CALL TO ORDER

PLEDGE OF ALLEGIANCE

RECESS FROM BOARD MEETING FOR A PLANNED GROUP PHOTO

PUBLIC COMMENTS

Non-Agendized Matters: Members of the public are invited to address the Board on matters which are not on the Agenda. Each speaker is limited to three (3) minutes. The Board will set aside thirty (30) minutes for public comments.

Agendized Matters: Members of the public may comment on Agenda items before action is taken, or after the Board has discussed the item. Each speaker is limited to five (5) minutes.

ITEMS TO BE WITHDRAWN OR REORDERED ON THE AGENDA
At the discretion of the Board, all items appearing on this agenda, whether or not expressly listed as an Action Item, may be deliberated and may be subject to action by the Board.

ACTION ITEMS:

1. ORDINANCE NO. 25 – DIRECTORS’ COMPENSATION AND EXPENSE REIMBURSEMENT:

   Recommendation: Discuss Directors’ fees and, if determined, direct staff to schedule a public hearing for the April 13, 2017 Board meeting.

2. DESIGNATED FUNDS POLICY:

   Recommendation: Receive information and take action as the Board desires.

3. STRATEGIC PLAN UPDATE:

   Recommendation: Identify new strategic goals, objectives and outcomes for Mesa Water, thereby updating the Strategic Plan for 2017 and beyond.

4. MEASURE TT UPDATE:

   Recommendation: Receive information and take action as the Board desires.
5. PROPERTY LEASE FOR NEW WELL SITE AT 4011 W. CHANDLER:

Recommendation: Authorize the General Manager to execute the property lease for 4011 W. Chandler to lease the property back to the Seller for up to 18 months from close of escrow; first 6 months at no cost and 12 months at $11,400 per month.

6. CLOSED SESSION:

CONFERENCE WITH LABOR NEGOTIATOR PURSUANT TO GOVERNMENT CODE 54957.6:
District Negotiator: General Manager
Employee Organization: Represented and Non-Represented Employees

RETURN TO OPEN SESSION.

7. STAFFING PLAN:

Recommendation: Discuss and take action as the Board desires.

REPORTS:

8. REPORT OF THE GENERAL MANAGER:

9. DIRECTORS' REPORTS AND COMMENTS:

INFORMATION ITEMS:

10. OTHER (NO ENCLOSURE):

In compliance with California law and the Americans with Disabilities Act, if you need disability-related modifications or accommodations, including auxiliary aids or services in order to participate in the meeting, or if you need the agenda provided in an alternative format, please contact the District Secretary at (949) 631-1206. Notification 48 hours prior to the meeting will enable Mesa Water District (Mesa Water) to make reasonable arrangements to accommodate your requests.

Members of the public desiring to make verbal comments utilizing a translator to present their comments into English shall be provided reasonable time accommodations that are consistent with California law.

Agenda materials that are public records, which have been distributed to a majority of the Mesa Water Board of Directors (Board), will be available for public inspection at the District Boardroom, 1965 Placentia Avenue, Costa Mesa, CA and on Mesa Water’s website at www.MesaWater.org. If materials are distributed to the Board less than 72 hours prior or during the meeting, the materials will be available at the time of the meeting.

ADJOURN TO A REGULAR BOARD MEETING SCHEDULED FOR THURSDAY, APRIL 13, 2017 AT 6:00 P.M.
MEMORANDUM

TO: Board of Directors
FROM: Paul E. Shoenberger, P.E., General Manager
DATE: March 23, 2017
SUBJECT: Ordinance No. 25 – Directors’ Compensation and Expense Reimbursement

RECOMMENDATION

Discuss Directors’ fees and, if determined, direct staff to schedule a public hearing for the April 13, 2017 Board meeting.

STRATEGIC PLAN

Goal #1: Provide a safe, abundant, and reliable water supply.
Goal #2: Practice perpetual infrastructure renewal and improvement.
Goal #3: Be financially responsible and transparent.
Goal #4: Increase public awareness about Mesa Water® and about water.
Goal #5: Attract and retain skilled employees.
Goal #6: Provide outstanding customer service.
Goal #7: Actively participate in regional water issues.

PRIOR BOARD ACTION/DISCUSSION

At the April 9, 2015 Board of Director’s (Board) meeting, the Board adopted Ordinance No. 25 – Directors’ Compensation and Expense Reimbursement – increasing the Directors’ fees to $240, per meeting effective July 1, 2015. Prior to this increase the Board’s compensation was $207 per meeting which was approved by the Board on October 28, 2008 and effective January 1, 2009.

BACKGROUND

At the October 31, 2008 Board workshop, the Board directed staff to prepare an ordinance increasing Directors’ fees concurrent with the District’s budget cycle, thus changing from a calendar year to a fiscal year. The Water Code allows an increase of up to five percent each calendar year. Although the Water Code is silent on whether a multi-year increase can be compounded, it has been the Board’s practice not to compound any increase(s).

In addition, a public hearing must be held prior to the Board taking action to increase Directors’ fees. Prior to the date of the public hearing, Mesa Water is required to place an advertisement once a week for two weeks, each published with at least five days intervening between publication dates, in a local newspaper announcing the public hearing. If the Board approves the ordinance, a minimum of sixty days must elapse prior to the increase becoming effective.
DISCUSSION

The current Directors’ fees amount of $240 per meeting was approved April 9, 2015 and effective July 1, 2015. The Board reviews the topic of Directors’ compensation annually.

The Board may approve an increase of up to ten percent (up to 5 percent a year) for an amount not to exceed $264. If the Board approves an increase in 2017, the next available increase could be no sooner than one year later. If the Board directs staff to schedule the public hearing, staff will place the required advertisements in the newspaper.

FINANCIAL IMPACT

The cost of the two ads will be approximately $500 and sufficient funds are available in the Public Agency expense budget. Should the Board approve an increase, staff will include the additional cost in the FY 2018 budget, as well as the mandatory payroll related Social Security (FICA), Medicare, and Workers’ Compensation costs.

ATTACHMENTS

Attachment A: Agency Directors’ Fees Survey
Attachment B: Ordinance No. 25 – Directors’ Compensation and Expense Reimbursement
<table>
<thead>
<tr>
<th>Agency</th>
<th>Effective Date</th>
<th>Per Diem/Mtg.</th>
<th>Max Mtgs. Monthly</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yorba Linda Water District</td>
<td>01/23/03</td>
<td>$150.00</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>South Coast Water District</td>
<td>01/01/06</td>
<td>$190.00</td>
<td>10</td>
<td>Updated Ordinance in March of 2009, but the fee did not change.</td>
</tr>
<tr>
<td>El Toro Water District</td>
<td>09/27/07</td>
<td>$198.00</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Santa Margarita Water District</td>
<td>02/01/09</td>
<td>$210.00</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Moulton Niguel Water District</td>
<td>07/21/16</td>
<td>$220.00</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Mesa Water District</td>
<td>07/01/15</td>
<td>$240.00</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Orange County Water District¹</td>
<td>01/01/16</td>
<td>$250.00</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Irvine Ranch Water District</td>
<td>01/01/16</td>
<td>$260.00</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Municipal Water District of OC¹</td>
<td>01/01/16</td>
<td>$269.38</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

¹ Compensation automatically increases each year on January 1 unless suspended.
ORDINANCE NO. 25

ORDINANCE OF THE MESA WATER DISTRICT BOARD OF DIRECTORS REGARDING DIRECTORS COMPENSATION AND EXPENSE REIMBURSEMENT SUPERSEDING ORDINANCE NO. 23

WHEREAS, Mesa Water District (Mesa Water®) is a county water district organized and operating according to California law; and

WHEREAS, the California Water Code (Water Code) governs compensation of Mesa Water® Board of Directors (Directors) for each day of service rendered as a Director by request of the Board of Directors, together with any expenses incurred in the performance of his or her duties required or authorized by the Board of Directors; and

WHEREAS, the Board of Directors has previously adopted Ordinance No. 23 regarding compensation for Directors attendance at Board of Directors meetings and days of service at committee meetings, attendance at conferences, seminars, and other water related agencies’ meetings and other activities and the Board of Directors desires to supersede Ordinance No. 23 by the provisions hereof; and

WHEREAS, it is the desire of the Board of Directors to compensate Directors for expenses incurred in the performance of his or her duties required or authorized by the Board of Directors.

NOW, THEREFORE, BE IT ORDAINED BY THE MESA WATER DISTRICT BOARD OF DIRECTORS AS FOLLOWS:

Section 1: Board of Directors Meetings and Days of Service: The compensation paid to members of the Board of Directors shall be Two Hundred Forty Dollars ($240.00) per day for each day’s attendance at meetings of the Board of Directors, or for each day’s service rendered as a member of the Board of Directors by request of the Board of Directors as further discussed herein.

Section 2: Meetings/Activities that Constitute Days of Service for the Purpose of Section 1: The following meetings and activities constitute a day of service for purposes of Section 1 of this Ordinance:

(a) Committee and Other Agency Meetings: Committee meetings for those Directors assigned, or attending, as applicable, shall include the following:
(i). Executive Committee
(ii). Finance Committee
(iii). Engineering & Operations Committee
(iv). Public Information Committee
(v). Other Public Agency Meetings (including regular, adjourned regular and special meetings of the governing bodies of such public agencies as shall be designated by the Board of Directors from time to time)
(vi). Other Mesa Water® committees, including, but not limited to, ad hoc committees, as the Board of Directors shall designate by Board action from time to time.

(b) Teleconferencing: Participation at any public agency meeting that is covered under Section 2 (a) by teleconference, or equivalent means, shall be considered as a day of service for the purpose of this Ordinance.

(c) Conferences and Seminars: Attendance at authorized conferences or seminars as assigned and designated by the Board of Directors.

(d) Meetings with Agencies, Organizations, and/or Representatives Concerning or relating to Water, Governmental or Environmental Matters or Issues: Meetings by Directors of or with agencies or organizations, and/or representatives of such, in or related to the public water industry or governmental or environmental matters or issues to discuss, review, and/or receive information relating to Mesa Water®, Mesa Water’s business or operations, governmental or environmental matters or issues and/or water industry standards, operations, policy matters and/or fiscal issues.

(e) Other Activities Approved by the Board: Activities by members of the Board other than as described in Sections 2 (a), (b), (c), or (d) above, as authorized by the Board of Directors in advance of such activity(ies) shall be considered a day of service for purposes of this Ordinance.

Section 3: Limitations:

(a) Maximum Number of Meetings/Days: The fee paid to members of the Board of Directors shall be made for no more than one meeting per each day of service, and the maximum number of days for which any Director may receive compensation under Sections 1 or 2 hereof, in any calendar month shall be ten (10).

(b) No Duplicate Compensation: Notwithstanding the foregoing provisions of Sections 1 or 2, any Director that receives
compensation from any other entity for attendance of any meeting(s), conference(s), seminar(s) or other activity(ies) set out in Sections 1 or 2 shall not be compensated by Mesa Water®.

Section 4: **Director Reimbursement(s):** In addition to the compensation described in Section 1 and subject to applicable State law, Directors expenses shall be reimbursed if they are reasonable and necessary to conduct Mesa Water’s business pursuant to provisions of the Mesa Water® reimbursement policy(ies) adopted by the Board of Directors, as then in effect.

Section 5: **Authorization (Statutory Requirements):** This Ordinance is adopted pursuant to Water Code Sections 30523 and 20203. To the extent required by law, this Ordinance shall satisfy the requirements of Water Code Sections 20201 and 20202 and California Government Code Section 53232.1.

Section 6: **Effective Date:** This Ordinance No. 25 shall take effect from and after July 1, 2015 (Effective Date).

Section 7: **Superseding Prior Ordinance:** This Ordinance No. 25 shall supersede Ordinance No. 23 upon the Effective Date hereof.

PASSED AND APPROVED at the regular meeting of the Board of Directors held on the 9th day of April 2015, and adopted by the following roll call vote:

AYES: DIRECTORS: Atkinson, Bockmiller, Fisler, Dewane
NOES: DIRECTORS: Temianka
ABSENT: DIRECTORS:
ABSTAIN: DIRECTORS:

ATTEST: Shawn Dewane
President, Board of Directors
Coleen L. Monteleone
District Secretary
RECOMMENDATION

Receive information and take action as the Board desires.

STRATEGIC PLAN

Goal #3: Be financially responsible and transparent.

PRIOR BOARD ACTION/DISCUSSION

In October 2009, the Board of Directors (Board) of Mesa Water District (Mesa Water®) updated its Designated Funds Policy via Resolution No. 1387. This policy established minimum and maximum funding levels for each of Mesa Water’s funds as listed and described below:

1. Capital Replacement Fund – used for the replacement of capitalized assets when they reach the end of their useful lives.
2. Administrative & General Fund – used to fund (or partially fund) certain major general, administration and overhead projects such as offices, fixtures, furnishings, vehicles and equipment, on a pay-as-you-go basis.
3. Catastrophe Fund – used to begin repair of the water system after a catastrophic event, such as a severe earthquake or fire, while long-term financing is being arranged or insurance claims are being processed.
4. Rate Stabilization Fund – established to provide flexibility to the Board when setting rates to allow for absorbing temporary rate fluctuations or for one-time expenditures.
5. Operating Fund – used for unanticipated operating expenses, to maintain working capital for current operations and to meet routine cash flow needs.
6. Customer & Developer Deposits – monies held on behalf of Mesa Water's customers as required for their utility account or as cash bonds for development projects.

The funding Minimums and Maximums methodologies established by Resolution No. 1387 for each fund varied from calculated dollar amounts, days cash ratios, percentage of budgeted General and Administrative amounts, or a percentage of Fixed Assets.

Overall Designated Fund levels were established at a minimum of 280 days with no overall maximum level to retain flexibility as the Capital Replacement Fund’s funding requirements may vary.

On March 15, 2014, the Board adopted Resolution No. 1443 which streamlined and improved calculation methodology to exclusively calculate Designated Funds funding levels in “days” to be
internally consistent, to easily calculate Designated Funds both individually and overall, and to promote clarity and transparency.

Below is a summary of Mesa Water’s Designated Funds calculations approved by the Board in Resolution No. 1443:

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative and General Fund</td>
<td>20 days</td>
<td>25 days</td>
</tr>
<tr>
<td>Catastrophe Fund</td>
<td>150 days</td>
<td>180 days</td>
</tr>
<tr>
<td>Rate Stabilization Fund</td>
<td>60 days</td>
<td>75 days</td>
</tr>
<tr>
<td>Operating Fund</td>
<td>120 days</td>
<td>150 days</td>
</tr>
</tbody>
</table>

Regarding the Capital Replacement Fund, the resolution did not establish an overall maximum level to retain flexibility as funding requirements may vary. Overall Designated Fund levels were established with a Target Amount of 600 days.

Although unlikely in the near-term, if Designated Funds exceed the Maximum, excess funds could be used as follows:

- Fund the Capital Replacement Fund as necessary
- Reduce future water rate increases
- Other uses
  - Funding a separate trust for outstanding Other Post-Employment Benefits (OPEB) liabilities
  - Reduce outstanding debt
  - Address additional necessary infrastructure needs
  - Address other needs

DISCUSSION

Each of the individual funds within Mesa Water’s overall cash and investment reserves as defined in Resolution No. 1443 are solely Board “designated” funds which means that there is no legal restriction on the future use of each individual fund.

Therefore, each individual fund can be revised at any time by the Board for any use. The Board designation of each individual fund is for planning purposes only as the Board may often make decisions based on the overall reserve balance.
The following is a historical breakdown of Designated Fund balances:

<table>
<thead>
<tr>
<th>Designated Fund</th>
<th>FY 2014 Actual Amount</th>
<th>FY 2015 Actual Amount</th>
<th>FY 2016 Actual Amount</th>
<th>FY 2017 Budget Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Replacement</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>11,528,887</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Administrative &amp; General</td>
<td>1,161,675</td>
<td>1,526,932</td>
<td>1,474,131</td>
<td>1,428,101</td>
</tr>
<tr>
<td>Catastrophe</td>
<td>8,712,563</td>
<td>11,451,996</td>
<td>10,613,746</td>
<td>10,710,758</td>
</tr>
<tr>
<td>Rate Stabilization</td>
<td>3,485,025</td>
<td>4,580,800</td>
<td>4,422,394</td>
<td>4,284,303</td>
</tr>
<tr>
<td>Operating</td>
<td>6,970,050</td>
<td>9,161,596</td>
<td>8,844,789</td>
<td>8,568,606</td>
</tr>
<tr>
<td>Customer &amp; Developer Deposits</td>
<td>2,759,795</td>
<td>2,723,761</td>
<td>4,789,840</td>
<td>2,250,000</td>
</tr>
<tr>
<td>Total</td>
<td>33,089,108</td>
<td>39,445,085</td>
<td>41,673,787</td>
<td>37,241,768</td>
</tr>
</tbody>
</table>

Below is a graphical representation of the above Designated Fund balances:

**FINANCIAL IMPACT**

None.

**ATTACHMENTS**

Attachment A: Resolution No. 1443
RESOLUTION NO. 1443

RESOLUTION OF THE
MESA WATER DISTRICT BOARD OF DIRECTORS
ADOPTING A DESIGNATED FUNDS POLICY

WHEREAS, the Mesa Water District (Mesa Water) is a county water district organized and operating according to California Law; and

WHEREAS, the Board of Directors (Board) of the Mesa Water District had previously adopted Resolution No. 1387 which included designated funds; the Board desires to adopt a specific policy statement and policy regarding designated funds relative to Mesa Water’s finances.

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

Section 1. This Resolution replaces the designated funds portion(s) of Resolution No. 1387 Financial Policies and Guidelines for Establishing Rates and adopts a specific policy statement regarding designated funds as set forth in Exhibit A.

Section 2. This Resolution shall be reviewed by the Finance Committee at least once every five years to determine if the policies and guidelines are still relevant and appropriate.

Section 3. The Designated Funds Policy of the Mesa Water District Board of Directors, as set forth in Attachment A is adopted effective upon approval of this resolution.

PASSED AND ADOPTED this 15th day of March 2014, and adopted by the following roll call vote:

AYES: DIRECTORS: Atkinson, Bockmiller, Temianka, Dewane, Fisler
NOES: DIRECTORS:
ABSENT: DIRECTORS:
ABSTAIN: DIRECTORS:

Coleen L. Monteleone
District Secretary

James R. Fisler
President, Board of Directors
EXHIBIT A

RESOLUTION NO. 1443

RESOLUTION OF THE
MESA WATER DISTRICT BOARD OF DIRECTORS
ADOPTING A DESIGNATED FUNDS POLICY

1. MESA WATER SHOULD CONTINUE TO MAINTAIN FINANCIAL STABILITY OVER TIME

Mesa Water should strive to maintain financial stability over time. Financial stability is not only a prudent management goal; it can also minimize financial costs in the long-term (e.g., unnecessary borrowing). Above all, financial stability will provide the community with the confidence of knowing a strong, consistent team is managing the utility.

Financial policies and measures will be developed to measure, manage and achieve financial stability.

1.1 DESIGNATED FUNDS

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Mesa Water will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. Designated Funds (Funds) will be accumulated and maintained to allow Mesa Water to fund expenditures in a manner consistent with Mesa Water’s Water System Master Plan, and avoid significant rate fluctuations due to changes in cash flow requirements.

The Board of Directors (Board) may designate specific fund accounts and maintain target fund balances consistent with statutory obligations that it has determined to be in the best interest of Mesa Water. The Designated Funds Policy directives are intended to ensure Mesa Water has sufficient Funds to meet current and future needs. The Board will review the level of Funds on a periodic basis.

1.2 DESIGNATED FUNDS TARGET

1.2.1 Mesa Water will maintain sufficient reserves, and of such a nature, that it strives to target designated fund balances totaling 600 days of budgeted operating expenses as defined by the policy.

1.3 CASH FLOW

1.3.1 At the end of a fiscal year, Mesa Water should strive to have total revenues, less operation and maintenance expenses, debt service and capital projects funded from rates, greater than or equal to zero.
1.4 TARGET DEBT SERVICE COVERAGE:

1.4.1 Mesa Water will strive to maintain an actual debt service coverage ratio of 1.30 on all outstanding debt service. (Industry norm for revenue bond coverage ratio covenants is 1.25. Mesa Water’s certificates of participation covenant coverage ratios of 1.15).

1.4.2 The debt service coverage ratio will be calculated at fiscal year-end and reviewed by the outside auditor. The calculation and the auditor’s opinion will be included in Mesa Water’s Comprehensive Annual Financial Report.

1.4.3 Mesa Water’s annual budget will be prepared to have an annual debt service coverage ratio greater than or equal to 1.50 on all outstanding debt that carries a legal bond covenant.

1.4.4 The Board will review Mesa Water’s projected debt service coverage ratio prior to the adoption of the annual budget.
ATTACHMENT A

RESOLUTION NO. 1443

RESOLUTION OF THE
MESA WATER DISTRICT BOARD OF DIRECTORS
ADOPTING A DESIGNATED FUNDS POLICY

Mesa Water District’s
Designated Funds Policy

March 2014
MESA WATER DISTRICT
DESIGNATED FUNDS POLICY

1. **Policy Statement**

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Mesa Water District (Mesa Water) will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. Designated Funds (Funds) will be accumulated and maintained to allow Mesa Water to fund expenditures in a manner consistent with Mesa Water’s Water System Master Plan, and avoid significant rate fluctuations due to changes in cash flow requirements.

The Board of Directors (Board) may designate specific fund accounts and maintain target fund balances consistent with statutory obligations that it has determined to be in the best interest of Mesa Water. The Policy directives outlined in this document are intended to ensure Mesa Water has sufficient funds to meet current and future needs. The Board will review the level of Funds on a periodic basis.

2. **Definitions**

There are three types of Funds:

I. **RESTRICTED FUNDS**: Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use.

II. **CAPITAL FUNDS**: Established by action of the Board and designated for specific purposes. This fund is utilized primarily to fund capital and asset replacement costs.

III. **LIQUIDITY FUNDS**: Established by action of the Board to safeguard the financial viability and stability of Mesa Water and is funded from accumulated revenues.

3. **General Provisions**

Mesa Water will maintain its liquidity and capital funds in designated sub-accounts in a manner that ensures its financial soundness and provides transparency to its customers. The targeted level of Fund balances are considered the minimum necessary to maintain the District’s credit worthiness and adequately provide for:

- Compliance with applicable statutory requirements
- Financing of future capital facilities and repair and replacement of existing assets
- Cash flow requirements
- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
- Contingencies or unforeseen operating or capital needs
In the context of funding future capital facilities and maintaining and replacing existing assets, in each instance, Mesa Water will analyze the benefits and tradeoffs of utilizing pay-as-you-go and/or debt financing and determine the optimal funding strategy or combination of funding strategies. The analysis should consider Mesa Water’s current and projected liquidity and capital positions, as well as the impact of inflation, the cost of water, and other factors on the operations of Mesa Water and its capital improvement program.

Through a variety of policy documents and plans, including Mesa Water’s Asset Management Plan, Capital Improvement Plan, Water System Master Plan, and Strategic Plan, the Board has set forth a number of long-term goals for Mesa Water. A fundamental purpose of Mesa Water’s policy documents and plans is to link what must be accomplished with the necessary resources to successfully do so.

Mesa Water has established and will maintain the following primary Funds and their respective sub-accounts:

- Restricted Funds – comprised of the Bond Proceeds Fund and the Customer and Development Deposits
- Capital Funds – comprised of the Capital Replacement Fund
- Liquidity Funds – comprised of the Operating Fund, Rate Stabilization Fund, Administrative & General Fund, and the Catastrophe Fund

A principal tenet of Mesa Water’s Designated Fund Policy shall be the crediting of interest income to specific designated funds until the respective designated fund’s maximum is achieved. Once the maximum balance is reached within a specific designated fund, the surplus interest earnings will be reallocated to other designated funds whose funding level is below the targeted or maximum requirement recommended by this policy.

Fund balances will be reviewed on an annual basis at, or near, the end of the fiscal year to ensure compliance with this Policy. In the event the Liquidity Fund balance exceeds the established maximum, excess monies will be transferred annually into the Capital Fund. On an as-needed basis, moneys from the Capital Fund can be moved to pay for operating emergencies to supplement the Liquidity Fund. In addition, in the event that the Capital Fund balance exceeds the established maximum, the Board will make a determination regarding the reallocation of excess monies.

The targeted established for each Fund represents the baseline financial condition that is acceptable to Mesa Water from risk and long-range financial planning perspectives. Maintaining Funds at appropriate levels is a prudent, ongoing business process that consists of an iterative, dynamic assessment and application of various revenue generating alternatives. These alternatives (either alone or in combination with each other) include, but are not limited to: fees and charges, water usage, capital financing, investment of funds, and levels of capital expenditures.

To preserve its AAA credit ratings, in every fiscal year Mesa Water will strive to target unrestricted cash and designated fund balances totaling 600 days of budgeted operating expenses less pass-through expenses (defined as “Operating Expenses”). Should Mesa Water determine to target a different credit rating level, this target will be adjusted accordingly.
Higher credit ratings have provided economic benefit to Mesa Water in terms of lower interest rates on the future borrowings and broader investor base and greater demand for the Mesa Water’s bonds, resulting in lower annual debt service cost. However, should Mesa Water decide to pursue a different credit rating, it will need to analyze carefully under what circumstances and in what timeframes it will be optimal to achieve the goal.

The Board shall approve any reallocation of funds or any transfers among Funds.

4. Mesa Water District Funds

I. RESTRICTED FUNDS

a. Bond Proceeds Fund(s): Bond proceeds funds are monies derived from the proceeds of a bond issue. Typically they consist of construction fund monies, and a debt service reserve fund (DSRF). The use of these proceeds is restricted by conditions set forth in the respective legal bond documents. These funds are usually held by the Trustee in favor of the bond holders.

Target Level – The debt service reserve requirement is established at the time of the bond issue. This amount may be recalculated as the bonds are paid down. Any excess principal and/or interest earnings can be used to pay debt service on the bonds.

Events or Conditions Prompting the Use of the Fund(s) – As stipulated in the respective bond documents. Construction fund monies are expected to be spent on applicable projects, while DSRF can only be used in the event of a shortfall in revenues to pay debt service or to pay down principal at maturity.

Periodic Review Dates for Balances – Reviewed by the Trustee and Mesa Water staff on an annual basis.

b. Customer and Development Deposits: Monies held on behalf of Mesa Water customers as required for their utility account or as cash bonds for development projects.

Target Level – Customer deposits required are based upon the process outlined in Mesa Water’s Rules and Regulations for Water Service. Deposit requirements for development projects are outlined in Mesa Water’s Miscellaneous Fees and Charges Resolution. The balance in this account will fluctuate depending on the number of utility customer deposits required and the number of development projects in process. Therefore, no target or maximum levels will be established.

Events or Conditions Prompting the Use of the Fund(s) – As deposits on utility accounts are released, they will be refunded to the customer. When development projects are complete, the projects will be closed and a final accounting will be completed. Excess deposit monies will be returned to the development customer.

Periodic Review Dates for Balances – Reviewed by staff on a regular basis as part of the monthly closing process.
II. CAPITAL FUNDS

Mesa Water will strive to maintain a target balance of $10.0 million in the Capital Funds. The Capital Funds will consist of the following sub-account:

a. *Capital Replacement Fund:* The Capital Replacement Fund is used for the replacement of capitalized assets when they reach the end of their useful lives.

   **Target Level** – Mesa Water may set aside replacement funds on a project-by-project basis. The target level should be equal to the $10.0 million required for the Capital Fund. The maximum balance in the Capital Replacement Fund shall be determined based on Mesa Water’s Asset Management Plan.

   **Events or Conditions Prompting the Use of the Fund** – Staff will recommend assets to be replaced during the annual budget preparation. As projects are approved, funds will be appropriated from undesignated funds or available revenues.

   **Periodic Review Dates for Balances** – Fund balances and projected improvement projects will be reviewed by staff and the Board during the preparation and approval of the annual budget.

III. LIQUIDITY FUNDS

Liquidity Funds will be comprised of the following sub-accounts: the Rate Stabilization Fund and the Operating Fund. The balance in the Liquidity Funds will fluctuate depending on the annual Operating Expenses. The maximum balance in the Liquidity Funds will be equal to 180 days of the annual budgeted Operating Expenses.

a. *Administrative & General Fund:* The Administrative & General Fund is used to fund certain major general, administration and overhead projects. It is intended to fund (or partially fund) offices, fixtures, furnishings, vehicles and equipment on a pay-as-you-go basis. The Board will appropriate funds for specific projects which can be funded on an as-needed or project-by-project basis.

   **Funding Levels:**

   1. **Target** – The target balance in the Administrative & General Fund will be equal to 20 days of the annual budgeted Operating Expenses.
   2. **Maximum** – The maximum balance in the Administrative & General Fund will be equal to 25 days of the annual budgeted Operating Expenses.

   **Events or Conditions Prompting the Use of the Fund** – Improvement projects will be identified by staff and recommended to the Board during the preparation of the annual budget. As projects are approved, funds will be appropriated from available revenues.

   **Periodic Review Dates for Balances** – Fund balances and projected improvement
projects will be reviewed by staff and the Board during the preparation and approval of the annual budget.

b. **Catastrophe Fund:** The Catastrophe Fund is used to begin repair of the water system after a catastrophic event, such as a severe earthquake or fire, while long-term financing is being arranged or insurance claims are being processed.

**Funding Levels:**

1. Target – The target balance in the Catastrophe Fund will be equal to 150 days of the annual budgeted Operating Expenses.
2. Maximum – The maximum balance in the Catastrophe Fund will be equal to 180 days of the annual budgeted Operating Expenses.

Events or Conditions Prompting the Use of the Fund – The Board may designate use of this fund after establishing that conditions exist as called out in the definition and purpose of the fund.

Periodic Review Dates for Balances – Fund balances and target level will be reviewed by staff and the Board during the preparation and approval of the annual budget.

c. **Rate Stabilization Fund:** This fund is established to provide flexibility to the Board when setting rates to allow for absorbing temporary rate fluctuations or for one-time expenditures.

**Funding Levels:**

1. Target – The target balance in the Rate Stabilization Fund will be equal to 60 days of the annual budgeted Operating Expenses.
2. Maximum – The maximum balance in the Rate Stabilization Fund will be equal to 75 days of the annual budgeted Operating Expenses.

Events or Conditions Prompting the Use of the Fund – This fund is intended to be used to defray any temporary unforeseen and extraordinary increases in the cost of water supply. The Board, on a case by case basis, will determine the amount and timing for any use of the fund.

Periodic Review Dates for Balances – Fund balances will be reviewed by staff and the Board during the preparation and approval of the annual budget.

d. **Operating Fund:** The Operating Fund is used for unanticipated Operating Expenses. This fund is designated by the Board to maintain working capital for current operations and to meet routine cash flow needs.

**Funding Levels:**
1. Target – The target balance in the Operating Fund will be equal to 120 days of the annual budgeted Operating Expenses.
2. Maximum – The maximum balance in the Operating Fund will be equal to 150 days of the annual budgeted Operating Expenses.

Events or Conditions Prompting the Use of the Fund – Upon Board authorization, this fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses and extraordinary decreases in revenues and unexpected increases in expenses.

Periodic Review Dates for Balances – Fund balances and target level will be reviewed by staff and the Board during the preparation and approval of the annual budget.

5. Investment Guidelines

It has been the Mesa Water’s practice to rely primarily on a pay-as-you-go (pay-go) strategy to fund capital improvements and replacement of existing assets. However, maintaining a balance between debt and pay-go sources may provide an added benefit to Mesa Water in terms of allowing for a more optimal investment strategy. In the context of these policies and in circumstances where such balance is present, the investment portfolio can be separated into short and long portfolios to maximize investment returns.

6. Delegation of Authority

The Board has sole authority to amend or revise the Designated Funds Policy. Through approval of this Policy, the Board has established written procedures for staff to follow in the management of Mesa Water’s Designated Funds.
MEMORANDUM

TO: Board of Directors
FROM: Paul E. Shoenberger, P.E., General Manager
DATE: March 23, 2017
SUBJECT: Strategic Plan Update

RECOMMENDATION

Identify new strategic goals, objectives and outcomes for Mesa Water, thereby updating the Strategic Plan for 2017 and beyond.

STRATEGIC PLAN

Goal #1: Provide a safe, abundant, and reliable water supply.
Goal #2: Practice perpetual infrastructure renewal and improvement.
Goal #3: Be financially responsible and transparent.
Goal #4: Increase public awareness about Mesa Water® and about water.
Goal #5: Attract and retain skilled employees.
Goal #6: Provide outstanding customer service.
Goal #7: Actively participate in regional water issues.

PRIOR BOARD ACTION

Each year, the Mesa Water Board provides staff with direction regarding Mesa Water’s goals, objectives and outcomes for the coming year. Based on this direction, priorities are established, resources are allocated, and staff works to accomplish the goals and objectives, as directed.

DISCUSSION

As a starting point for this discussion, it is instructive to review the current Strategic Plan. This document was last reviewed and updated by the Board in 2016.

This workshop provides a forum to discuss the potential opportunities and long-term strategic initiatives for the District. Staff has prepared an update to the current Strategic Plan. The status of each goal, objective, and outcome is signified using the following three color system:

- Green - completed/on schedule
- Yellow - pending/behind schedule
- Red - not achieved

Staff has also prepared a “strawman” list of potential new goals, objectives and outcomes for the Board to use in considering future opportunities and potential new initiatives for Mesa Water in 2017 and beyond.

The intent of this agenda item is for the Board to discuss additions, modifications and deletions to the Strategic Plan in a “brainstorming” forum. In discussing both reports, the General Manager will act in a facilitator role. Based on input received from the Board, staff will incorporate any revisions to the Strategic Plan and the District’s Mission and Vision Statements and further analyze opportunities and constraints associated with the list of proposed initiatives. Staff will discuss the
modifications with the Board to determine the feasibility of the proposed initiatives and develop work plans and schedules. Staff will further incorporate this material into a new Strategic Plan document for review and potential adoption at a subsequent Board meeting.

FINANCIAL IMPACT

There is no financial impact for discussion; financial impact will depend on direction from the Board.

ATTACHMENTS

Attachment A: 2016 Strategic Plan Update
Attachment B: Strawman 2017 Strategic Plan
Attachment C: 2017 Strategic Plan Redline
Mission Statement

“Dedicated to satisfying our community’s water needs.”

Vision

*To be a top performing public water agency*

Strategic Goals

1. Provide a safe, abundant, and reliable water supply.

2. Practice perpetual infrastructure renewal and improvement.

3. Be financially responsible and transparent.

4. Increase public awareness about Mesa Water and about water.

5. Attract and retain skilled employees.

6. Provide outstanding customer service.

7. Actively participate in regional water issues.
WATER SUPPLY AND RELIABILITY

Strategic Goal #1

Provide a safe, abundant, and reliable water supply.

Objective A: Continue to meet and surpass water quality standards.
- Meet and surpass primary water quality standards
- Meet and surpass secondary water quality standards
- Perform required water quality tests annually
- Design and contract MWRF finished water quality polishing project

Objective B: Maintain and protect a high quality water supply.
- Efficiently maintain backflow, cross-connection, and recycled water programs to protect the water system from contamination

Objective C: Continue to ensure a reliable and abundant supply of water.
- Provide a 100 percent local and reliable water supply portfolio
- Report on our ability to supply 100 percent local water with a marginal capacity

Objective D: Ensure emergency operations.
- Train staff on EOP
- Conduct regular testing of all backup power and communications systems
  Evaluate, identify, and implement emergency power plan needs at Operations and Administrative facilities
- Upgrade EOC equipment and facilities as needed

Outcome 1: Meet all water quality standards both health and aesthetics.

Outcome 2: Drought proof local water supply in all conditions.

Outcome 3: Maintain the ability to serve 100 percent imported water supply.
Strategic Goal #2
Practice perpetual infrastructure renewal and improvement.

Objective A: Manage water infrastructure assets to assure reliability.
- Start well Rehabilitation and automation construction project
- Develop condition and risk assessments program to prioritize assets for refurbishment and replacement
- Complete and implement an Asset Management Plan
- Provide ongoing operational training for the Mesa Water Reliability Facility (MWRF)
- Obtain permits for OC-44 pipeline rehabilitation project

Objective B: Efficiently manage our water system.
- Develop efficient operational protocols for production distribution, and water quality systems
- Fully utilize Mesa Water’s Computerized Maintenance Management System (MWCMMS)
- Routinely evaluate operational energy and chemical consumption metrics

Objective C: Manage Mesa Water’s information technology infrastructure assets to assure reliability.
- Implement Business Process Evaluation
- Implement Information Technology Master Plan

Outcome 1: Orderly infrastructure refurbishment and replacement.

Outcome 2: Fund and execute the 5-year Capital Improvement and Replacement Plan for each fiscal year.

Outcome 3: Train and fully use Mesa Water’s Computerized Maintenance Management System.


Outcome 5: Achieve world-class water loss status.

Outcome 6: Develop and monitor operational energy and chemical tracking tool in CMMs.

Outcome 7: Develop standard operation procedures for operations work.
Strategic Goal #3

Be financially responsible and transparent.

Objective A: Maintain AAA financial goals and meet the appropriate designated fund level goals.
- Report quarterly on AAA goals and designated funds

Objective B: Maintain competitive rates and efficiency in per capita expenditures.
- Evaluate true cost of water to the customer compared to benchmark agencies
- Administer investment portfolio consistent with policies
- Support rates that are fair, understandable, and prudent for the District’s financial stability and sustainability as a perpetual agency

Objective C: Fund the Board’s and District’s priorities.
- Prepare a balanced budget that funds Board and District priorities
- Produce timely and accurate financial reports including Comprehensive Annual Financial Report and State Controllers Report
- Prepare quarterly financial reports and accurately projected year end results
- Conduct accurate and timely monthly close accounting

- Provide key financial documents on the website
- Provide Board and staff total compensation, salary, and benefits structure on the website
- Provide Board meeting agendas, meeting packets, and meeting minutes on the website
- Prohibit evergreen contracts
- Develop and operate Fraud Hotline

Outcome 1: Meet Board’s annual targets for cash on hand and days cash ratio.

Outcome 2: Maintain debt service ratio.

Outcome 3: Comprehensive organizational transparency.
Strategic Goal #4

*Increase public awareness about Mesa Water and about water.*

Objective A: Enhance Mesa Water’s visibility and positive recognition.
- Facilitate accolades/awards for and from Mesa Water
- Operate Mesa Water’s News Bureau and social media
- Update MesaWater.org
- Develop Mesa Water Reliability Facility (MWRF) outreach design concepts

Objective B: Increase awareness of Mesa Water and of water in general, among key audiences.
- Manage Mesa Water’s community relations campaign
- Extend Mesa Water’s water education and ambassador programs
- Update and implement Mesa Water Speaker’s Bureau
- Leverage MWRF for outreach opportunities

Objective C: Unify Mesa Water messaging and publications.
- Continue industry relations to promote correct use of District’s name, nickname, and facility name
- Strengthen Mesa Water’s communications consistency by using one look, one voice
- Provide Mesa Water Board and staff with key messages and information

Outcome 1: Updated Public & Government Affairs Plan.

Outcome 2: Design concept for MWRF outreach center

Outcome 3: Contact management database implementation.

Outcome 4: Develop and implement Style Guide.
Strategic Goal #5

Attract and retain skilled employees.

**Objective A:** Attract and retain a qualified, skilled, and capable workforce.
- Develop Wellness Program
- Prepare Annual Employee Turnover Report

**Objective B:** Build employee skills.
- Provide project-management training
- Fully train a minimum of two employees in key processes to ensure accountability and sustainability
- Develop and implement an operational and institutional knowledge transfer plan

**Objective C:** Enhance employee relations.
- Survey and report on employee events
- Implement Human Resources Information System

**Objective D:** Provide annual safety program audit

**Outcome 1:** Fully staffed organization.

**Outcome 2:** Minimize turnover.

**Outcome 3:** Provide quarterly training report.
STRATEGIC GOAL #6

Provide outstanding customer service.

Objective A: Provide outstanding internal and external customer service in a timely, courteous, and effective manner.
- Create and maintain a good relationship with each customer
- Service the customer, not the project
- Maintain positive interactions with customers

Objective B: Exceed current customer service standards and expectations.
- Listen and respond to customers’ needs
- Be proactive – don’t wait to do something if it can be done now
- Be collaborative in problem-solving

Objective C: Incentivize positive actions.
- Empower employee decision-making
- Develop mentoring program
- Recognize proactive ideas and decisions

Objective D: Service to the community.
- Provide measurable results in maintaining customer satisfaction

Outcome 1: Answer telephone calls in less than 10 seconds (average).

Outcome 2: Respond to internal and external electronic inquiries by the end of the next business day.

Outcome 3: All staff attend annual customer service seminar.

Outcome 4: Document and present employees with recognition awards.
Strategic Goal #7

**Actively participate in regional water issues.**

**Objective A: Actively engage in regional water issues.**
- Attend OCWD and MWDOC meetings and engage in regional issues
- Update Board’s policy positions and legislative platforms for issues that impact Mesa Water

**Objective B: Facilitate Board and staff participation in water, governance, community and environmental organizations.**
- Support current Board and staff participation in regional organizations such as LAFCO, OCWA, ACWA, WACO, ACWA/JPIA, CalDesal, SAWPA and Groundwater Producers. Proactively seek opportunities for additional participation
- Support Board and staff participation in non-governmental associations, as appropriate

**Objective C: Accomplish Board’s Water Policy Priorities.**
- Develop Board’s regional water priorities
- Work to achieve Board’s water policy priorities

**Outcome 1:** Positively influence regional water issues important to Mesa Water.

**Outcome 2:** Increase Awareness of Mesa Water in the Water Industry and Community.

**Outcome 3:** Be a leader of Regional Water Issues.
Mission Statement

“Dedicated to satisfying our community’s water needs.”

Vision

To be a top performing public water agency

Strategic Goals

1. Provide a safe, abundant, and reliable water supply.

2. Practice perpetual infrastructure renewal and improvement.

3. Be financially responsible and transparent.

4. Increase public awareness about Mesa Water and about water.

5. Attract and retain skilled employees.

6. Provide outstanding customer service.

7. Actively participate in regional water issues.
Strategic Goal #1

*Provide a safe, abundant, and reliable water supply.*

**Objective A: Continue to meet and surpass water quality standards.**
- Meet and surpass primary water quality standards
- Meet and surpass secondary water quality standards
- Perform required water quality tests annually
- Analyze nitrification modeling results and implement recommendations

**Objective B: Maintain and protect a high quality water supply.**
- Efficiently maintain backflow, cross-connection, and recycled water programs to protect the water system from contamination

**Objective C: Continue to ensure a reliable and abundant supply of water.**
- Provide a 100 percent local and reliable water supply portfolio
- Report on our ability to supply 100 percent local water with a marginal capacity
- Initiate design of new well to provide 115% of demand

**Objective D: Ensure emergency operations.**
- Conduct regular testing of all backup power and communications systems
- Evaluate, identify, and implement emergency power plan needs at Operations and Administrative facilities
- Upgrade EOC equipment and facilities as needed
- Participate in Regional Emergency Response exercises

**Outcome 1:** Meet all water quality standards - both health and aesthetics.

**Outcome 2:** Drought proof local water supply in all conditions.

**Outcome 3:** Maintain the ability to serve 100 percent imported water supply.
Strategic Goal #2

Practice perpetual infrastructure renewal and improvement.

Objective A: Manage water infrastructure assets to assure reliability.
- Continue Well Rehabilitation and Automation Construction Project
- Complete and implement an Asset Management Plan
- Continue actively managing Pipeline Integrity Testing Program
- Solicit construction bids for OC-44 Pipeline Rehabilitation Project FY 2019 Construction

Objective B: Efficiently manage our water system.
- Develop efficient operational protocols for production distribution and water quality systems
- Fully utilize Mesa Water’s Computerized Maintenance Management System (MWCMMS)
- Routinely evaluate operational energy and chemical consumption metrics

Objective C: Manage Mesa Water’s information technology infrastructure assets to assure reliability.
- Implement Business Process Evaluation
- Implement Information Technology Master Plan

Outcome 1: Orderly infrastructure refurbishment and replacement.

Outcome 2: Fund and execute the 5-year Capital Improvement and Replacement Plan for each fiscal year.

Outcome 3: Train and fully use Mesa Water’s Computerized Maintenance Management System.


Outcome 5: Achieve world-class water loss status.

Outcome 6: Develop and monitor operational energy and chemical tracking tool in CMMS.

Outcome 7: Develop standard operating procedures for operations work.
Strategic Goal #3

Be financially responsible and transparent.

Objective A: Maintain AAA financial goals and meet the appropriate designated fund level goals.
- Report quarterly on AAA goals and designated funds

Objective B: Maintain competitive rates and efficiency in per capita expenditures.
- Evaluate true cost of water to the customer compared to benchmark agencies
- Administer investment portfolio consistent with policies
- Support rates that are fair, understandable, and prudent for the District’s financial stability and sustainability as a perpetual agency

Objective C: Fund the Board’s and District’s priorities.
- Prepare a balanced budget that funds Board and District priorities
- Produce timely and accurate financial reports including Comprehensive Annual Financial Report and State Controller’s Report
- Prepare quarterly financial reports and accurately projected year end results
- Conduct accurate and timely monthly close accounting

- Provide key financial documents on the website
- Provide Board and staff total compensation, salary, and benefits structure on the website
- Provide Board meeting agendas, meeting packets, and meeting minutes on the website
- Prohibit evergreen contracts
- Develop and operate Fraud Hotline

Outcome 1: Meet Board’s annual targets for cash on hand and days cash ratio.

Outcome 2: Maintain debt service ratio.

Outcome 3: Comprehensive organizational transparency.
Strategic Goal #4

Increase public awareness about Mesa Water and about water.

Objective A: Enhance Mesa Water’s visibility and positive recognition.
- Facilitate accolades/awards for and from Mesa Water
- Improve Mesa Water’s news bureau and social media
- Establish MesaWater.org analytics

Objective B: Increase awareness of Mesa Water and water among key audiences.
- Manage Mesa Water’s community relations campaign
- Operate Mesa Water’s water education and ambassador programs
- Update and implement Mesa Water Speaker’s Bureau
- Leverage MWRF for outreach opportunities

Objective C: Unify Mesa Water messaging and publications.
- Continue industry relations to promote awareness of District’s name and brand
- Strengthen Mesa Water’s communications by using consistent look and voice
- Provide Mesa Water Board and staff with key messages and information

Outcome 1: Create social media benchmark assessment and plan to grow engagement.

Outcome 2: Implement new format for Water Issues Study Group/ambassador program.

Outcome 3: Finalize Crisis Communication Plan and Conduct Training.
Strategic Goal #5

Attract and retain skilled employees.

Objective A: Attract and retain a qualified, skilled, and capable workforce.
- Prepare Annual Employee Turnover Report
- Negotiate a new Memorandum of Understanding

Objective B: Build employee skills.
- Fully train a minimum of two employees in key processes to ensure accountability and sustainability
- Develop and implement an operational and institutional knowledge transfer plan
- Provide employee training

Objective C: Enhance employee relations.
- Survey and report on employee events
- Implement Human Resources Information System

Objective D: Provide annual safety program audit.

Outcome 1: Fully staffed organization.

Outcome 2: Minimize turnover.

Outcome 3: Provide quarterly training report.
Strategic Goal #6

*Provide outstanding customer service.*

**Objective A:** Provide outstanding internal and external customer service in a timely, courteous, and effective manner.
- Encourage and support colleagues and help others find solutions to problems
- Speak professionally with a positive tone of voice
- Resolve issue on first point of contact

**Objective B:** Enhance the customer experience.
- Update and implement customer service standards
- Listen carefully to understand the real need of the customer
- Be empathetic to the customer’s situation
- Respond to all requests promptly and, when information isn’t immediately available, provide a timeframe for the resolution

**Objective C:** Measure success.
- Establish and implement measures of success that ensure continuous improvement
- Survey customer satisfaction for walk-in and telephone service

**Objective D:** Continuous improvement and reinforcement.
- Implement reinforcement system for customer service skills and behaviors
- Use feedback from customers and the internal organization for continuous process improvement

**Outcome 1:** Smile and great customers and colleagues in a warm and friendly manner.

**Outcome 2:** Train staff on both universal and function specific standards.

**Outcome 3:** Implement monthly metrics report.

**Outcome 4:** All staff participates in annual customer service training.

**Outcome 5:** Recognize and celebrate the good work of employees.
Strategic Goal #7

Actively participate in regional water issues.

Objective A: Actively engage in regional water issues.
- Attend OCWD and MWDOC meetings and engage in regional water issues
- Update the Board’s policy positions and legislative platforms for issues that impact Mesa Water

Objective B: Facilitate Board and staff participation in water, governance utility, community and environmental organizations.
- Support current Board and staff participation in organizations such as LAFCO, OCWA, ACWA, WACO, ACWA/JPIA, CalDesal, SAWPA and Groundwater Producers; proactively seek opportunities for additional participation
- Support Board and staff participation in non-governmental associations, as appropriate

Objective C: Accomplish the Board’s Policy Priorities.
- Develop the Board’s local and regional water policy priorities
- Work to achieve the Board’s local and regional water policy priorities

Outcome 1: External Affairs Plan.
Outcome 2: 2017 Legislative Platforms.
Outcome 3: Positively influence/be a leader of water issues important to Mesa Water.
Outcome 4: Increase awareness of Mesa Water in the water industry and community.
Mesa Water District

2017-2018 Strategic Plan
Mission Statement

“Dedicated to satisfying our community’s water needs.”

Vision

To be a top performing public water agency

Strategic Goals

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3. Be financially responsible and transparent.
4. Increase public awareness about Mesa Water and about water.
5. Attract and retain skilled employees.
6. Provide outstanding customer service.
7. Actively participate in regional water issues.
Strategic Goal #1

*Provide a safe, abundant, and reliable water supply.*

**Objective A: Continue to meet and surpass water quality standards.**
- Meet and surpass primary water quality standards
- Meet and surpass secondary water quality standards
- Perform required water quality tests annually
- Analyze nitrification modeling results and implement recommendations
- Design and contract MWRF finished water quality polishing project

**Objective B: Maintain and protect a high quality water supply.**
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- Upgrade EOC equipment and facilities as needed
- Participate in Regional Emergency Response exercises

**Outcome 1:** Meet all water quality standards - both health and aesthetics.

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STRATEGIC GOAL #2
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Objective A: Manage water infrastructure assets to assure reliability.
- Start-Continue wWell Rehabilitation and aAutomation eConstruction pProject
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- Continue actively managing Pipeline Integrity Testing Program
- Provide ongoing operational training for the Mesa Water Reliability Facility (MWRF) Obtain permits fSolicit construction bids for OC-44 pPipline- rRehabilitation pProject FY 2019 Construction

Objective B: Efficiently manage our water system.
- Develop efficient operational protocols for production distribution and water quality systems
- Fully utilize Mesa Water’s Computerized Maintenance Management System (MWCMMS)
- Routinely evaluate operational energy and chemical consumption metrics

Objective C: Manage Mesa Water’s information technology infrastructure assets to assure reliability.
- Implement Business Process Evaluation
- Implement Information Technology Master Plan

Outcome 1: Orderly infrastructure refurbishment and replacement.

Outcome 2: Fund and execute the 5-year Capital Improvement and Replacement Plan for each fiscal year.

Outcome 3: Train and fully use Mesa Water’s Computerized Maintenance Management System.


Outcome 5: Achieve world-class water loss status.

Outcome 6: Develop and monitor operational energy and chemical tracking tool in CMMSS.

Outcome 7: Develop standard operating procedures for operations work.
Strategic Goal #3

Be financially responsible and transparent.

Objective A: Maintain AAA financial goals and meet the appropriate designated fund level goals.
- Report quarterly on AAA goals and designated funds

Objective B: Maintain competitive rates and efficiency in per capita expenditures.
- Evaluate true cost of water to the customer compared to benchmark agencies
- Administer investment portfolio consistent with policies
- Support rates that are fair, understandable, and prudent for the District’s financial stability and sustainability as a perpetual agency

Objective C: Fund the Board’s and District’s priorities.
- Prepare a balanced budget that funds Board and District priorities
- Produce timely and accurate financial reports including Comprehensive Annual Financial Report and State Controller’s Report
- Prepare quarterly financial reports and accurately projected year end results
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- Provide key financial documents on the website
- Provide Board and staff total compensation, salary, and benefits structure on the website
- Provide Board meeting agendas, meeting packets, and meeting minutes on the website
- Prohibit evergreen contracts
- Develop and operate Fraud Hotline

Outcome 1: Meet Board’s annual targets for cash on hand and days cash ratio.

Outcome 2: Maintain debt service ratio.

Outcome 3: Comprehensive organizational transparency.
Strategic Goal #4

*Increase public awareness about Mesa Water and about water.*

**Objective A:** Enhance Mesa Water’s visibility and positive recognition.
- Facilitate accolades/awards for and from Mesa Water
- *Operate Improve* Mesa Water’s *n*News *b*Bureau and social media
- Update *Establish* MesaWater.org *analytics* Develop Mesa Water Reliability Facility (MWRF) outreach design concepts

**Objective B:** Increase awareness of Mesa Water and *of water in general,* among key audiences.
- Manage Mesa Water’s community relations campaign
- *Extend Operate* Mesa Water’s water education and ambassador programs
- Update and implement Mesa Water Speaker’s Bureau
- Leverage MWRF for outreach opportunities

**Objective C:** Unify Mesa Water messaging and publications.
- Continue industry relations to promote *correct use awareness* of District’s name—*and brand nickname, and facility name*
- Strengthen Mesa Water’s communications *consistency* by using *one consistent* look, *and one* voice
- Provide Mesa Water Board and staff with key messages and information

**Outcome 1:** Create social media benchmark assessment and plan to grow engagement. Updated Public & Government Affairs Plan.

**Outcome 2:** Implement new format for Water Issues Study Group/ambassador program. Design concept for MWRF outreach center

**Outcome 3:** Finalize Crisis Communication Plan and Conduct Training. Contact management database implementation

**Outcome** Develop and implement Style Guide.
Strategic Goal #5

Attract and retain skilled employees.

Objective A: Attract and retain a qualified, skilled, and capable workforce.
- Develop Wellness Program
- Prepare Annual Employee Turnover Report
- Negotiate a new Memorandum of Understanding

Objective B: Build employee skills.
- Provide project-management training
- Fully train a minimum of two employees in key processes to ensure accountability and sustainability
- Develop and implement an operational and institutional knowledge transfer plan
- Provide employee training

Objective C: Enhance employee relations.
- Survey and report on employee events
- Implement Human Resources Information System

Objective D: Provide annual safety program audit.

Outcome 1: Fully staffed organization.
Outcome 2: Minimize turnover.
Outcome 3: Provide quarterly training report.
Strategic Goal #6

Provide outstanding customer service.

Objective A: Provide outstanding internal and external customer service in a timely, courteous, and effective manner.

- Create and maintain a good relationship with each customer
- Service the customer, not the project
- Maintain positive interactions with customers
- Encourage and support colleagues and help others find solutions to problems
- Speak professionally with a positive tone of voice
- Resolve issue on first point of contact

Objective B: Exceed current customer service standards and expectations. Enhance the customer experience.

- Listen and respond to customers’ needs
- Be proactive – don’t wait to do something if it can be done now
- Be collaborative in problem-solving
- Update and implement customer service standards
- Listen carefully to understand the real need of the customer
- Be empathetic to the customer’s situation
- Respond to all requests promptly and, when information isn’t immediately available, provide a timeframe for the resolution

Objective C: Incentivize positive actions. Measure success.

- Empower employee decision-making
- Develop mentoring program
- Recognize proactive ideas and decisions
- Establish and implement measures of success that ensure continuous improvement
- Survey customer satisfaction for walk-in and telephone service

Objective D: Service to the community. Continuous improvement and reinforcement.

- Provide measurable results in maintaining customer satisfaction
- Implement reinforcement system for customer service skills and behaviors
- Use feedback from customers and the internal organization for continuous process improvement

Outcome 1: Answer telephone calls in less than 10 seconds (average). Smile and greet customers and colleagues in a warm and friendly manner.

Outcome 2: Respond to internal and external electronic inquiries by the end of the next business day. Train staff on both universal and function specific standards.

Outcome 3: All staff attend annual customer service seminar. Implement monthly metrics report.
Outcome 4: Document and present employees with recognition awards. All staff participates in annual customer service training.

Outcome 5: Recognize and celebrate the good work of employees.
Strategic Goal #7

Actively participate in regional water issues.

Objective A: Actively engage in regional water issues.
- Attend OCWD and MWDOC meetings and engage in regional water issues
- Update the Board’s policy positions and legislative platforms for issues that impact Mesa Water

Objective B: Facilitate Board and staff participation in water, governance utility, community and environmental organizations.
- Support current Board and staff participation in regional organizations such as LAFCO, OCWA, ACWA, WACO, ACWA/JPIA, CalDesal, SAWPA and Groundwater Producers; proactively seek opportunities for additional participation
- Support Board and staff participation in non-governmental associations, as appropriate

Objective C: Accomplish the Board’s Water Policy Priorities.
- Develop the Board’s local and regional water policy priorities
- Work to achieve the Board’s local and regional water policy priorities

Outcome 1: External Affairs Plan.

Outcome 2: 2017 Legislative Platforms.

Outcome 3: Positively influence/be a leader of regional water issues important to Mesa Water.

Outcome 24: Increase awareness of Mesa Water in the water industry and community.

Outcome 3: Be a leader of Regional Water Issues.
TO: Board of Directors  
FROM: Stacy Taylor, External Affairs Manager  
DATE: March 23, 2017  
SUBJECT: Measure TT Update

**RECOMMENDATION**

Receive information and take action as the Board desires.

**STRATEGIC PLAN**

Goal #3: Be financially responsible and transparent.  
Goal #4: Increase public awareness about Mesa Water® and about water.  
Goal #6: Provide outstanding customer service.  
Goal #7: Actively participate in regional water issues.

**PRIOR BOARD ACTION/DISCUSSION**

Following direction provided to staff by the Mesa Water District Board of Directors (Board) at the April 18, 2016 Board Workshop, this item was discussed at the following Mesa Water meetings in 2016: Executive Committee meetings on April 26, May 20 and June 7; Finance Committee meeting on August 15; Legislative and Public Affairs Committee meeting on November 17; and, Board meetings on June 16, July 14, 21 and 28, and September 8, 2016.

**DISCUSSION**

The Special Districts Shared Efficiencies (SDSE) project was based on the objective of best serving the public in the most economical, effective and efficient way possible. Mesa Water preferred to collaborate with Costa Mesa Sanitary District (CMSD) on the SDSE project.

Two studies were performed by third party consulting firms to analyze the potential benefits of combining Mesa Water and the Costa Mesa Sanitary District (CMSD). The impartial Optimal Governance Structure Study published in July 2016 by Arcadis U.S., Inc. found that consolidating CMSD and Mesa Water into one district could achieve substantial cost-savings for customers, including $15.6 million in one-time savings that could provide a $650 rebate per customer, and $2.7 million in annual savings that could reduce customers’ sewer rates by up to 28 percent.

Based on the study’s findings, Mesa Water placed a non-binding advisory measure -- Measure TT -- on the ballot which asked voters: “Shall the Mesa Water District and the Costa Mesa Sanitary District pursue consolidation?” The Orange County Registrar of Voters’ final vote count from the November 8, 2016 General Election shows Measure TT passed with 21,545 “yes” votes (55% in favor) to 17,855 “no” votes (45% against), showing voter support for reducing the size and cost of local government through the pursuit of consolidating CMSD and Mesa Water.
into one district that would provide sewer and trash collection and water services for the community.

Measure TT was a preliminary step to a possible consolidation process to be formally conducted by the Orange County Local Agency Formation Commission (OC LAFCO) in collaboration with the two districts. On December 9, 2016, Mesa Water’s Board President sent a letter to CMSD’s Board President suggesting that, due to Measure TT’s passage, a prudent next step would be a joint meeting between the two districts. CMSD declined to discuss consolidation or the SDSE project with Mesa Water; instead, CMSD wishes to only discuss shared services with Mesa Water.

Mesa Water will continue efforts to collaborate, coordinate and communicate with CMSD on shared services and other topics of mutual interest to both districts that can potentially benefit the Districts’ shared customers, constituents, and community.

**FINANCIAL IMPACT**

$88,000 is budgeted in Fiscal Year 2017; $40,245 has been spent to date.

**ATTACHMENTS**

None.
MEMORANDUM

TO:       Board of Directors
FROM:     Paul Shoenberger, PE, General Manager
DATE:     March 23, 2017
SUBJECT:  Property Lease for New Well Site at 4011 W. Chandler

RECOMMENDATION

Authorize the General Manager to execute the property lease for 4011 W. Chandler to lease the property back to the Seller for up to 18 months from close of escrow; first 6 months at no cost and 12 months at $11,400 per month.

STRATEGIC PLAN

Goal #1: Provide a safe, abundant, and reliable water supply.
Goal #2: Practice perpetual infrastructure renewal and improvement.

PRIOR BOARD ACTION/DISCUSSION

On November 25, 2014, the Engineering and Operations Committee approved recommendations from the 2014 Water Systems Master Plan Update to direct staff to plan water supply to meet 115% of projected demands and explore the development of two new well sites while abandoning Well 8.

On January 20, 2015, the Board of Directors approved a motion to retain professional real estate services for the acquisition of two new well sites for an amount not-to-exceed $25,000. The contract was awarded to Voit Real Estate Services (Voit).

On September 15, 2015, the Engineering and Operations Committee received a presentation on the properties being considered for purchase.

On October 8, 2015, the Board of Directors approved the General Manager to negotiate on behalf of the Board for the property purchase of two new well sites.

On July 14, 2016, the Board awarded a contract change order to Voit for $50,000 to continue real estate acquisition services for two new well sites and authorize execution of the change order.

On March 13, 2017, the Board of Directors visited the property to be acquired at 4011 W. Chandler.

DISCUSSION

On December 20, 2016, Mesa Water District and IDAS Properties agreed to the terms of a property purchase at 4011 W. Chandler Avenue, Santa Ana for use as a new well site. The property is in an industrial area north of the amber water influence in the main aquifer and appears to be an excellent location for a new well. Escrow was opened on January 24, 2017 and is scheduled to close on March 31, 2017. The property purchase agreement includes a leaseback to the seller for up to eighteen (18) months from close of escrow to allow the seller to relocate. This is mutually beneficial and allows for Mesa Water to receive rent as design and bid documents are...
developed for construction. The lease was drafted and reviewed by Mesa Water’s real estate broker and by Mesa Water’s legal counsel. The terms of the lease are in Attachment A and include the following:

- The Base Monthly Rent shall be $11,400.00 per month for 12 months.
- The first six months following the close of escrow shall be at no cost to the Seller.
- The Seller shall be responsible for all maintenance and repairs throughout the lease term including, but not limited to, all landscaping, plumbing, HVAC, electrical, structural elements, doors and the roof systems.
- Seller shall provide Buyer with a $10,000 Security Deposit at the close of escrow.
- Seller shall be given the right to cancel the lease at any time during the eighteen (18) month term with sixty days written notice to Buyer.
- Buyer shall be allowed on site with forty-eight hour notice during the lease term to perform investigations and planning for their intended use of the site.

Staff recommends that the Board of Directors consider approving the lease and authorize execution of the lease.

FINANCIAL IMPACT

Mesa Water will receive $11,400 per month for a total of $136,800 over twelve months starting on October 1, 2017.

ATTACHMENTS

Attachment A: Standard Industrial/Commercial Single-Tenant Lease
AIR COMMERCIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE -- GROSS

(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. Basic Provisions ("Basic Provisions").
   1.1 Parties: This Lease ("Lease"), dated for reference purposes only February 27, 2017
   is made by and between Mesa Water District, a County Water District ("Lessor")
   and Innovative Construction Solutions, a California Corporation ("Lessee").
   (collectively the "Parties," or individually a "Party").
   1.2 Premises: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, located in the County of Orange, State of California, and generally described as (describe briefly the nature of the property and, if applicable, the "Project", if the property is located within a Project) an approximate 10,000 square foot industrial building
   ("Premises"). (See also Paragraph 2)

1.3 Term: 1 ______ years and 6 ______ months ("Original Term") commencing see Addendum Paragraph 52 ("Commencement Date") and ending see Addendum Paragraph 52 ("Expiration Date"). (See also Paragraph 3)

1.4 Early Possession: If the Premises are available, Lessee may have non-exclusive possession of the Premises commencing see Addendum Paragraph 52 ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 Base Rent: $11,400.00 per month ("Base Rent"), payable on the first day of each month commencing see Addendum Paragraph 51. (See also Paragraph 4)

1.6 Base Rent and Other Monies Paid Upon Execution:
   (a) Base Rent: $0.00 for the period see Addendum Paragraph 51

   (b) Security Deposit: $10,000.00 ("Security Deposit"). (See also Paragraph 5)

   (c) Association Fees: $ for the period __________

   (d) Other: $ for __________

1.7 Total Due Upon Execution of this Lease: $10,000.00

1.8 Insuring Party: Lessor is the "Insuring Party". The annual "Base Premium" is $ (See also Paragraph 6)

1.9 Real Estate Brokers: (See also Paragraph 15 and 25)
   (a) Representation: The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):
   □ represents Lessor exclusively ("Lessor’s Broker");
   □ represents Lessee exclusively ("Lessee’s Broker"); or
   □ represents both Lessor and Lessee ("Dual Agency").

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

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

1.11 Attachments: Attached hereto are the following, all of which constitute a part of this Lease:
   □ an Addendum consisting of Paragraphs 51 through 60;
   □ a plot depicting the Premises;
   □ a current set of the Rules and Regulations;
   □ a Work Letter;
   □ other (specify): ____________________________

________________________________________________________________________

PAGE 1 OF 13

INITIALS

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FORM STG-26-12/16E
2. Premises.

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

2.2 Condition. Lessor shall deliver the Premises to Lessee leasable and free of defects on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"); and, so long as the required service contracts described in Paragraph 7.1(b) below are delivered within 120 days after the Commencement Date, Lessee is not responsible for the cost thereof, provided, however that if such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, at Lessor's sole obligation with respect to such systems or elements, return them to a like new condition. If Lessor fails to deliver the Premises within the time specified above or if any of the systems or elements should malfunction or fail within the appropriate warranty period, Lessee shall have the option to terminate this Lease and, so long as the required service contracts described in Paragraph 7.1(b) below are delivered within 120 days after the Commencement Date, Lessee shall be fully responsible for the cost thereof, provided, however that if any such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, at Lessor's sole obligation with respect to such systems or elements, return them to a like new condition. If Lessor fails to deliver the Premises within the time specified above or if any of the systems or elements should malfunction or fail within the appropriate warranty period, Lessee shall have the option to terminate this Lease.

2.3 Premises. The Premises shall include, without limitation, the floor space indicated on the floor plans for the Premises attached hereto (collectively, the "Floor Plans"). Lessee acknowledges that the size and condition of the Premises, including the structural and floor plans and the LaRosa's Users Manual, are subject to change at any time, including changes resulting from the construction by Lessee, and agrees to accept the Premises in the condition existing at the date of delivery. The Premises shall have an area of [square footage], and shall be delivered to Lessee broom clean and free of debris on the Commencement Date, commencing such Capital Expenditure.

2.4 Lessee Compliance. Lessee shall not be required to deliver possession of the Premises to Lessor until Lessee complies with its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. If such written notice is tendered on or before said date, the period referred to in said 10 days shall be extended until Lessor has been furnished with such evidence of insurance. 2.5 Lessee Compliance.

2.6 Lessee’s Election. Lessee’s notice in writing within 10 days after the Start Date, as the same may be extended under the terms of any Work Letter executed by Parties, Lessee may, at its option, in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is tendered on or before said date, the period referred to in said 10 days shall be extended until Lessor has been furnished with such evidence of insurance. If such written notice is tendered on or before said date, the period referred to in said 10 days shall be extended until Lessor has been furnished with such evidence of insurance.
rent. 4.1. 4.2. Payment. Lessee shall cause payment of Rent to be received by Lessee in lawful money of the United States, without offset or deduction (except as may be generally permitted by law) on or before the day on which it is due. All monetary obligations shall be rounded to the nearest whole dollar. In the event that any invoice prepared by Lessor is inaccurate such inaccuracy shall not constitute a waiver and Lessee shall be obligated to pay the amount set forth in this Lease. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the number of days of the month in which the Lessor received the first payment of Rent. If a payment is made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of $25 in addition to any Late Charges, and, if applicable, any attorneys' fees or costs incurred in connection with such dishonored check.

Authorization Fees. In addition to the Base Rent, Lessee shall pay to Lessor each month an amount equal to any owner's consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that if any such consultant's fees that arise out of or involving any Hazardous Substance have liability under this Lease, Lessor will have no responsibility to pay such liability as if such consultant's fees were contributed to by Lessee, or pertaining to or involving any Hazardous Substance contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for third parties).

Lessee Indemnification. Lessee shall indemnify, defend, and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all losses of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that if any such consultant's fees that arise out of or involving any Hazardous Substance have liability under this Lease, Lessor will have no responsibility to pay such liability as if such consultant's fees were contributed to by Lessee, or pertaining to or involving any Hazardous Substance contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for third parties).

Lessor Indemnification. Except as otherwise provided in paragraph 8.7, Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessor, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which result from Hazardous Substances which existed on the Premises prior to Lessee's occupancy or which are caused by

Investigations and Remediations. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to Lessee's occupancy, unless such remediation measure is required as a result of Lessee's use (including "Alterations," as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.
Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance. It is Lessee's obligation, except for the surface and structural elements of the roof, foundations and bearing walls, the repair of which shall be the responsibility of Lessor upon receipt of written notice that such a repair is necessary or the condition thereof, to (i) keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair. Lessor shall keep the surface and structural elements of the roof, foundations and bearing walls in good order, condition and repair, and Lessor shall promptly pay to Lessor a sum equal to 115% of the cost thereof. Maintenance; Repairs; Utility Installations; Trade Fixtures and Alterations.

Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and installations, including, but not limited to, all equipment or systems, which are not yet owned by Lessor pursuant to Paragraph 7.4(a).

In General.

Definitions.

Failure to Perform.

Utility Installations; Trade Fixtures; Alterations.

In the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's intention to terminate this Lease as of the date 60 days following the date of such notice. In such event, this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessee's desire to terminate this Lease as of the date 60 days following the date of such notice. In the event Lessee gives notice, within 30 days after receipt of such written notice of termination, of Lessee's desire to terminate this Lease as of the date specified in Lessor's notice of termination, it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or any of the other rights and remedies granted hereunder. Maintenance; Repairs; Utility Installations; Trade Fixtures and Alterations.

Lessee shall pay Interest on the unamortized balance but may prepay its obligation at any time.

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Lessee's obligations.

In General.

Definitions.

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Lessee shall pay Interest on the unamortized balance but may prepay its obligation at any time.
Lessee shall repair any damage occasioned by Rental Value (b) Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against and the same and shall pay and satisfy any such adverse judgment that may be rendered against the Lessee or the Premises. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor’s attorneys’ fees and costs.

7.4 Condition of Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor’s right to require removal or elect ownership as hereinafter provided, all Alternations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect to be the owner of any and all of the Premises, provided that the Lessee shall have performed the obligations hereunder (7.4(b)). If Lessor elects to own, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear.

(c) Surrender; Restoration. Lessor shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. “Ordinary wear and tear” shall not include any damage or deterioration that would have been prevented by good maintenance practice.

Lessee shall own the Alterations and Utility Installations at the expiration or termination of this Lease, unless Lessor, at any time, elects to require that such items be removed by the expiration or termination of this Lease. Lessee may not remove any Building Alteration, with the same insurable replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises. Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against and the same and shall pay and satisfy any such adverse judgment that may be rendered against the Lessee or the Premises. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor’s attorneys’ fees and costs.

7.6 Insurance.

(c) Lessee shall obtain (and keep in force) a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the use, occupancy or maintenance of the Premises, and any and all acts or omissions occurring in or about the Premises, the leasehold improvements and appurtenances thereto. The amount of such insurance shall be in an amount not less than $1,000,000 per occurrence. The Lessee shall not be required to maintain such insurance if this insurance is part of a package policy with respect to such premises provided that the same is obtained at a cost not exceeding the cost of such separate insurance by more than 20%.

(b) Lessee shall also deliver to Lessee a statement of the amount of such Insurance Cost Increase attributable only to the Premises showing in reasonable detail the manner in which such amount was computed. Premiums for policy periods commencing prior to, or extending beyond the term of this Lease, shall be prorated to correspond to the term of this Lease.

9.2 Liability Insurance.

(a) Carried by Lessee. See Addendum Paragraph 56. Lessee shall obtain and maintain insurance covering loss of income and extra expense insurance in amounts as will result from the nature of Lessee’s occupancy, any act or omission of Lessee, requirements of the holder of mortgage or deed of trust covering the Premises, increased valuation of the Premises and/or a premium rate increase. The parties are encouraged to fill in the Base Premium in paragraph 1.8 with a reasonable premium that the required insurance based on the Agreed Use of the Premises. If the parties fail to insert a dollar amount in paragraph 1.8, then the Base Premium shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the commencement of the Term for the Agreed Use of the Premises. In no event, however, shall Lessee be responsible for any portion of the increase in the premium cost attributable to any Lender insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Lender Insured Premises"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be equal to the insurance required to be maintained by Lessee. Lessor shall not be an additional insured in such insurance policies in the name of Lessee, with loss payable to Lessor, any ground lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the Base Premium, including coverage for debris removal and the enforcement of any applicable Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. The amount of coverage shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be insured by Lessor, any ground lessor, and to any Lender insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Lender Insured Premises"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be equal to the insurance required to be maintained by Lessee.

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

9.4 Property Insurance.

(a) Building and Improvements. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, any ground lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the Base Premium, including coverage for debris removal and the enforcement of any applicable Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. The amount of coverage shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be equal to the insurance required to be maintained by Lessee, with loss payable to Lessor, any ground lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the Base Premium.

(b) Lessee Owned Alterations and Utility Installations. The Insuring Party shall own the Alterations and Utility Installations at the expiration or termination of this Lease, unless Lessor, at any time, elects to require that such items be removed by the expiration or termination of this Lease. Lessee may not remove any Building Alteration, with the same insurable replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises. Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against and the same and shall pay and satisfy any such adverse judgment that may be rendered against the Lessee or the Premises. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor’s attorneys’ fees and costs.

9.5 Worker’s Compensation Insurance.

Lessee shall obtain and maintain Worker’s Compensation Insurance in such amount as is necessary to provide coverage for any and all employees of Lessee while engaged in the Premises and for the performance of Lessee’s obligations hereunder, to the extent such coverage may be required by any Lender.
may be required by Applicable Requirements. Such policy shall include a 'Waiver of Subrogation' endorsement. Lessor shall provide Lessor with a copy of such endorsement along with the certificate of insurance or copy of the policy required by paragraph 8.5.

(d) No Representation of Adequate Coverage. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessor's property, business operations or obligations under this Lease. Lessor may require the Insuring Party to provide Lessor with a copy of any policy or certificate of insurance at any time during the term of this Lease or within 30 days after the occurrence of any damage or destruction upon the Premises, whichever is earlier. Lessor may require the Insuring Party to provide Lessor with a copy of any policy or certificate of insurance at any time during the term of this Lease or within 30 days after the occurrence of any damage or destruction upon the Premises, whichever is earlier.

8.5 Insurance. (a) Premises Partial Damage. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a natural disaster, Lessor shall not do or permit to be done anything which invalidates the required insurance policies. Lessor shall, prior to the Start Date, deliver to Lessor copies of the insurance policies and certificates of insurance covering such insurance, which shall evidence the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessor shall, at least 10 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or obtain new insurance policies as required. If Lessor does not so do, Lessor may terminate this Lease effective 30 days from the date of termination notice. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the required insurance to be carried by it, the other Party may, but shall not be required to, procure and maintain the same. The cost thereof shall be reasonable and any other Party shall have the right to subrogate that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.6 Exemption of Lessor and its Agents from Liability. Notwithstanding the negligence or willful misconduct of this Lease by Lessor or its agents, neither Lessor nor its agents shall be liable for any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Lessee or of any other tenant to the Premises, its employees, invitees, customers, or any other person in or about the Premises, (ii) any bodily injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from any sources or places, (iii) any damages arising from any act or neglect of any other tenant of Lessor or from the failure of Lessor or its agents to enforce the provisions of any other lease in the Project, or (iv) injury to Lessee's business or for any loss of income or profit therefrom. Instead, it is intended that Lessor provide Lessor with the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

8.7 Total Destruction. If a "Premises Total Destruction" occurs, Lessor shall, at Lessee's option, either (i) to purchase the Premises, the Premises being tendered to Lessee, Lessor shall make a written offer to purchase the Premises from Lessee on a reasonable basis for that purpose. Notwithstanding, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) to Lessor. Lessor shall, at its option, either (i) to purchase the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice to Lessor make at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessor in such defense. Lessee shall not be liable for any First Party's claims in defense of or indemnified by Lessor of any claim or demand. If at any time during the last 6 months of the term of this Lease, a Hazardous Substance Condition or a Premises Total Destruction occurs, or if the Premises Partial Damage near end of term, except as set forth in Paragraph 8.5, shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance in or on the Premises which is determined to be a Hazardous Substance Condition or a Premises Total Destruction.

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

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

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

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

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance in or on the Premises which is determined to be a Hazardous Substance Condition or a Premises Total Destruction.

9.2 Partial Damage - Insured Loss. If a "Premises Partial Damage" that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage, but not Lessee's Trademarks or Lessee Owned Altersations or Utility Installations, as soon as reasonably possible after receipt of written notice thereof. Lessor shall not be liable for any delay in repairing the Premises due to any event beyond Lessor's reasonable control. Lessor shall make the repair of any damage or destruction to the extent that the cost thereof exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage or destruction. Lessor may require Lessee to provide Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs required. If Lessee does not make the required commitment, the Lessee shall make the repairs or provide the required assurance. If Lessee does not make the repairs required, or provide the necessary assurance, Lessor shall tender the Premises to Lessee, the extent of which will be extremely

9.3 Partial Damage - Uninsured Loss. If a "Premises Partial Damage" that is not an Insured Loss occurs, unless caused by a natural disaster, Lessor shall not do or permit to be done anything which invalidates the required insurance policies. Lessor shall, prior to the Start Date, deliver to Lessor copies of the insurance policies and certificates of insurance covering such insurance, which shall evidence the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessor shall, at least 10 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or obtain new insurance policies as required. If Lessor does not so do, Lessor may terminate this Lease effective 60 days from the date of termination notice. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the required insurance to be carried by it, the other Party may, but shall not be required to, procure and maintain the same. The cost thereof shall be reasonable and any other Party shall have the right to subrogate that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

9.4 Partial Damage - Near End of Term. If at any time during the last 6 months of the Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage or destruction. Lessor may require Lessee to provide Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs required. If Lessee does not make the required commitment, the Lessee shall make the repairs or provide the required assurance. If Lessee does not make the required commitment, the Lessee shall make the repairs or provide the required assurance. If Lessee does not make the required commitment, the Lessee shall tender the Premises to Lessor, except as provided in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last 6 months of the Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage or destruction. Lessor may require Lessee to provide Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs required. If Lessee does not make the required commitment, the Lessee shall tender the Premises to Lessor, except as provided in Paragraph 8.6.

9.6. Failure to Provide Insurance. Lessor acknowledges that any failure on its part to obtain or maintain the insurance required herein will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to determine. Lessor does not have the ability to determine what damages or losses will or will not be covered by the required policies or the required amounts of insurance. Even if the required insurance had existed at the time of occurrence of any damage or destruction, Lessor would not have been aware of the amount of proceeds from the required policies. Lessor would not have been aware of the required policies or the amount of proceeds that would have been available. If Lessee does not make the required commitment, the Lessee shall make the repairs or provide the required assurance. If Lessee does not make the required commitment, the Lessee shall tender the Premises to Lessor, except as provided in Paragraph 8.6.
reparis on or before the earlier of (i) the date which is 10 days after Lessee’s receipt of Lessor’s written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) Remedies. If Lessee is obligated to repair or restore the Premises and does not commence such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessor’s election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereof, Lessor may, at its option, either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent payable hereunder to 110% of the Base Rent then in effect. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

(c) Termination; Advance Payments. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning Base Rent and any other advance payments made by Lessor to Lessee. Lessee shall, in addition, return to Lessor's written request at any time prior to the commencement of such repair or restoration.

9.6 Abatement of Rent; Lessee's Remedies.

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

(b) Remedies. If Lessor is obligated to repair or restore the Premises and does not commence such repair or restoration, give written notice to Lessor and to any Lenders in which Lessee has actual notice of Lessor’s election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereof, Lessor may, at its option, either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent payable hereunder to 110% of the Base Rent then in effect. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

10. Real Property Taxes.

10.1 Definition. As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises or the Project, Lessor’s right to other income therefrom, and/or Lessor’s business of leasing, by any authority having the power or authority to impose such assessment, tax or levy, and/or the funds collected thereon. Real Property Taxes shall also include any tax, fee, levy, assessment or charge, or any interest therein: (i) imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises, and (ii) levied or assessed on machinery and equipment provided by Lessor to Lessee pursuant to this Lease.

10.2 (a) Payment of Taxes. Lessor shall pay the Real Property Taxes applicable to the Premises provided, however, that Lessor shall pay to Lessee the amount of any such tax which shall be imposed after the Commencement Date Occurs ("Tax Increase"). Payment of any such Tax Increase shall be made by Lessor in 30 days after receipt of a written statement setting forth the amount due and computation thereof. If any such tax shall cover any period of time prior to or after the Commencement Date Occurs, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor’s work sheets or such other information as may be reasonably available.

(b) Additional Improvements. Notwithstanding anything to the contrary in this Paragraph 10.2, Lessor shall pay to Lessee, upon demand therefor any and all costs or expenses related to the reasonable and proper alteration, expansion, addition, alteration, modification or improvement of the Premises or the Project, including, without limitation, such costs and expenses as may be reasonably incurred by Lessor in the performance of its obligations under this Lease, then any such advance payments may be treated by Lessor as an additional Security Deposit.

(c) Right of Set-Off. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any such advance payments may be treated by Lessor as an additional Security Deposit.

11. Utilities and Services. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered or billed to Lessee, Lessee shall pay a pro rata share thereof proportionate to Lessor’s use thereof for the year in which said installation becomes delinquent. If the actual amount of the applicable Tax Increase is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable Tax Increase. If the amount collected by Lessor is greater than the above expense, Lessor shall pay to Lessee the amount of any such excess. If the amount collected by Lessor is less than the above expense, Lessor shall pay to Lessee upon demand the amount, if any, by which Real Property Taxes applicable to the Premises increase over the fiscal tax year during which the Commencement Date Occurs ("Tax Increase"). Payment of any such Tax Increase shall be made by Lessor in 30 days after receipt of a written statement setting forth the amount due and computation thereof. If any such tax shall cover any period of time prior to or after the Commencement Date Occurs, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor’s work sheets or such other information as may be reasonably available.

Benjamin A. Schutte 1340030

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PAGE 7 OF 13

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RM STG-26 12/16E

FORM STG-26-12/16E
13.1 any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment, entering into such sublease, or entering into possession of the Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, and condition contained herein, subject to the terms and conditions of Paragraph 36 hereof, other than other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

13.2 Remedies. If Lessor has performed any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessee may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of possession of the Premises or of Lessee's interest in this Lease, where such failure continues for a period of 3 business days following written notice to Lessor. In the event that Lessor commits waste, a nuisance or an illegal activity on the Premises, Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the execution of this sublease, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

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Additional Terms and Conditions Applicable to Subletting. If Lessor shall conform to any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.
applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitlement Lessor to the remedies provided for in this Lease and/or by said statute.

13.2 Lessor's Rights. In the event of Default or Breach by Lessee, Lessor shall have, without waiving any other cure or remedy, the right to possession and recover the Rent as it becomes due, in which event May sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

13.3 Inducement Recapture. Any agreement for free or abated rent or other charges, the cost of tenant improvements for Lessee paid for or performed by Lessor, or by or for Lessee, shall be deemed to be an inducement to enter into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, conditions and covenants of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provisions shall be deemed removed from this Lease and Lessor shall have the right to receive or require the return of any such inducement consideration hereunder abated, given or paid by Lessor under such an inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operations of the provisions of this Paragraph shall not be deemed a waiver by Lessor of the provisions of this Paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

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

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

13.6 Breach by Lessor. (a) Notice of Breach. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform any obligation required to be performed by Lessor under this Lease, or, by any of the provisions of this Lease, by any of the conditions of the Lease, by the Lessee's acknowledgment and delivery of any Rent receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) Performance by Lessee on Behalf of Lessor. In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or they completely purport to so cure, they may do so only as far as the same shall not expose Lessor's expense and offset from Rent the actual and reasonable cost to perform such cure, provided however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent or the Security Deposit, reserving Lessee's right to seek reimbursement from Lessor for any such excess of offset. Lessor shall document the cost of said cure and said payment shall be documented by Lessor immediately after completion of any such cure.

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

15. Brokerage Fees. (a) Estoppel Certificate. In addition to the payments owed pursuant to Paragraph 1.9 above, Lessor agrees that: (i) if Lessee exercises any Option, or (ii) if Lessee or anyone affiliated with Lessee acquires any rights to the Premises or other premises owned by Lessor and located within the same Project, if any, in which the Premises is located, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, during the period of time that Lessee occupies any of the Premises, then Lessee shall pay Brokers a fee in accordance with the fee schedule of the Brokers in effect at the time the Lease was executed.

(b) Assumption of Obligations. Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligations hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 1.9, 15, 22 and 31. If Lessor fails to pay to Brokers any amounts due under any such provision, and if such amounts are not paid to Brokers, then Lessor's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessor's Broker may, at the option of any commission agreement entered into by and/or between Lessor and Lessee Broker for the limited purpose of collecting any brokerage fee owed.

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

16. Estoppel Certificates. (a) Estoppel Certificate. Upon Lessee's request ("Requesting Party") shall within 10 days after written notice from the other party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Estoppel Certificate" form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party. (b) If the Requesting Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, more than one month's rent has been paid in advance. Promissory purchases and endorser purchasers may rely upon the Requesting Party's Estoppel Certificate; and the Requesting Party shall be estopped from denying the truth of the facts contained in said Certificate. In addition, Lessee acknowledges that any failure on its part to provide such an Estoppel Certificate will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, should the Lessee fail to execute and/or deliver a requested Estoppel Certificate in a timely fashion the monthly Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or $100, whichever is greater for remainder of lease. The Parties agree that in such case Base Rent shall be increased for any periods that such increase is represented in the Addition Paragraph of the Lease. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of claiming such increase, shall be considered the property of Lessee, however, Lessor hereby agrees not to prevent that the Lease is not terminated upon the Condemnation. Lessor shall repair any damage to the Premises caused by such Condemnation.
required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Definition of Lessor. The term “Lessor” as used herein shall mean the owner or owners at the time in question of the fee title to the Premises or of the right to lease the Premises, as may be required by the Lessee or the Lessee's interest in the prior lease. In the event that a party other than Lessor is interested in the prior lease, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinafter defined.

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

19. Delay, Unforeseen Circumstances. If the performance of any act required under this Lease is prevented by circumstances beyond the control of the party required to perform such act, then such party shall be excused from such performance and shall be permitted a reasonable time to complete such performance. Under such circumstances, the “Date of Notice” shall be extended by the number of days equal to the delay caused.

20. Limitation on Liability. All provisions of this Lease to be observed or performed by Lessee are both Covenants and Conditions; Construction of Agreement. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

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

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to each other that they have no prior or other agreements with respect to the Premises, and shall not seek recourse against Lessor’s partners, members, directors, officers or shareholders, or any of their personal assets for such satisfaction.

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

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

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

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

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

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

(ii) Lessee’s agent, or subagent, if any, is acting as the Lessee’s agent under a listing agreement with the Lessee acts as the agent for the Lessee. In representing both Lessor and Lessee, the agent has the following affirmative obligations to both the Lessor and the Lessee: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in dealings with either Lessor or the Lessee. b. Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party, disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessor is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.

(b) Brokers have no responsibility with respect to any default or breach hereof by either Party, except as hereinbefore provided, but rather according to the fairness and good faith of such Broker. The Lessor shall not seek recourse against the Broker for any default or breach hereof by either Party. (c) The Lessor shall not seek recourse against the Broker for any default or breach hereof by either Party. Providing information to the agent, except as hereinbefore provided, but rather according to the fairness and good faith of such Broker. The Lessor shall not seek recourse against the Broker for any default or breach hereof by either Party.

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

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

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

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

PAGE 10 OF 13
29. **Binding Effect; Choice of Law.** This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

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

30.1 **Subordination.** This Lease, as defined below, shall be subject to and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, “Security Device”), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as “Lenders”) shall have the right to control, or to cause the controlling party to control, the recordation of any transfer of the Premises, and that Lessee shall, at the request of any such Lender, execute and deliver a fee simple absolute title to the record owner of the Premises; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further written agreements as may be reasonably required to separately document any subordination, attachment and/or Non-Disturbance Agreement provided for herein.

30.2 **Attornment.** In the event that Lessor transfers title to the Premises, or the Premises are acquired by another upon the foreclosure or condemnation of a Security Device to which this Lease is subordinate (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, agree to and accept the new owner of the Premises as the landlord as of the date of such transfer, (ii) all terms of this Lease shall apply to the remainder of the term hereof, or, at the election of the new owner, this Lease will automatically become a new lease between Lessee and such new owner, and (iii) Lessor shall thereafter be relieved of any further obligations hereunder and such new owner shall assume all of Lessor’s obligations, except that Lessee may not assign or sublet the Premises, (b) the new owner may not consent to the use or erection of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect to Lessee’s use of the Premises. All such activities shall be without abatement of rent or liability to Lessee.

30.3 **Non-Disturbance.** With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessor’s subordination hereof shall be subject to the Non-Disturbance Agreement by and among Lessor, the new owner of the Premises, and Lessee, the terms of which shall be reasonable minimum per occurrence for such services and consultation.

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

31. **Attorneys’ Fees.** If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or any determination made by the other Party hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its attorneys’ fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, “Prevailing Party” shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, including, without limitation, the ability to continue the abatement of rent or liability to the other Party. The attorneys’ fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys’ fees reasonably incurred. In addition, Lessor shall be entitled to attorneys’ fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection herewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach. Such attorneys’ fees shall be reasonable minimum per occurrence for such services and consultation.

32. **Lessor’s Access; Showing Premises; Repairs.** Lessor and Lessor’s agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times at reasonable prior notice for the purpose of showing the Premises to prospective purchasers, tenants, or for the making of repairs, alterations, additions to or improvements of the Premises; provided, however, that Lessor shall not enter the Premises by reason of the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect to Lessee’s use of the Premises. All such activities shall be without abatement of rent or liability to Lessee.

33. **Subletting.** Lessee shall not be permitted to sublet the Premises, nor permit to be conducted, any auction upon the Premises without Lessor’s prior written consent. Lessee shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. **Signs.** Lessor may place on the Premises ordinary “For Sale” signs at any time and ordinary “For Lease” signs during the last 6 months of the term of this Lease. Signs may be placed on the Premises other than for subletting purposes. Lessee shall not place any sign upon the Premises without Lessor’s prior written consent. All signs must comply with all Applicable Requirements.

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

36. **Consents.** All requests for consent shall be in writing. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to act or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor’s actual reasonable costs and expenses (including but not limited to architects’, attorneys’, engineers’ and other consultants’ fees) incurred in the consideration of, or response to, a request for consent shall be reimbursable to Lessor, including but not limited to costs to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor’s consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any Default or Breach and no consent given by Lessor shall be deemed a consent for or against any Default or Breach, nor create an estoppel or prevent the imposition of a cure requirement in connection with any Default or Breach until such Default or Breach is actually cured. Lessor’s consent shall not constitute an acknowledgment of any Default or Breach or waiver of Lessee’s obligations hereunder.

37. **Execution.** 

37.1 **Guarantor.** Unless specifically otherwise stated in writing by Lessor, any Guarantor, if any, shall be entitled to the execution of an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

37.2 **Options.** If Lessee is granted any Option, as defined below, then the following provisions shall apply: (a) the right to extend or renew the term of this Lease or to extend the term of or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase, the right of first offer to purchase or the right of first refusal to purchase the Premises or other property of Lessor. Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessor certifying that Lessee has no intention of thereafter assigning or subletting.

37.3 **Multiple Options.** In the event that Lessor has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Option has been validly exercised.

37.4 **Effective Date of Options.** (a) An Option shall be exercised only during the period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee’s inability to exercise an Option because of the provisions of Paragraph 39.(a).

(b) An Option shall terminate and be of no further force or effect, notwithstanding Lessee’s due and timely exercise of the Option, if, after such exercise, event or other occurrence, (i) any Notice of Default is given to Lessor; (ii) “Non Pay Rent Notice Agreement”

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**PAGE 11 OF 13**

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**INITIALS**

**INITIALS**

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FORM STG-26-12/16E
days after such Rent becomes due (without any necessity of Lessor to give notice thereof), or (ii) if Lessee commits a Breach of this Lease.

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

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

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

43. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum or so much thereof as it was not legally required to pay. A Party who does not initiate suit for the recovery of sums paid "under protest" within 6 months shall be deemed to have waived its right to protest such payment.

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

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

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

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

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

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

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

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

50. Accessibility; Americans with Disabilities Act. (a) The Premises:

☐ Have not undergone an inspection by a Certified Access Specialist (CASp). Note: A Certified Access Specialist (CASp) can inspect the subject property and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.

☐ Have undergone an inspection by a Certified Access Specialist (CASp) and it was determined that the Premises met all applicable construction-related accessibility standards pursuant to California Civil Code §55.51 et seq. Lessee acknowledges that it received a copy of the inspection report at least 48 hours prior to executing this Lease and agrees to keep such report confidential except as necessary to complete repairs and corrections of violations of construction-related accessibility standards.

☐ Have undergone an inspection by a Certified Access Specialist (CASp) and it was determined that the Premises did not meet all applicable construction-related accessibility standards pursuant to California Civil Code §55.51 et seq. Lessee acknowledges that it received a copy of the inspection report at least 48 hours prior to executing this Lease and agrees to keep such report confidential except as necessary to complete repairs and corrections of violations of construction-related accessibility standards.

In the event that the Premises have been issued an inspection report by a CASp the Lessor shall provide a copy of the disability access inspection certificate to Lessee within 7 days of the execution of this Lease.

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

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

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

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.
The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: ____________________________
On: ____________________________

By LESSOR:

Mesa Water District, a County Water District

By: ____________________________
Name Printed: Paul E. Shoenberger
Title: General Manager
Address: 1965 Placentia Ave.
Costa Mesa, CA 92627
Telephone: (____) ____________________________
Facsimile: (____) ____________________________
Email: ____________________________
Federal ID No. ____________________________

By LESSEE:

Innovative Construction Solutions, a California Corporation

By: ____________________________
Name Printed: Hirad Emadi
Title: Managing Member
Address: 4011 Chandler Ave.
Santa Ana, CA 92704
Telephone: (714) 240-1226
Facsimile: (714) 893-6366
Email: hemadi@icsinc.cv
Federal ID No. ____________________________

BROKER:

Att: ____________________________
Title: ____________________________
Address: ____________________________
Telephone: (____) ____________________________
Facsimile: (____) ____________________________
Email: ____________________________
Federal ID No. ____________________________
Broker/Agent BRE License #: ____________________________

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 500 N Brand Blvd, Suite 900, Glendale, CA 91203. Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.

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ADDENDUM

Date: February 27, 2017

By and Between (Lessor) Mesa Water District, a County Water District
(Lessee) Innovative Construction Solutions, a California Corporation

Address of Premises: 4011 Chandler Ave., Santa Ana

Paragraph 51-60

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

51. The first six (6) months following the close of escrow shall be free of Base Rent ($68,400.00), prorated daily based on a total of one hundred eighty (180) days should the close of escrow be on any other day than the first day of the month. After such free rent period has expired, Lessee shall pay $11,400.00 in monthly Base Rent, prorated daily for any partial months.

52. Lease Commencement and Expiration Dates: The Commencement Date shall be the close of escrow between the Lessor and Lessee for the Premises (Escrow # 447162 DN with Ticor Title Company). The anticipated close of escrow is March 31, 2017. The Expiration Date shall be no later than eighteen (18) months from the Commencement Date, subject to Lessee’s Right to Cancel outlined in Paragraph 54 herein.

53. The Lessee shall be responsible for all maintenance and repairs throughout the lease term including, but not limited to all landscaping, plumbing, HVAC, electrical, structural elements, doors and the roof systems.

54. Lessee shall be given the right to cancel the lease at any time during the term with sixty (60) days written notice to Lessor.

55. Lessor shall be allowed on site with forty-eight (48) hour notice during the lease term to perform further investigations and planning for their intended use of the site.

56. Lessee Insurance Requirements: Lessee shall procure and maintain, during the duration of any lease, insurance against claims for injuries to persons or damages to property that may arise from or in connection with Lessee’s operation and use of the leased premises, with the cost of such insurance to be borne by Lessee. Such insurance shall:

(1) Be at least as broad as:

a. Commercial General Liability (CGL): Insurance Services Office Form CG 00 01 covering CGL on an occurrence basis, including products and completed operations, property damage, bodily injury, and personal & advertising injury with limits no less than $2,000,000 per occurrence. If a general aggregate limit is to apply, the general aggregate limit shall either apply separately to this location or lease (ISO CG 25 03 or 25 04), or the general aggregate limit shall be twice the required occurrence limit.

b. Workers’ Compensation: If Lessee has employees, Workers’ Compensation coverage as required by the State of California, with statutory limits, and Employer’s Liability Insurance with limits of no less than $1,000,000 per accident for bodily injury or disease.

c. Property Insurance: Property insurance against all risks of loss to any tenant improvements or betterments, at full replacement cost with no coinsurance penalty provision.

d. If Lessee maintains broader coverage and/or higher limits than the minimums shown above, Lessor requires and shall be entitled to the broader coverage and/or higher limits maintained. Any available insurance proceeds
in excess of the specified minimum limits of insurance and coverage shall be available to Buyer/Lessor;

(2) Cover Lessor, as well as its officers, officials, employees, and volunteers, as additional insureds on the CGL policy with respect to liability arising out of the work or operations performed by or on behalf of Lessee including materials, parts, or equipment furnished in connection with such work or operations. General liability coverage can be provided in the form of an endorsement to Lessee’s insurance (at least as broad as ISO Form CG 20 10);

(3) Be primary insurance coverage as respects Lessor and its officers, officials, employees, and volunteers. Any insurance or self-insurance maintained by Lessor shall be excess of Lessee’s insurance and shall not contribute with it;

(4) Provide that coverage shall not be cancelled, except with notice to Lessor;

(5) Grant to Lessor a waiver of any right to subrogation that any insurer of said Lessee may acquire against Lessee by virtue of the payment of any loss under said insurance. Lessee shall obtain any endorsement that may be necessary to affect this waiver of subrogation, but this provision shall apply to Lessee regardless of whether or not Lessor has received a waiver of subrogation;

(6) Be placed with insurers with a current A.M. Best rating of no less than A:VII, unless otherwise acceptable to Lessor;

(7) Include specific limitations relative to self-insured retentions, which shall be declared and approved by Lessor, and acceptable verification of coverage, including requirements for certificates of insurance and endorsements evidencing coverage consistent with the above requirements.

57. Lessee shall to the maximum extent permitted by law, indemnify, defend, and hold harmless Lessor, as well its officers, officials, employees, and volunteers from and against any and all liability, loss, damage, expense, costs (including without limitation costs and fees of litigation and attorneys fees) of every nature arising out of or in connection with Lessee’s lease, operation, or use of the Property, except such loss or damage that was caused by the sole negligence or willful misconduct of Lessor.

58. Lease Contingency: This Lease shall be contingent upon the successful close of escrow for the Premises between the Lessor and Lessee (Escrow # 447162 DN with Ticor Title Company). Should said escrow not close, then this Lease and all terms herein shall become immediately null and void.

59. Property Taxes: Lessee acknowledges that Lessor, as a public agency, is not required to pay any general property taxes or possessory interest taxes on the Premises. If Lessee’s use of the Premises subjects the Property to any form of tax, Lessee, with reasonable notice from Lessor, shall pay all applicable real, personal, or possessory peroperty taxes, and all other fees, charges, taxes or assessments of any type, levied against or resulting from Lessee’s operations on, or use and maintenance of, the Premises. In the event Lessee fails to pay such taxes, Lessor may pay said taxes and shall be entitled to reimbursement from Lessee, along with an additional payment of 10 percent to cover Lessor’s administrative costs for such payment. It shall be Lessee’s responsibility to inform the Orange County Assessor-Recorder-County Clerk’s Office of this Lease.

60. Lessee will not be responsible for removal of any unpermitted or non-compliant improvements thereon which were in place as of the Commencement Date, regardless of whether such improvements are considered Lessee Owned Alterations or Utility Installations. Lessor will be responsible to remove any and all such non-compliant improvements at Lessor’s sole cost.
ACTION ITEMS:

6. CLOSED SESSION:

CONFERENCE WITH LABOR NEGOTIATOR PURSUANT TO GOVERNMENT CODE 54957.6:
District Negotiator: General Manager
Employee Organization: Represented and Non-Represented Employees
RECOMMENDATION

Discuss and take action as the Board desires.

STRATEGIC PLAN

Goal #5: Attract and retain skilled employees.

PRIOR BOARD ACTION/DISCUSSION

The Board approved the current staffing plan with the FY 2017 budget.

DISCUSSION

In 2000, Mesa Water District (Mesa Water®) had 71 full-time equivalent (FTE) positions in the budget. Over the past 17 years, as Mesa Water has gone from a construction and building phase to an operational efficiency phase, and with some reorganization and/or reassignment of functions, the District has reduced the number of budgeted employees by 13.5 FTE, or 19%, to 57.5 FTE positions in the FY 2018 budget.

The General Manager will provide an overview of the staffing plan at the Board workshop.

FINANCIAL IMPACT

None.

ATTACHMENTS

None.
REPORTS AND INFORMATION ITEMS:

8. REPORT OF THE GENERAL MANAGER:
REPORTS AND INFORMATION ITEMS:

9. DIRECTORS' REPORTS AND COMMENTS:
There are no support materials for this item.