	FY 2023 Amounts	Allocation Basis	Allocation %	SMWD Share
472-41010-000-00000 SALARIES, REGULAR FULL TIME	Personnel	\$796,953	Capacity	9.3%	\$74,321
472-41030-000-00000 SALARIES, HOURLY PART TIME	Personnel	\$0	Capacity	9.3%	\$0
472-41310-000-00000 REGULAR OVERTIME	Personnel	\$0	Capacity	9.3%	\$0
472-41320-000-00000 PREMIUM OVERTIME - REGULAR	Personnel	\$83,835	Capacity	9.3%	\$7,818
472-41330-000-00000 HOLIDAY PAY	Personnel	\$0	Capacity	9.3%	\$0
472-41350-000-00000 ACCRUED LEAVE PAYOFF	Personnel	\$5,283	Capacity	9.3%	\$493
472-41410-000-00000 EDUCATION INCENTIVE PAY	Personnel	\$256	Capacity	9.3%	\$24
472-41460-000-00000 ASSIGNMENT PAY	Personnel	\$50,642	Capacity	9.3%	\$4,723
472-41535-000-00000 PHONE ALLOWANCE	Benefits	\$275	Capacity	9.3%	\$26
472-41710-000-00000 EDUCATIONAL REIMBURSEMENT	Benefits	\$6,793	Capacity	9.3%	\$633
472-41951-000-00000 FICA	Benefits	\$57,345	Capacity	9.3%	\$5,348
472-41954-000-00000 MEDICARE	Benefits	\$13,656	Capacity	9.3%	\$1,274
472-41957-000-00000 STATE DISABILITY INSURANCE	Benefits	\$9,991	Capacity	9.3%	\$932
472-41958-000-00000 A.D. & D. INSURANCE	Benefits	\$133	Capacity	9.3%	\$12
472-41959-000-00000 LONG TERM DISABILITY INSURANCE	Benefits	\$2,739	Capacity	9.3%	\$255
472-41961-000-00000 STATE UNEMPLOYMENT INSURANCE	Benefits	\$2,063	Capacity	9.3%	\$192
472-41963-000-00000 WORKERS COMPENSATION INS.	Benefits	\$42,783	Capacity	9.3%	\$3,990
472-41965-000-00000 LIFE INSURANCE	Benefits	\$1,595	Capacity	9.3%	\$149
472-41967-000-00000 MEDICAL INSURANCE	Benefits	\$150,466	Capacity	9.3%	\$14,032
472-41975-000-00000 SAN CLEMENTE RETIREMENT PREM.	Benefits	\$82,724	Capacity	9.3%	\$7,715
472-41976-000-00000 RETIREMENT PREMIUM (LEGACY)	Benefits	\$69,100	Capacity	9.3%	\$6,444
472-41977-000-00000 RETIREMENT PREM-CALPERS (UAL)	Benefits	\$34,350	Capacity	9.3%	\$3,203
472-41978-000-00000 RETIREMENT EXPENSE	Benefits	\$244,565	N/A	0.0%	\$0
472-41984-000-00000 DEFERRED COMPENSATION - P/T	Benefits	\$0	Capacity	9.3%	\$0
472-42010-000-00000 OFFICE SUPPLIES	Operations	\$0	Capacity	9.3%	\$0
472-42030-000-00000 POSTAGE	Operations	\$0	Capacity	9.3%	\$0
472-42150-000-00000 CHEMICAL SUPPLIES	Operations	\$292,410	Volume	18.2%	\$53,240
472-42170-000-00000 LABORATORY SUPPLIES	Operations	\$19,130	Capacity	9.3%	\$1,784
472-42190-000-00000 JANITORIAL SUPPLIES	Operations	\$0	Capacity	9.3%	\$0
472-42280-000-00000 PROTECTIVE SUPPLIES	Operations	\$7,809	Capacity	9.3%	\$728
472-42360-000-00000 EDUCATIONAL MATERIAL	Operations	\$168	Capacity	9.3%	\$16
472-42380-000-00000 OFFICE FURNITURE/EQUIPMENT (NON-CAP)	Operations	\$99	Capacity	9.3%	\$9
472-42390-000-00000 SMALL TOOLS AND EQUIPMENT	Operations	\$7,180	Capacity	9.3%	\$670
472-42410-000-00000 CLOTHING AND UNIFORMS	Operations	\$999	Capacity	9.3%	\$93
472-42490-000-00000 OTHER OPERATING SUPPLIES	Operations	\$45,056	Volume	18.2%	\$8,204
472-42530-000-00000 PAINTING SUPPLIES	Operations	\$0	Capacity	9.3%	\$0
472-42590-000-00000 OTHER MAINTENANCE SUPPLIES	Operations	\$90,664	Capacity	9.3%	\$8,455
472-42610-000-00000 PURCHASED WATER	Operations	\$195,291	Capacity	9.3%	\$18,212
472-43050-000-00000 PRINTING AND BINDING	Operations	\$0	Capacity	9.3%	\$0
472-43060-000-00000 TRAVEL AND TRAINING	Operations	\$4,358	Capacity	9.3%	\$406
472-43320-000-00000 NATURAL GAS	Operations	\$28,040	Volume	18.2%	\$5,105
472-43330-000-00000 ELECTRICITY	Operations	\$638,414	Volume	18.2%	\$116,238
472-43340-000-00000 WATER	Operations	\$5,988	Capacity	9.3%	\$558
472-43370-000-00000 LANDFILL FEES	Operations	\$373,775	Volume	18.2%	\$68,054
472-43410-000-00000 MAINTENANCE OF BUILDINGS	Operations	\$374	Capacity	9.3%	\$35
472-43440-000-00000 MAINTENANCE OF AUTO EQUIPMENT	Operations	\$0	Capacity	9.3%	\$0
472-43450-000-00000 MAINTENANCE OF OPERATING EQUIP	Operations	\$148,026	Volume	18.2%	\$26,952
472-43690-000-00000 OTHER PROFESSIONAL SERVICES	Operations	\$19,097	Capacity	9.3%	\$1,781
472-43730-000-00000 RENTAL OF EQUIPMENT	Operations	\$13,530	Capacity	9.3%	\$1,262
472-43890-000-00000 OTHER CONTRACTUAL SERVICES	Operations	\$35,970	Volume	18.2%	\$6,549
472-44110-000-00000 DUES AND SUBSCRIPTIONS	Operations	\$4,520	Capacity	9.3%	\$422
472-44260-000-00000 LICENSES AND PERMITS	Operations	\$29,219	Capacity	9.3%	\$2,725
472-44800-000-00000 DEPRECIATION	Non-cash	\$1,415,654	N/A	0.0%	\$0
472-44801-000-00000 DEPREC. RESERVE CONTRIBUTION	Non-cash	\$200,000	N/A	0.0%	\$0
472-45500-000-00000 MACHINERY & EQUIPMENT	Operations	\$0	Capacity	9.3%	\$0
472-46080-000-00000 INFORMATION TECHNOLOGY CHARGES	Operations	\$108,100	Capacity	9.3%	\$10,081
472-46110-000-00000 COMMUNICATIONS CHARGES	Operations	\$3,710	Capacity	9.3%	\$346
472-46130-000-00000 FLEET RENTAL CHARGES	Operations	\$102,700	Capacity	9.3%	\$9,577
472-46510-000-00000 GENERAL FUND OVERHEAD CHARGES	Operations	\$277,990	Capacity	9.3%	\$25,924
472-47130-000-00000 TRANSFER TO FLEET MAINT. FUND	Operations	\$0	Capacity	9.3%	\$0

Totals	\$5,723,819	Total SMWD Share	\$499,010
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SMWD Quarterly Invoice Amount	\$124,753
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Allocation Basis Calculations (Initial)	Component Type	% Allocation	SMWD Flows (MGD)	City Flows (MGD)	City Treatment Plant Capacity
SMWD Share of Treatment Capacity	Capacity	9.3%	0.65	NA	6.97
SMWD Share of Treatment Flows	Volume	18.2%	0.65	2.92	NA
SMWD Share of Treatment Loadings	Loadings	18.2%	0.65	2.92	NA

Percentages in "% Allocation column" will fluctuate each year based on actual SMWD and City Flows.

*Cost items indicated are based on City's current cost detail and are intended to illustrate the methodology governed by the Agreement. Cost items and classifications may evolve over time based on City accounts and accounting practices.

Exhibit B - Los Molinos Pump Station and Pico Trunk Sewer Line Costs

i. Los Molinos Pump Station - Operating Costs - Initial Calculation Basis

Subsequent annual amounts will be based on actual costs and usage as defined in the Agreement.

Operating Cost Components	FY 2021 Data	Calculation Basis / Notes
Power	\$21,120	Actual Flows and Actual Costs
O&M based on Work Order Costs	\$7,209	SMWD Capacity Share and Actual Costs
5% Escalation Factor	\$1,416	
Total Year One Amount*	\$29,745	
Quarterly invoice amount	\$7,436	

*Subject to year-end true-up under City Invoice Process. Future amounts subject to change based on actual data and estimates.

ii. Los Molinos Pump Station - Capital Contribution - Initial Year Calculation Basis / Illustrative Only

Subsequent annual amounts increase annually as defined in the Agreement.

Equipment	Life	Replacement Cost	Annual Cost	Capacity Flow Ratio	Discount / Adjustment	SMWD Share*
Concrete	50	\$2,300,000	\$46,000	25.80%	50%	\$5,934
Electrical equipment	20	\$1,250,000	\$62,500	25.80%	50%	\$8,063
Pumps & motors	5	\$200,000	\$40,000	25.80%	0%	\$10,320
Piping	50	\$2,000,000	\$40,000	25.80%	50%	\$5,160
Totals		\$5,750,000	\$188,500			\$29,477
Total Year 1 Amount (+5%)						\$30,950
Quarterly invoice amount						\$7,738

* Costs calculated based on estimated annualized replacement cost multiplied by capacity or flow (pumps and motors) with a 50% discount rate due to limited wear and tear on equipment from the City receiving additional flow.

iii. Pico Trunk Sewer Line Costs - Initial Year Calculation Basis / Illustrative Only

Subsequent annual amounts increase annually as defined in the Agreement.

Pico Trunk Sewer Line Capital Calculation

Sewer Pipeline Description:	Length	*Cost/LF (liner)	Liner	Life	Cost per year	SMWD Percent Flow 67%
11,700 linear feet Transmission main	11,700	\$ 125	1,467,937	75	\$19,572	\$13,126

*escalated to January 2022 dollars

Total Year 1 Amount	\$13,126
Quarterly invoice amount	\$3,282

Capacity Based on Flow

Pipeline Reach	CSC Ave.	SMWD Ave.	CSC Share %	SMWD Share %
SC001	0.13	0.65	0.17	83%
SC002	0.26	0.65	0.29	71%
SC003	0.4	0.65	0.38	62%
SC006	0.61	0.65	0.48	52%
Average			0.33	67%

Exhibit C - Administrative Costs

City Sewer Administration Fund (471) Cost Items*	Initial City Amounts	Agreement Reduction	Agreement Reductions	Agreement FY 2023 Amounts
471-41010-000-00000 SALARIES, REGULAR FULL TIME	\$347,261	Utility Director	\$127,899	\$219,362
471-41030-000-00000 SALARIES, HOURLY PART TIME	\$0			\$0
471-41320-000-00000 PREMIUM OVERTIME - REGULAR	\$85			\$85
471-41350-000-00000 ACCRUED LEAVE PAYOFF	\$7,868			\$7,868
471-41530-000-00000 AUTO ALLOWANCE	\$2,100			\$2,100
471-41535-000-00000 PHONE ALLOWANCE	\$292			\$292
471-41951-000-00000 FICA	\$18,708			\$18,708
471-41954-000-00000 MEDICARE	\$5,061			\$5,061
471-41957-000-00000 STATE DISABILITY INSURANCE	\$3,255			\$3,255
471-41958-000-00000 A.D.& D. INSURANCE	\$66			\$66
471-41959-000-00000 LONG TERM DISABILITY INSURANCE	\$1,125			\$1,125
471-41961-000-00000 STATE UNEMPLOYMENT INSURANCE	\$772			\$772
471-41963-000-00000 WORKERS COMPENSATION INS.	\$7,646			\$7,646
471-41965-000-00000 LIFE INSURANCE	\$807			\$807
471-41967-000-00000 MEDICAL INSURANCE	\$52,370			\$52,370
471-41975-000-00000 SAN CLEMENTE RETIREMENT PREM.	\$32,431			\$32,431
471-41976-000-00000 RETIREMENT PREMIUM (LEGACY)	\$29,890			\$29,890
471-41984-000-00000 DEFERRED COMPENSATION - P/T				\$0
471-42010-000-00000 OFFICE SUPPLIES	\$3,883			\$3,883
471-42030-000-00000 POSTAGE	\$986			\$986
471-42050-000-00000 DATA PROCESSING SUPPLIES	\$1,669			\$1,669
471-42130-000-00000 MEDICAL SUPPLIES	\$645			\$645
471-42360-000-00000 EDUCATIONAL MATERIAL	\$0			\$0
471-42380-000-00000 OFFICE FURNITURE/EQUIPMENT (NON-CAP)	\$620			\$620
471-42410-000-00000 CLOTHING AND UNIFORMS	\$3,728			\$3,728
471-42490-000-00000 OTHER OPERATING SUPPLIES	\$130			\$130
471-43050-000-00000 PRINTING AND BINDING	\$371			\$371
471-43060-000-00000 TRAVEL AND TRAINING	\$949			\$949
471-43120-000-00000 PROPERTY INSURANCE	\$176,182			\$176,182
471-43410-000-00000 MAINTENANCE OF BUILDINGS	\$0			\$0
471-43420-000-00000 MAINTENANCE OF IMPROVEMENTS	\$4,222			\$4,222
471-43425-000-00000 MAINTENANCE OF LANDSCAPING	\$41,809			\$41,809
471-43450-000-00000 MAINTENANCE OF OPERATING EQUIP	\$0			\$0
471-43456-000-00000 MAINT. OF COMPUTER SOFTWARE	\$168,195	Utility Billing	\$127,899	\$40,296
471-43480-000-00000 CONTRACTED CUSTODIAL SERVICES	\$21,830			\$21,830
471-43565-000-00000 ANSWERING SERVICE	\$2,549			\$2,549
471-43640-000-00000 OTHER LEGAL SERVICES	\$2,292			\$2,292
471-43690-000-00000 OTHER PROFESSIONAL SERVICES	\$2,428			\$2,428
471-43750-000-00000 RENTAL OF UNIFORMS	\$6,976			\$6,976
471-43890-000-00000 OTHER CONTRACTUAL SERVICES	\$182,377	SOCWA / Billing	\$176,111	\$6,266
471-44015-000-00000 FINES & CITATIONS	\$0			\$0
471-44110-000-00000 DUES AND SUBSCRIPTIONS	\$1,655			\$1,655
471-44260-000-00000 LICENSES AND PERMITS	\$598			\$598
471-44800-000-00000 DEPRECIATION	\$750			\$750
471-46030-000-00000 INSURANCE CHARGES	\$210,770			\$210,770
471-46050-000-00000 POSTAGE CHARGES	\$0			\$0
471-46060-000-00000 DUPLICATING CHARGES	\$1,050			\$1,050
471-46080-000-00000 INFORMATION TECHNOLOGY CHARGES	\$26,090			\$26,090
471-46110-000-00000 COMMUNICATIONS CHARGES	\$19,930			\$19,930
471-46130-000-00000 FLEET RENTAL CHARGES	\$7,510			\$7,510
471-46340-000-00000 CHARGES FROM PARKS MAINTENANCE	\$0			\$0
471-46510-000-00000 GENERAL FUND OVERHEAD CHARGES	\$124,260	Utility Billing	\$108,919	\$15,341
Totals	\$1,524,190		\$ 540,828	\$ 983,361

*Cost items indicated are based on City's current cost detail and are intended to illustrate the methodology governed by the Agreement. Cost items and classifications may evolve over time based on City accounts and accounting practices.

Steps for Allocating Administrative Costs to SMWD:

1. Determine applicable total amount, after deducting certain components as above.	\$983,361
2. Determine the proportion of the City's Treatment Costs (Fund 472) to the City's total Treatment Costs (472) + Collection System Costs (473).	58%
3. Multiple the Step 1 amount by Step 2 percentage	\$570,350
4. Determine SMWD's share of City Plant treatment capacity (See Exhibit A)	9.33%
5. Multiple Step 3 by Step 4 to get SMWD's share of Administrative Costs.	\$53,189
6. Quarterly Invoice Amount (Step 5 *25%).	\$13,297

Exhibit D - Recycled Water Costs

City Water Reclamation Fund (465) Cost Items*	FY 2023 Amounts	Cost Categories	Allocation Basis	Agreement Costs
465-41010-000-00000 SALARIES, REGULAR FULL TIME	\$265,180	Personnel	Fixed Costs	\$265,180
465-41030-000-00000 SALARIES, HOURLY PART TIME	\$0	Personnel	Fixed Costs	\$0
465-41310-000-00000 REGULAR OVERTIME	\$0	Personnel	Fixed Costs	\$0
465-41320-000-00000 PREMIUM OVERTIME - REGULAR	\$33,613	Personnel	Fixed Costs	\$33,613
465-41321-000-00000 PREMIUM OVERTIME - PART-TIME	\$0	Personnel	Fixed Costs	\$0
465-41330-000-00000 HOLIDAY PAY	\$0	Personnel	Fixed Costs	\$0
465-41350-000-00000 ACCRUED LEAVE PAYOFF	\$1,867	Personnel	Fixed Costs	\$1,867
465-41410-000-00000 EDUCATION INCENTIVE PAY	\$45	Personnel	Fixed Costs	\$45
465-41460-000-00000 ASSIGNMENT PAY	\$15,038	Personnel	Fixed Costs	\$15,038
465-41535-000-00000 PHONE ALLOWANCE	\$49	Personnel	Fixed Costs	\$49
465-41951-000-00000 FICA	\$18,888	Benefits	Fixed Costs	\$18,888
465-41954-000-00000 MEDICARE	\$4,511	Benefits	Fixed Costs	\$4,511
465-41957-000-00000 STATE DISABILITY INSURANCE	\$3,326	Benefits	Fixed Costs	\$3,326
465-41958-000-00000 A.D.& D. INSURANCE	\$47	Benefits	Fixed Costs	\$47
465-41959-000-00000 LONG TERM DISABILITY INSURANCE	\$667	Benefits	Fixed Costs	\$667
465-41961-000-00000 STATE UNEMPLOYMENT INSURANCE	\$689	Benefits	Fixed Costs	\$689
465-41963-000-00000 WORKERS COMPENSATION INS.	\$12,382	Benefits	Fixed Costs	\$12,382
465-41965-000-00000 LIFE INSURANCE	\$547	Benefits	Fixed Costs	\$547
465-41967-000-00000 MEDICAL INSURANCE	\$55,498	Benefits	Fixed Costs	\$55,498
465-41975-000-00000 SAN CLEMENTE RETIREMENT PREM.	\$25,730	Benefits	Fixed Costs	\$25,730
465-41976-000-00000 RETIREMENT PREMIUM (LEGACY)	\$20,180	Benefits	Fixed Costs	\$20,180
465-42010-000-00000 OFFICE SUPPLIES	\$191	Operations	Fixed Costs	\$191
465-42150-000-00000 CHEMICAL SUPPLIES	\$82,315	Operations	Variable Costs	\$82,315
465-42170-000-00000 LABORATORY SUPPLIES	\$4,999	Operations	Fixed Costs	\$4,999
465-42280-000-00000 PROTECTIVE SUPPLIES	\$2,384	Operations	Fixed Costs	\$2,384
465-42390-000-00000 SMALL TOOLS AND EQUIPMENT	\$4,603	Operations	Fixed Costs	\$4,603
465-42490-000-00000 OTHER OPERATING SUPPLIES	\$23,776	Operations	Fixed Costs	\$23,776
465-42590-000-00000 OTHER MAINTENANCE SUPPLIES	\$30,984	Operations	Fixed Costs	\$30,984
465-43060-000-00000 TRAVEL AND TRAINING	\$525	Operations	Fixed Costs	\$525
465-43330-000-00000 ELECTRICITY	\$242,891	Operations	Variable Costs	\$242,891
465-43450-000-00000 MAINTENANCE OF OPERATING EQUIP	\$45,387	Operations	Fixed Costs	\$45,387
465-43450-000-00000 MAINTENANCE OF OPERATING EQUIP	\$45,387	Operations	Fixed Costs	\$45,387
465-43690-000-00000 OTHER PROFESSIONAL SERVICES	\$2,475	Operations	Fixed Costs	\$2,475
465-43691-000-00000 DEVELOPERS REIMBURSEMENTS	\$0	Operations	N/A	\$0
465-43890-000-00000 OTHER CONTRACTUAL SERVICES	\$28,900	Operations	Fixed Costs	\$28,900
465-44260-000-00000 LICENSES AND PERMITS	\$3,230	Operations	Fixed Costs	\$3,230
465-44800-000-00000 DEPRECIATION	\$381,660	Operations	N/A	\$0
465-44802-000-00000 DEPRECIATION - ASSET MODEL	\$23,000	Operations	N/A	\$0
465-46080-000-00000 INFORMATION TECHNOLOGY CHARGES	\$7,460	Operations	Fixed Costs	\$7,460
465-46110-000-00000 COMM CHARGES	\$620	Operations	Fixed Costs	\$620
465-46130-000-00000 FLEET RENTAL CHARGES	\$14,020	Operations	Fixed Costs	\$14,020
465-46510-000-00000 GENERAL FUND OVERHEAD CHARGES	\$67,790	Operations	Fixed Costs	\$67,790
465-48170-000-00000 WATER FUND LOAN PRINCIPAL	\$649,785	Operations	N/A	\$0
465-48470-000-00000 WATER FUND LOAN INTEREST	\$243,670	Operations	N/A	\$0

Agreement Cost Breakdown and Illustrative Per Acre-Foot Calculations:

Agreement Recycled Water Pricing Components:	Cost Breakdown:	
"A"	Fixed Costs	\$740,987
"B"	Variable Costs	\$325,205
Total Applicable Agreement Costs*		\$1,066,193

Total Recycled Water Capacity of the Plant	4,932	acre-feet	Static / Not Expected To Change
Total Actual AF produced by the City in FY 2021	1,165	acre-feet	Changes Each Year Based On Actual Production

Agreement Recycled Water Pricing Components:	Cost Breakdown:	\$ per AF	
"A"	Fixed Costs	\$150	Total Fixed Costs / Total RW Plant Capacity
"B"	Variable Costs	\$279	Total Variable Costs / Actual RW Production

*Cost items indicated are based on City's FY 2021 actual category detail and are intended to illustrate the methodology governed by the Agreement. Cost items and classifications may evolve over time based on City accounts and accounting practices. As indicated, Agreement costs shall not include any non-cash items such as depreciation or existing debt service allocated to the system. Certain costs, including power costs, may be based on an allocation of costs between wastewater treatment and recycled water production.

For Advanced Water Treatment Facility Cost Allocations, the Facility's Fixed and Variable Costs will be subsequently included in "A" and "B" components based on actual operating costs incurred. Annualized Capital Costs shall be a separate line item component based on actual such costs.

Attachment 2



September 6, 2022

Utilities Department

David Rebensdorf, Utilities Director

Agreement for Wastewater Services and Recycled Water Purchases between the City and Santa Margarita Water District (SMWD)



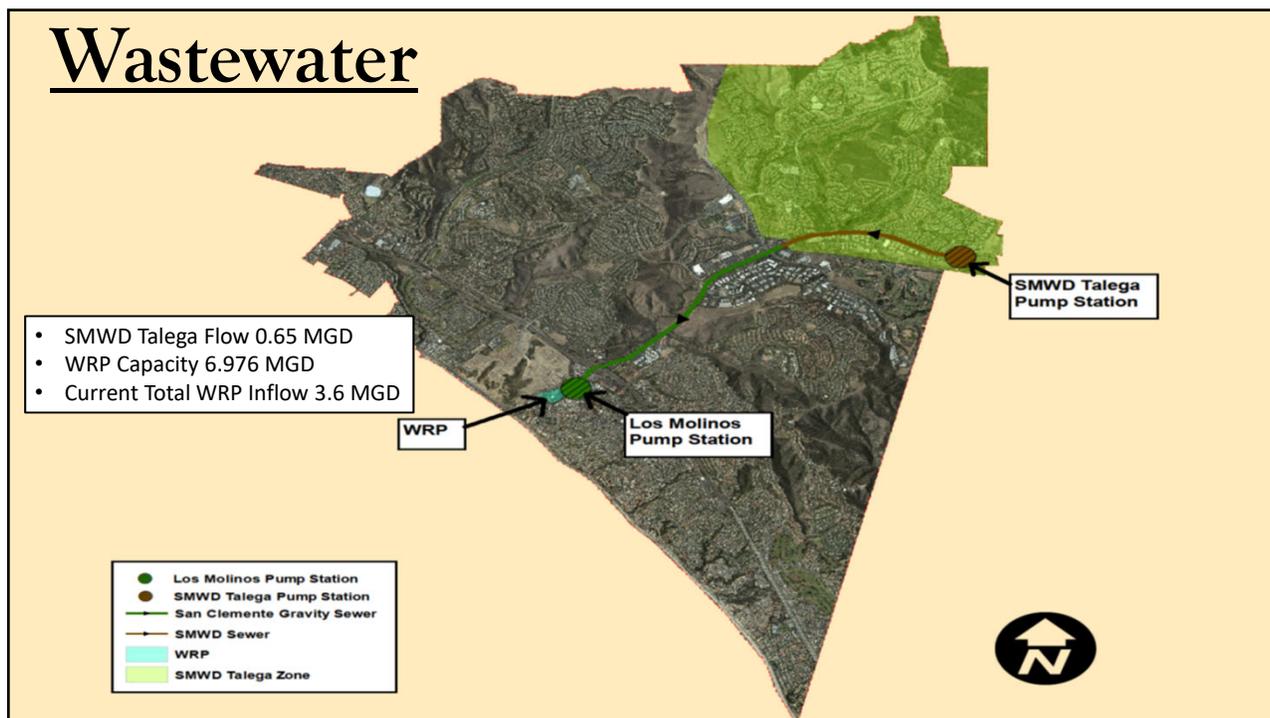
Background

- SMWD approached City in 2017
 - Chiquita Wastewater Plant Odors
 - Forcemain Replacement
- Interim Agreement for Wastewater Treatment
 - Long Term Agreement (Wastewater and Recycled Water Service)
- Primary Long Term Agreement Components
 - Wastewater Treatment
 - Recycled Water
 - Storage in Trampas Regional Recycled Water Reservoir & Pico Recycled Water Pump Station



City Benefits

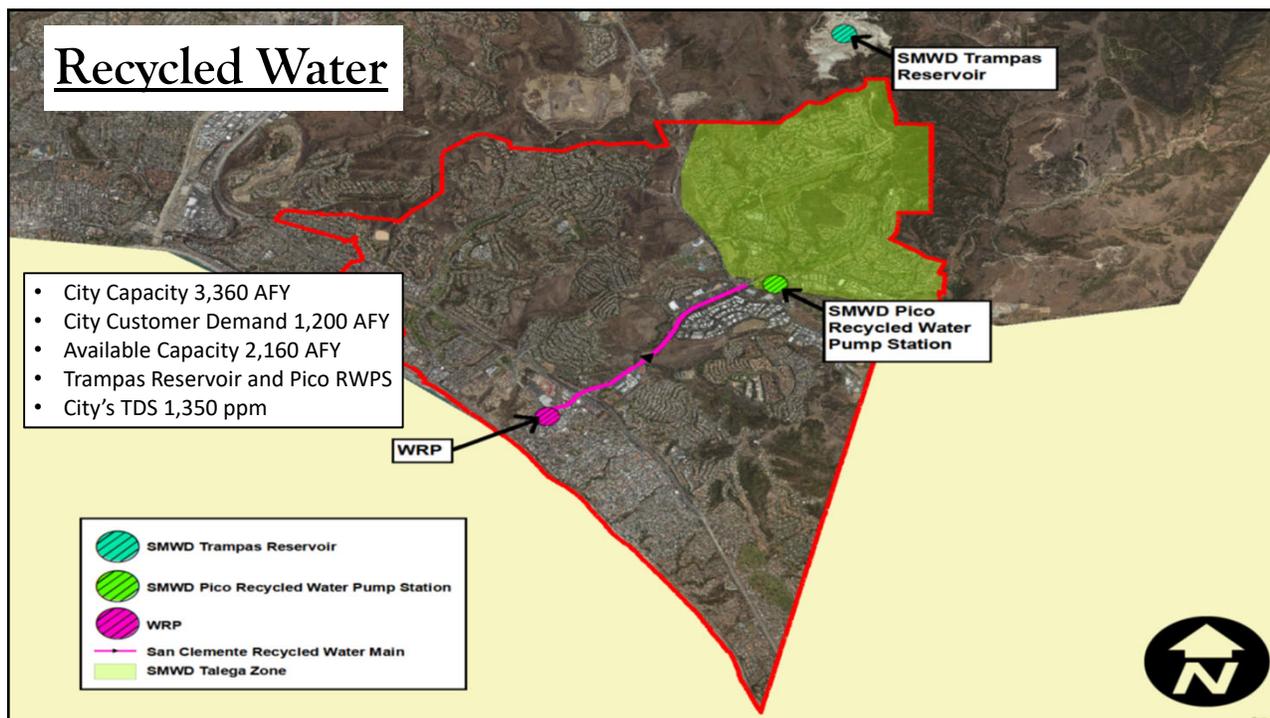
- Revenue Source for Stranded Capacity
- Cost Share Regional Project to Improve Recycled Water Quality
- Seasonal Recycled Water Storage (Trampas Regional Reservoir)
 - Reduce Imported Potable Water during Plant Outages and Peak Demands

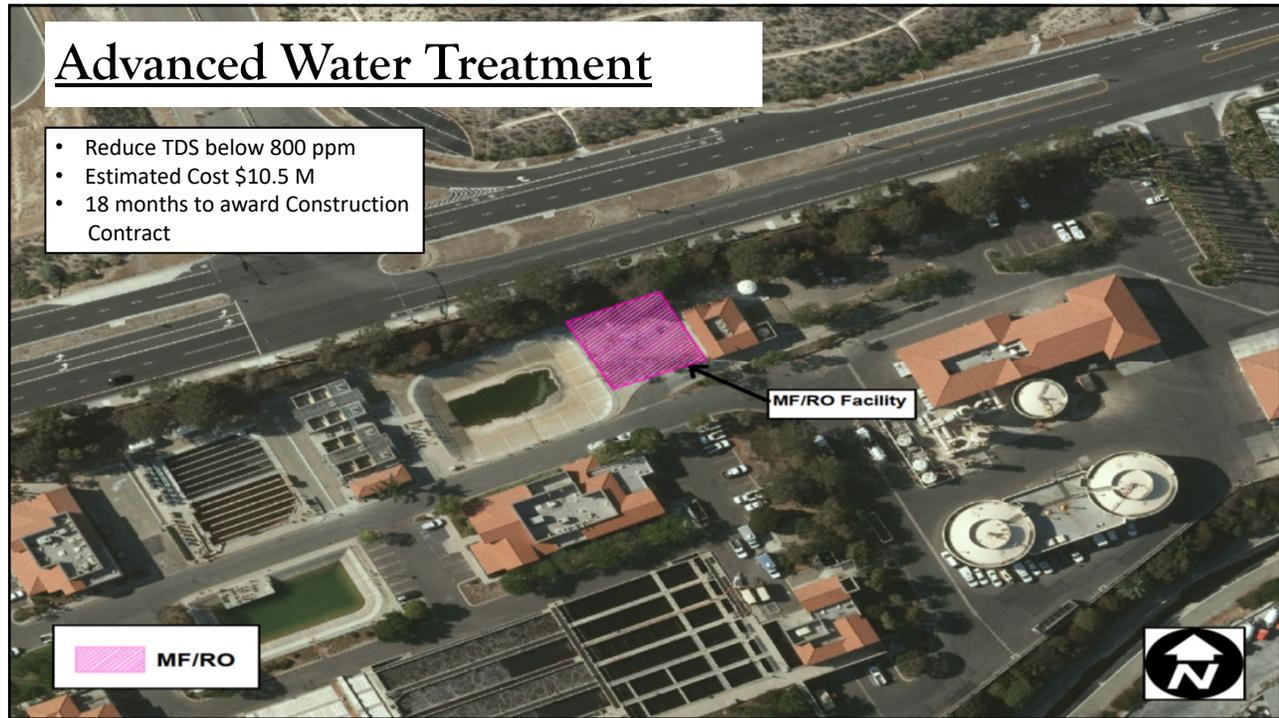




Wastewater Agreement Components

- Rate Components
 - Fixed O&M - Staffing, Permits, Supplies, Materials and Overhead
 - Variable O&M - Power, Chemicals and Solids Disposal
 - Administration
 - Capital - WRP, Pico Trunk Line and Los Molinos Pump Station
- FY 2023 Total Revenue Estimated \$801,000
 - \$582,000 O&M and Administration
 - \$219,000 Capital
- Quarterly Billing
- True-up Costs

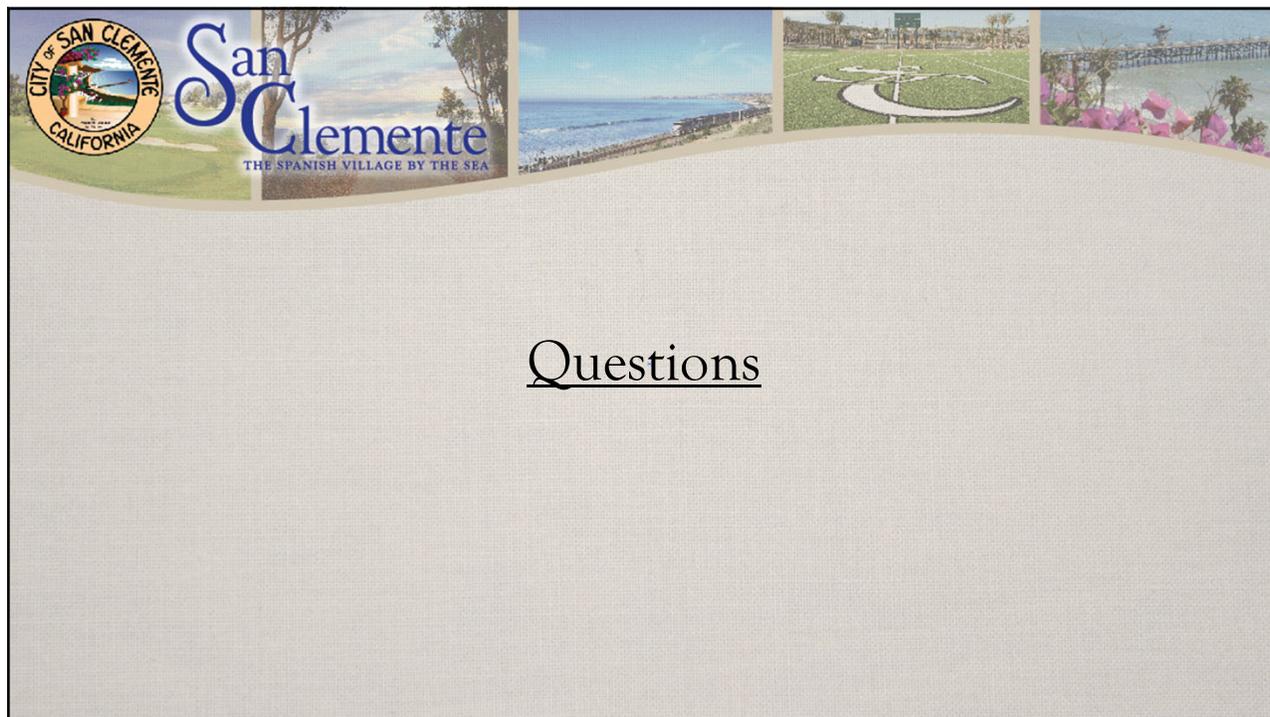




San Clemente
THE SPANISH VILLAGE BY THE SEA

Recycled Water Agreement Components

- Rate Components
 - Fixed O&M - Staffing, Permits, Supplies, Materials and Overhead
 - Variable O&M - Power and Chemicals
 - Capital - New Advanced Water Treatment
- Future Revenue
 - 1,000 AFY Take or Pay - \$875,000
 - 2,195 AFY - \$1.6 M
- \$1.1 M One-time Payment from SMWD to CSC
- 100 AF Storage Trampas Regional Reservoir - \$3.1 M Value



Questions