

**PALMDALE WATER DISTRICT
RESOLUTION NO. 17-25**

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT INCREASING THE DISTRICT'S ANNUAL "MEMBER CONTRIBUTION" TO THE PALMDALE RECYCLED WATER AUTHORITY TO \$300,000 IN CONJUNCTION WITH A SIMILAR INCREASE BY THE CITY OF PALMDALE AND AUTHORIZING THE PLEDGING OF REVENUES FROM THE SALES OF WATER TO FUND THE DISTRICT'S MEMBER CONTRIBUTION FOR THE PURPOSE OF ASSISTING THE PALMDALE RECYCLED WATER AUTHORITY IN THE REPAYMENT OF THE ANTICIPATED LOAN FUNDS BY THE STATE WATER RESOURCES CONTROL BOARD FOR THE CONSTRUCTION OF A RECYCLED WATER LINE, AND TAKING CERTAIN OTHER ACTIONS RELATING THERETO

WHEREAS, the City of Palmdale (City) and the Palmdale Water District (District) formed a joint powers authority (JPA) now known as the Palmdale Recycled Water Authority (PRWA) pursuant to the Joint Exercise of Powers Agreement, dated as of 26 September 2012 (JPA Agreement); and

WHEREAS, the PRWA had submitted a grant and construction loan application ("Loan") to the State of California Proposition 1 Water Recycling Program for the Recycled Water Line Phase 2 Project ("Project") which approval is contingent upon a showing by the PRWA of adequate financial resources to repay the Loan; and

WHEREAS, pursuant to the JPA, funding for the PRWA has been through equal contributions made on an annual basis by both the City and the District; and

WHEREAS, the City and the District have agreed pursuant to Section 5.2 of the JPA, entitled "Member Contributions", to increase the annual funding of the PRWA to Three Hundred Thousand Dollars (\$300,000.00) each, said funds to be used for all PRWA staff, training, studies, programs, direct and overhead costs, recycled water infrastructure and all other funds authorized under the JPA, PRWA and State Law, and

WHEREAS, the adjusted Member Contribution levels of the District and of the City would provide the PRWA with sufficient financial resources to repay the anticipated Loan; and

WHEREAS, the Project would provide the District and the City with recycled water; and

WHEREAS, the District's obligation to increase its annual Member Contribution amount shall become operative only upon both (i) the approval of the Loan by the State Water Resources

Control Board; and (ii) the resolution of the City to increase its annual Member Contribution to the same amount as the District's; and

WHEREAS, the District has previously entered into (a) an Installment Purchase Agreement, by and between the District and the Palmdale Water District Corporation, dated as of November 1, 2012 (the "2012 Contract"), (b) an Installment Purchase Agreement, by and between the District and the Palmdale Water District Public Financing Authority, dated as of May 1, 2013 (the "2013 Contract"), and (c) an Installment Purchase Agreement, dated January 18, 2017, by and between the District and Holman Capital Corporation (the "Holman Contract" and, together with the 2012 Contract, the 2013 Contract and any other outstanding debt of the District secured by net water revenues on the date hereof, or issued on a parity with the 2013 Contract, the 2012 Contract and the Holman Contract the "Contracts"), all secured by certain revenues of the District on a parity with each other.

WHEREAS, the District has also applied for a loan from the State Water Resources Control Board in connection with the Palmdale Regional Groundwater Recharge and Recovery Project and has pledged its water revenues to that obligation ("Recharge Project Obligations"), provided however, no contract has been signed as of this date;

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT DOES HEREBY RESOLVE, ORDER AND DETERMINE AS FOLLOWS:

SECTION 1. That the District's annual JPA Member Contribution amount to the PRWA, pursuant to Section 5.2 of the JPA, be increased to \$300,000.00, and

SECTION 2. All Net Water Revenues (as defined below) of the District and all amounts on deposit in the Water Revenue Fund (as defined below) and the Rate Stabilization Fund (as defined below) are hereby irrevocably pledged to the payment of the District's annual Member Contribution to the PRWA on a parity with Net Water Revenues pledged or similarly pledged amounts of the District in the Contracts in order to provide the PRWA with funding sufficient for the repayment of amounts borrowed from the State Water Resources Control Board financing the Project (the "Loan"), and the Net Water Revenues shall not be used for any other purpose while the Loan remains unpaid and as permitted by the Contracts; provided that out of the Net Water Revenues and amounts on deposit in the Water Revenue Fund there may be apportioned such sums for such purposes as are expressly permitted pursuant to the terms of the agreement governing the Loan. This pledge, together with the pledge created by all other Contracts and Bonds (as defined herein), shall constitute a parity pledge to the lien of the Contracts on Water Revenues or Net Water Revenues and the Water Revenue Fund and all amounts on deposit therein as permitted herein and therein and subject to the application of Water Revenues in accordance with the terms of the Loan and the Contracts.

[Subject to any changes necessary for complying with any provisions in the Contracts and to provide consistency among Contracts, in order to carry out and effectuate the pledge and lien

described above, the District covenants that all Net Water Revenues shall be received by the District in trust and shall be deposited when and as received in the "Water Revenue Fund" which fund the District has previously established and agrees and covenants to maintain and to hold separate and apart from other funds so long as the Loan, and any Contracts, Recharge Project Obligations (if issued on a parity) or Bonds remain unpaid. Moneys in the Water Revenue Fund shall be used and applied by the District as provided for in the agreement governing the Loan and any outstanding Contracts, and/or Bonds. In order to meet the requirements of this resolution, the District conditions execution of any agreement provided for in Section 8 and the incurrence of the Loan provided for herein that the District shall meet all the requirements for parity debt provided for in the Contracts in order to effectuate the pledge herein.]

The District shall, from the moneys in the Water Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable and as required by the Contracts and Bonds. All remaining moneys in the Water Revenue Fund shall be set aside by the District as required by the Loan, and any outstanding Contracts, and/or Bonds.

The terms contained in this resolution shall have the following meanings and shall be interpreted to be consistent with the Contracts. The term "Water Revenues" means, for any Fiscal Year, all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the District's Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) proceeds of the District's share of the County's 1% property tax received by the District, if any, plus (3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves and the Reserve Fund, plus (4) the proceeds of any stand by or water availability charges collected by the District, but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and excluding any proceeds of any taxes or assessments required by law to be used by the District to pay bonds heretofore or hereafter issued and any assessments levied and collected by the District to pay any contract payments due under the State Water Supply Contract, plus (5) money withdrawn from the Rate Stabilization Fund in such Fiscal Year, minus (6) any Revenues transferred to the Rate Stabilization Fund in such Fiscal Year. Any terms not defined herein shall have the meaning set forth under the 2013 Contract. Water Revenues does not mean the proceeds of any assessments or taxes levied to pay for the District's obligation to the State Water Project.

The term "Water System" means the entire water supply, treatment, storage and distribution system of the District, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the District for the supply, treatment and storage of water to residents of the District and adjacent areas, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all

SECTION 4. So long as the Loan is outstanding, the District's pledge hereunder shall constitute a lien in favor of the PRWA and/or the State Water Resources Control Board, as applicable, on the foregoing fund(s) and revenue(s) without any further action necessary.

SECTION 5. So long as the Loan is outstanding, the District will annually set its rates and charges in an amount sufficient to meet the requirements of the Contracts and the District's Member Contribution (or the amount the District's obligation under the Loan).

SECTION 6. That the difference between the District's current Member Contribution and the increased Member Contribution be paid into the PRWA as soon as the City resolves to increase its annual contribution to match the District's increased annual Member Contribution amount and pledges revenues, if any, for the purpose of funding said increase and the City Council or a duly authorized City official so directs.

SECTION 7. That this resolution continue in effect until said funding level is no longer needed due to Loan repayment obligations being satisfied or revenues from sale of recycled water provide sufficient funds to pay the installment Loan agreement and the JPA members, by separate resolutions, authorize an increase, decrease or elimination of funding.

SECTION 8. That the District's General Manager is hereby authorized to take such actions as may be necessary to effectuate the purposes hereof, including but not limited to execution of an amendment to the JPA Agreement, the Loan or another agreement, to accept an increase in service fees related to PRWA, to cover the annual costs associated with being a member of the Authority, including the "Member Contributions" or such other agreements as the District Counsel deems necessary and as may be requested by the PRWA in connection with its obligations to provide the recycled water services. The District's General Manager is also authorized to enter into its portion of the Loan and pledge the Net Water Revenues to the District's portion as provided herein.

PASSED, APPROVED and ADOPTED at a regular meeting of the Board of Directors of the Palmdale Water District held on October 25, 2017.



Robert Alvarado, President
Palmdale Water District



Vincent Dino, Vice President
Palmdale Water District

Approved As To Form:
ALESHIRE & WYNDER, LLP



Eric Dunn, General Counsel