

AGENDA

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

**NORTON REGIONAL EVENT CENTER
1601 EAST THIRD STREET #1000, SAN BERNARDINO**

REGULAR MEETING OF AUGUST 16, 2017

9:00 A.M. – CALL TO ORDER – FLAG SALUTE

1. Swear in Regular (Supervisor James Ramos) and Alternate (Supervisor Janice Rutherford) Supervisorial Commissioners (*Continued from May 17, 2017 Hearing*)

ANNOUNCEMENT: Anyone present at the hearing who is involved with any of the changes of organization to be considered and who has made a contribution of more than \$250 in the past twelve (12) months to any member of the Commission will be asked to state for the record the Commission member to whom the contribution has been made and the matter of consideration with which they are involved.

CONSENT ITEMS:

The following consent items are expected to be routine and non-controversial and will be acted upon by the Commission at one time without discussion, unless a request has been received prior to the hearing to discuss the matter

2. Approval of Minutes for Regular Meeting of July 19, 2017
3. Approval of Executive Officer's Expense Report
4. Ratify Payments as Reconciled for Month of July 2017 and Note Cash Receipts (*TO BE CONTINUED TO THE SEPTEMBER 20, 2017 HEARING*)
5. Approval of Contract for Janitorial Services at 1170 West Third Street for the period August 24, 2017 through June 30, 2018 (*TO BE CONTINUED TO THE SEPTEMBER 20, 2017 HEARING*)

DISCUSSION ITEMS:

6. Consent Items Deferred for Discussion
7. Status Report on LAFCO 3189 -- Special Study for Morongo Valley Community Services District
8. Review and Approval of Amended Lease for LAFCO Office Space at San Bernardino Santa Fe Depot 1170 West 3rd Street, Unit 150, San Bernardino

INFORMATION ITEMS:

9. Legislative Oral Report
10. Executive Officer's Oral Report
 - a. New Proposals Received
 - b. Update on Proposals Filed with LAFCO
11. Commissioner Comments
(This is an opportunity for Commissioners to comment on issues not listed on the agenda, provided that the subject matter is within the jurisdiction of the Commission and that no action may be taken on off-agenda items unless authorized by law.)
12. Comments from the Public
(By Commission policy, the public comment period is limited to five minutes per person for comments related to other items under the jurisdiction of LAFCO not on the agenda.)

The Commission may adjourn for lunch from 12:00 to 1:30 p.m. The Commission may take action on any item listed in this Agenda whether or not it is listed For Action. In its deliberations, the Commission may make appropriate changes incidental to the above-listed proposals.

Materials related to an item on this Agenda submitted to the Commission or prepared after distribution of the agenda packet will be available for public inspection in the LAFCO office at 1170 West Third Street, Unit 150, San Bernardino, during normal business hours, on the LAFCO website at www.sbclafco.org, and at the hearing.

Current law and Commission policy require the publishing of staff reports prior to the public hearing. These reports contain technical findings, comments, and recommendations of staff. The staff recommendation may be accepted or rejected by the Commission after its own analysis and consideration of public testimony.

IF YOU CHALLENGE ANY DECISION REGARDING ANY OF THE ABOVE PROPOSALS IN COURT, YOU MAY BE LIMITED TO RAISING ONLY THOSE ISSUES YOU OR SOMEONE ELSE RAISED DURING THE PUBLIC TESTIMONY PERIOD REGARDING THAT PROPOSAL OR IN WRITTEN CORRESPONDENCE DELIVERED TO THE LOCAL AGENCY FORMATION COMMISSION AT, OR PRIOR TO, THE PUBLIC HEARING.

The Political Reform Act requires the disclosure of expenditures for political purposes related to a change of organization or reorganization proposal which has been submitted to the Commission, and contributions in support of or in opposition to such measures, shall be disclosed and reported to the same extent and subject to the same requirements as provided for local initiative measures presented to the electorate (Government Code Section 56700.1). Questions regarding this should be directed to the Fair Political Practices Commission at www.fppc.ca.gov or at 1-866-ASK-FPPC (1-866-275-3772).

A person with a disability may contact the LAFCO office at (909) 388-0480 at least 72-hours before the scheduled meeting to request receipt of an agenda in an alternative format or to request disability-related accommodations, including auxiliary aids or services, in order to participate in the public meeting. Later requests will be accommodated to the extent feasible.

**DRAFT – ACTION MINUTES OF THE – DRAFT
LOCAL AGENCY FORMATION COMMISSION
HEARING OF JULY 19, 2017**

REGULAR MEETING

9:00 A.M.

July 19, 2017

PRESENT:

COMMISSIONERS:

**Jim Bagley
Kimberly Cox, Chair
Jim Curatalo
Steve Farrell, Alternate**

**Robert Lovingood
Aquanetta Warren, Alternate
Diane Williams**

STAFF:

**Kathleen Rollings-McDonald, Executive Officer
Clark Alsop, LAFCO Legal Counsel
Samuel Martinez, Assistant Executive Officer
Michael Tuerpe, Project Manager
Jeffrey Lum, LAFCO Analyst
La Trici Jones, Commission Clerk
Bob Aldrich, LAFCO Consultant**

ABSENT:

**Larry McCallon
James Ramos, Vice-Chair**

Janice Rutherford, Alternate

**CONVENE REGULAR SESSION OF THE LOCAL AGENCY FORMATION COMMISSION
– CALL TO ORDER – 9:00 A.M. – NORTON REGIONAL EVENT CENTER**

Chair Cox calls the regular session of the Local Agency Formation Commission to order and leads the flag salute.

Chair Cox calls for comments from the public regarding the closed session items. There are none.

**ADJOURN TO CLOSED SESSION OF THE LOCAL AGENCY FORMATION
COMMISSION – 9:04 A.M.**

a. Conference with Legal Counsel – Existing Litigation (Government Code Section 54956.9(d)(1)) – San Antonio Heights Association v. County of San Bernardino et al, San Bernardino County Superior Court Case No. CIVDS1712771

b. Conference with Legal Counsel – Anticipated Litigation – Significant Exposure to Litigation (Government Code Section 54956.9(d)(2)) – One case significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of Section 54956.9: (one case)

CONVENE PUBLIC SESSION – 9:35 A.M.

Chair Cox asks LAFCO Legal Counsel Clark Alsop to report on the closed session. Mr. Alsop states that no reportable action was taken in closed session.

ANNOUNCEMENT OF CONTRIBUTIONS

Chair Cox requests those present who are involved with any of the changes of organization to be considered today by the Commission and have made a contribution of more than \$250 within the past 12 months to any member of the Commission to come forward and state for the record their name, the member to whom the contribution has been made, and the matter of consideration with which they are involved. There were none.

CONSENT ITEMS:

The following consent items are expected to be routine and non-controversial and will be acted upon by the Commission at one time without discussion, unless a request has been received prior to the hearing to discuss the matter.

- ITEM 1.** Approval of Minutes for Regular Meeting of May 17, 2017
- ITEM 2.** Approval of Executive Officer's Expense Report
- ITEM 3.** Ratify Payments as Reconciled for Month of May and June 2016 and Note Cash Receipts
- ITEM 4.** Unaudited Year-End Financial Report for Fiscal Year 2016-17
- ITEM 5.** Approval of Fiscal Year 2008-09 Financial Records Destruction Pursuant to Commission Policy

Commissioner Lovingood moves approval of the Consent Calendar, second by Commissioner Williams. There being no opposition, the motion passes with the following roll call vote: Ayes: Bagley, Cox, Curatalo, Lovingood, Warren (voting on behalf of McCallon) and Williams. Noes: None. Abstain: None. Absent: McCallon, Ramos

PUBLIC HEARING ITEMS

ITEM 6. CONSENT ITEMS DEFERRED FOR DISCUSSION:

None

ITEM 7. CONSIDERATION OF: (1) CEQA STATUTORY EXEMPTION FOR LAFCO 3187 – COUNTYWIDE WATER SERVICE REVIEW (RETAIL, WHOLESALE, RECYCLED); AND (2) LAFCO 3187 – COUNTYWIDE SERVICE REVIEW FOR WATER SERVICES (RETAIL, WHOLESALE, RECYCLED) (VALLEY, MOUNTAIN, NORTH DESERT, SOUTH DESERT REGIONS)

Executive Officer Kathleen Rollings-McDonald introduces the staff report, a complete copy of which is on file in the LAFCO office and is made a part of the record by its reference here. The item has been advertised through publication in newspapers of general circulation within the County as a whole identified as the *Big Bear Grizzly*, *Daily Press*, *Desert Dispatch*, *Hi-Desert Star*, *Inland Valley Daily Bulletin*, *Mountain News* and *San Bernardino Sun*. Individual notice was not provided as allowed under Government Code Section 56157 as such mailing would include more than 1,000 individual notices. As outlined in Commission policy, in-lieu of individual notice, the notice of hearing publication was provided through an eight page legal ad.

Ms. Rollings-McDonald states that this report is the initial service review of the second cycle which follows the Commission determination that addressing individual services on a countywide basis most efficiently utilizes staff time and resources and that this approach was approved by the Commission in April 2016. She states the service review is segregated by region and that the report, due to its size and complexity, was published early to allow for sufficient review by the Commission, the public, affected agencies and other interested parties.

Executive Officer Rollings-McDonald states that one section of the service review addresses the changing landscape of water-related legislation and includes discussion on the following: AB 54 which requires mutual water companies to provide LAFCOs with service area maps and other operational data; SB 244 which requires water supply assessments for disadvantaged unincorporated communities; AB 402, a pilot program for San Bernardino and Napa LAFCOs, which allows for service delivery outside of an agency's sphere of influence on a contractual basis; SB 88 which provides incentives for small water system consolidations; and, the Sustainable Groundwater Management Act of 2014 which provides a framework for sustainable management of groundwater supplies by local authorities.

Ms. Rollings-McDonald provides an overview of the service review preparation, stating that stakeholder groups were formed in each of the four regions to provide staff with guidance, feedback, and peer review of draft versions of the report. She states that during preparation of the report, staff learned a number of things, including but not limited to: Metropolitan Water District of Southern California (hereafter identified as "MET") does not have a sphere of influence within San Bernardino County; 80 percent of San Bernardino County is vacant and is outside local land use control being owned by another level of government; the mountain communities in San Bernardino County are the most densely populated mountain communities west of the Mississippi River; the definition of disadvantaged unincorporated communities (DUCs) is not consistent among State agencies; SB 88 has the potential to be a useful tool in assisting small water systems; there remains a lack of understanding among counties and cities regarding implementation of the California Land Conservation Act ("Williamson Act"); and, many of the water systems identified in the first round of service reviews with service-related issues continue to experience problems.

Ms. Rollings-McDonald identifies two areas of concern – the Rockets, Fireworks and Flare site in Rialto and County Service Area 70 CG (Cedar Glen) in the Mountains. She states that in both cases remediation efforts are underway, and these areas are not considered "hot spots" as those have been defined by staff. She also notes many of the positive

programs underway among water agencies including the coordination among agencies with groundwater basins, Mojave Water Agency's Small Water Systems Assistance Program and the Environmental Protection Agency's use of the Twentynine Palms Water District as a test agency to assist small, low income districts to economically remove arsenic from their water systems.

Project Manager Michael Tuerpe presents the balance of the staff report. He states that the report's objectives are twofold: to update the mandated service review determinations, and to initiate sphere of influence updates and other system monitoring where necessary. He indicates that the service report addresses 112 community water systems which include 53 cities and special districts, 28 private water companies and 31 mutual water companies. He states that select transient and non-transient water systems were also incorporated into the service review.

Mr. Tuerpe provides a summary of the report's appendices and states they include agency/public comments, regional updates, city and district updates and a listing of community water systems, wholesalers and JPAs. He shows the Commission examples of updated information charts included in the service review's appendices.

Mr. Tuerpe provides an overview of the Valley Region and states that the region is generally divided between two wholesalers – the MET through its member agency, the Inland Empire Utilities Agency, on the west, and San Bernardino Valley Municipal Water District on the east. He states that there are 18 water purveyors in the Valley Region. He indicates that there are two clarifications he would like to make for the record: first, Monte Vista Water District has indicated that one-third of the water distributed by the Inland Empire Utilities Agency's member agencies is imported from MET, and, second, the Fontana Water Company provided a corrected typical residential water bill.

Discussion ensues regarding the City of Redlands map depicting its water service area. Executive Officer Rollings-McDonald states that the map does not accurately reflect the City's service area in its eastern sphere of influence. She states that LAFCO staff is working with City of Redlands staff to develop an accurate map. Ms Rollings-McDonald states that an updated map will be included in the final version of the service review.

Project Manager Tuerpe states that there is a one identified "hot spot" in the Valley Region – the San Antonio Canyon Mutual Service Company. He states that this is a private retailer and is not under direct LAFCO purview. Mr. Tuerpe indicates that this private retailer has insufficient source capacity, a lack of drought interim measures, and no assured emergency inter-ties. He notes that consolidation of San Antonio Mutual Service Company with the Mt. Baldy Homeowners Association would allow eligibility for SB 88 funding to upgrade facilities.

Mr. Tuerpe states that MET is a special district subject to LAFCO purview, and that LAFCO is obligated to establish a sphere for MET. He notes that MET staff has identified support for a sphere conterminous with the sphere of its member agency – the Inland Empire Utilities Agency.

Executive Officer Rollings-McDonald clarifies that San Bernardino LAFCO, due to its existing contracts with surrounding neighbors (with the exception of Kern County) is the

principal LAFCO for determining a sphere of influence for MET. These contracts were entered into due to each LAFCO's familiarity with land use issues and service providers within their County.

Project Manager Tuerpe summarizes two staff recommendations for agencies which include: (1) the initiation of an annexation of approximately 17 parcels and ancillary roadways to MET and its member agency – the Inland Empire Utilities Agency ; and (2) a reorganization between MET and Inland Empire Utilities Agency and San Bernardino Valley Municipal Water District to rectify property tax and service related issues. Mr. Tuerpe states that MET has indicated no objection for both reorganizations, and that efforts are already underway by the affected agencies to process the reorganization of the boundaries and spheres of influence.

Mr. Tuerpe outlines for the Commission recent discussions between the City of Colton and the Riverside Highland Water Company. He states that the City is considering providing water and sewer to an area within the City of Grand Terrace which is within the Riverside Highland Water Company territory. Mr. Tuerpe states that this is consistent with Government Code Section 56133.5 which establishes a pilot program for Napa and San Bernardino LAFCOs to authorize service extensions outside of an agency's sphere based on specific criteria, including that the proposed service extension was identified and evaluated in a service review. Mr. Tuerpe states that the City would be responsible for submission of the application for this service contract.

Mr. Tuerpe lists staff's recommendations for the Valley Region for Commission consideration which include: updating service review determinations to incorporate new population and disadvantaged unincorporated community data; updating regional and wholesale information; updating agency profile sheets; and, Commission initiation of the establishment of a sphere of influence for MET within San Bernardino County to be coterminous with the sphere of influence of its member agency, the Inland Empire Utilities Agency.

Chair Cox asks for any Commissioner comments. There are none.

Project Manager Tuerpe provides an overview of the Mountain Region. He states that there are no identified "hot spots" within this region, but notes that County Service Area 70 Zone CG (Cedar Glen) has ongoing challenges. He states that when the County purchased the system it was a failing system, but the County has made progress in addressing many of the system deficiencies. He recommends that the Commission direct staff to continue to monitor the CG-70 system, and return to the Commission with an update no later than the February 2018 Commission hearing.

Mr. Tuerpe states that in 1989, the City of Big Bear Lake Department of Water and Power (hereafter DWP) acquired water system and service area previously assigned to the Southern California Water Company by the State Public Utilities Commission (PUC). Mr. Tuerpe notes that at the time the precise boundary of the acquired territory was unclear. He states that in 2012, LAFCO conducted the first cycle service review which defined the service area and contractual boundary for the DWP. He states that to fulfill the requirements of Government Code Section 56133.5, this service review identifies the areas where the DWP serves outside the City sphere of influence, that an updated map will be

included in the final version of the service review and the DWP can file for certification of the contractual service area under Government Code Section 56133.5.

Project Manager Tuerpe provides an overview of successes in the Mountain Region as a result of the 2010-2011 service reviews, which include: the dissolution of the Crest Forest Fire Protection District and annexation to County Fire; the consolidation of street lighting agencies; and, the assumption of service for the Rim Forest system of the DWP by the Lake Arrowhead CSD.

He states that staff has identified future opportunities in the Mountain Region which include: the potential consolidation of Crestline Village Water District and the Crestline Sanitation District; the potential consolidation or formation of a community services district which includes CSA 70 Zone CG, Lake Arrowhead Community Services District and the Crestline-Lake Arrowhead Water Agency Improvement Districts; and the potential consolidation of the Running Springs Water District, Arrowbear Park County Water District, and CSA 79 (sewer only).

Mr. Tuerpe lists staff's recommendations for the Mountain Region for Commission consideration which include: updating service review determinations to incorporate new population and disadvantaged unincorporated community data; updating regional and wholesale information; updating agency profile sheets; and, directing staff to continue to monitor CSA 70 CG, with the first Commission update scheduled for February 2018.

Chair Cox asks for any Commissioner comments.

Commissioner Farrell congratulates staff on the depth and detail of the service review. He questions some of the data in the agency profiles to which Executive Officer Rollings-McDonald responds that the data was provided by the agencies themselves, however staff is responsible for any typographical errors.

The Commission recesses at 10:15am and returns at 10:30a.m.

Commissioner McEachron did not return to the dais after the Commission recess.

Project Manager Tuerpe provides an overview of the North Desert Region noting that it is the largest region geographically and the second largest in terms of population. He describes the area geographically, including its five subareas: Phelan, Pinon Hills and Victor Valley; Apple and Lucerne Valleys; Helendale, Barstow, Daggett and Yermo; Baker; and the Northwest County area.

Discussion ensues regarding the North Desert Region's identified "hot spots" which include: County Service Area 70 Zone J (Oak Hills); CSA 42 (Oro Grande); City of Adelanto; Sheep Creek Water Company; Apple Valley Foothill and Apple Valley Heights County Water Districts; Desert Springs Mutual Water Company; Daggett Community Services District; Bar Len Mutual Water Company; Baker Community Services District; and, Indian Wells Valley Water District. Mr. Tuerpe describes each hot spot and their individual system deficiencies.

Mr. Tuerpe notes that the Apple Valley Heights County Water District submitted a comment letter clarifying that the District's current grant application includes funding for new storage

tanks and a new transmission line leading to an intertie with Golden State Water Company. In addition, the comment letter indicates that the typical monthly residential water bill is \$95.35, not the \$105.85 listed in the service review. Mr. Tuerpe states that the issues of this district stem from decades of lack of adequate rates to cover future capital upgrades and that whereas the sanitary survey report identifies adequate management of the District it is the infrastructure of the district that is the issue.

Project Manager Tuerpe states that the Liberty Utilities System is currently involved in a condemnation proceeding initiated by the Town of Apple Valley, and if condemnation is successful, the Town of Apple Valley would be obligated to serve the area which is located outside the Town's sphere of influence. Mr. Tuerpe states that information is outlined in the staff report, is consistent with the requirements of Government Code Section 56133.5 which establishes a pilot program for Napa and San Bernardino LAFCOs to authorize service extensions outside of an agency's sphere based on specific criteria, including that the proposed service extension was identified and evaluated in a service review.

Mr. Tuerpe lists staff's recommendations for the North Desert Region for Commission consideration which include updating previous service review determinations to incorporate: new population and disadvantaged unincorporated community data; updated regional and wholesale information; information from the Agency's Profile Sheets, and hot spot substantiation where applicable.

Mr. Tuerpe states that additional staff recommendations for the North Desert Region include: indicating the Commission's intent to initiate a sphere of influence review to reduce the City of Adelanto's sphere of influence following the completion of the wastewater and fire service reviews; reaffirming the Commission's position that Apple Valley Foothill, Apple Valley Heights, and Mariana Ranchos County Water Districts be assigned a combined sphere of influence signaling the Commission's preference that the three districts consolidate; indicating the Commission's preference that the Hesperia Water District and Zone J implement a mechanism (e.g., joint powers agreement or memorandum of understanding) to provide stability to the water source and boundary challenges in the overall Hesperia and Oak Hills communities; direct staff to continue to monitor the CSA 70 Zone J system and provide an update to the Commission by February 2018; and reaffirming the Commission's position that the Daggett CSD and the Yermo CSD have a combined sphere of influence signaling the Commission's position for consolidation.

Commissioner Cox asks for any Commission comments.

Commissioner Bagley asks when a service review for the City of Adelanto will be conducted to which Executive Officer Rollings-McDonald responds that service reviews are now done regionally by service and not on a community-by-community basis as was the practice during the first cycle of service review considerations. Commissioner Bagley expresses concern over the long-term sustainability of the City of Adelanto.

Commissioner Lovingood states that while the City's fiscal numbers appear positive, the issue deserves continuing discussion.

Commissioner Warren leaves the dais at 11:22 a.m.

Executive Officer Rollings-McDonald states that budgets show projections of expenditures which are currently positive, but audits actually show how funds are spent. For Adelanto, audits for the last three years have not been completed so the staff and Commission can not fully understand the City's current fiscal status.

Chair Cox clarifies that once the countywide service review for wastewater is completed in the winter of 2018, the Commission will provide staff with further direction with respect to the City of Adelanto. Commissioner Bagley requests that the recommendation be modified to reflect the return following the wastewater service review.

Chair Cox comments that from her perspective the consolidation of Daggett CSD and Yermo CSD will not solve the water issues in those communities.

Commissioner Lovingood leaves the dais at 11:45 a.m.

Project Manager Tuerpe provides an overview of the South Desert Region and notes that the region is the second largest geographically in San Bernardino County and generally includes the area of Mojave Water Agency District M, Morongo Valley, Twentynine Palms and the River Communities which include the communities of Needles and Havasu Lake.

Discussion ensues regarding the South Desert Region's identified "hot spots" which include: the Morongo Valley Cluster (County Service Area 70 Zone F, County Service Area 70 Zone W-3, and Golden State Water Company Morongo Del Norte) and County Service Area 70W-4 (Pioneertown). Mr. Tuerpe describes each hot spot and their individual system deficiencies.

Mr. Tuerpe states staff's recommendations for the South Desert Region for Commission consideration include updating previous service review determinations to incorporate: new population and disadvantaged unincorporated community data; updated regional and wholesale information; information from the Agency's Profile Sheets, and hot spot substantiation where applicable.

Chair Cox opens the public hearing and requests comments.

Ben Miller, Pioneertown resident and member of the Pioneertown Water Committee, provides a history of water issues in Pioneertown and the need for assistance in finding a solution to the ongoing water quality problems..

Claudia Sall, Pioneertown resident, comments on the increasing cost of the water pipeline project to solve the water quality issues in Pioneertown currently being considered through the County Special Districts Department.

Project Manager Tuerpe concludes his presentation by reviewing the staff recommendations for each region. He also recommends that the Commission take the following actions: (1) for environmental review; certify that the service review is statutorily exempt from environmental review and direct the Executive Officer to file the Notice of Exemption within five days, (2) accept and file the Countywide Water Service Review which

sets forth the written statements for the six determinations outlined in Government Code Section 56430 made by the Commission and (3) take the actions identified in the report for the affected agencies for follow-up actions with the modification to indicate the Commission's intent to reduce the City of Adelanto sphere of influence following completion of the Countywide Wastewater Service Review in the winter of 2018.

Mr. Tuerpe notes that groundwork has begun on the Wastewater Service Review with completion anticipated in winter 2018. He further states that the Fire Protection and Emergency Response Service Review is projected to be completed by the summer of 2018.

Chair Cox asks for additional Commissioner comments.

Discussion ensues regarding Pioneertown and the challenges to solve the water issues in that community.

Chair Cox asks for any additional speakers; there being none Chair Cox closes the public hearing.

Chair Cox states that she would like to acknowledge the small system operators who do a commendable job with very limited resources. She notes that they aren't often recognized for the yeoman's work they do in their small, mostly disadvantaged communities.

Commissioner Williams compliments staff on the content and detail of the service review.

Commission Curatalo requests the recommendations be read prior to the Commission's vote.

Project Manager Tuerpe restates staff's recommended actions (1), (2) and (3).

Commissioner Curatalo moves approval of Item 7 as modified and outlined by LAFCO staff, seconded by Commissioner Williams. There being no opposition, the motion passes with the following roll call vote: Ayes: Bagley, Cox, Curatalo, and Williams. Noes: None. Abstain: None. Absent: Lovingood, McCallon, Ramos

ITEM 8. CANDIDATE ELECTION FOR BOARD OF DIRECTORS OF THE SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

Executive Officer Rollings-McDonald presents a brief summary of this item and outlines staff's recommendation to: (1) select incumbents Jean Bracy of the Mojave Desert Air Quality Management District and Mike Scheafer of the Costa Mesa Sanitary District to serve as Directors on the Special District Risk Management Authority Board of Directors, and (2) adopt LAFCO Resolution No. 3246 reflecting that decision.

Commissioner Curatalo moves approval of Item 8, second by Commissioner Williams. There being no opposition, the motion passes with the following roll call vote: Ayes: Bagley, Cox, Curatalo, and Williams. Noes: None. Abstain: None. Absent: Lovingood, McCallon, Ramos, Warren

INFORMATION ITEMS

ITEM 9 LEGISLATIVE UPDATE ORAL REPORT

Executive Officer Rollings-McDonald states that the Commission received a letter of opposition to AB 1361 from the CALAFCO legislative ad hoc committee. AB 1361 would authorize municipal water districts to provide water to tribal lands outside of their district. She notes that AB 464, a CALAFCO sponsored bill addressing plans of service, was signed by the Governor and AB 479 regarding district representation is moving forward.

ITEM 10 EXECUTIVE OFFICER'S ORAL REPORT

Executive Officer Rollings-McDonald states that LAFCO staff will be moving into their new office in the Santa Fe Depot on July 26. She notes that a Protest Hearing was conducted on July 11 for LAFCO 3216, the annexation of Upland into the County Fire Protection District. She states that there was insufficient protest and the annexation was completed on July 13. Ms. Rollings-McDonald apprises the Commission of upcoming projects which include a detachment from the Cucamonga Valley Water District, an annexation to the Lake Arrowhead Community Services District, an island annexation to the City of Chino and an annexation of the Hesperia Fire Protection District to County Fire.

ITEM 11 COMMISSIONER'S COMMENTS

Chair Cox asks if there are any Commissioner comments. There are none.

ITEM 12 COMMENTS FROM THE PUBLIC

Chair Cox asks if there are any comments from the public. There are none.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE COMMISSION, THE HEARING IS ADJOURNED AT 12:41 P.M.

ATTEST:


KATHLEEN ROLLINGS-McDONALD
Executive Officer

LOCAL AGENCY FORMATION COMMISSION

KIMBERLY COX, Chair

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE : AUGUST 7, 2017 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: AGENDA ITEM #3 – APPROVAL OF EXECUTIVE OFFICER’S
EXPENSE REPORT

RECOMMENDATION:

Approve the Executive Officer’s Expense Report for Procurement Card Purchases from June 23, 2017 through July 24, 2017 as presented.

BACKGROUND INFORMATION:

The Commission participates in the County of San Bernardino’s Procurement Card Program to supply the Executive Officer a credit card to provide for payment of routine official costs of Commission activities as authorized by LAFCO Policy and Procedure Manual Section II – Accounting and Financial Policy #3(H). Staff has prepared an itemized report of purchases that covers the billing period of June 23, 2017 through July 24, 2017.

Staff recommends that the Commission approve the Executive Officer’s expense report as shown on the attachment.

KRM/LJ

Attachment



COUNTY OF SAN BERNARDINO
PROCUREMENT CARD PROGRAM

Page 1 of 1

MONTHLY PROCUREMENT CARD PURCHASE REPORT

Card Number	Cardholder	Billing Period
	Kathleen Rollings-McDonald	6/23/2017 to 7/24/2017

Date	Vendor Name	Receipt/ Invoice No.	Item Description	Purpose	\$ Amount	Reconciled (R) Disputed (D)	Sales Tax Included on invoice (Yes or No)
6-25	SITOA (Valley Cab)	1	Payment	Cab Fare – K. Rollings-McDonald, CALAFCO University 6/26/2017	37.50	R	N
6-27	SMF Cafeteria	2	Payment	Dinner – K. Rollings-McDonald & Samuel Martinez	34.84	R	Y
6-26	Sheraton Grand Dinning	3	Payment	Breakfast – K.Rollings-McDonald CALAFCO University	24.00	R	Y
6-27	Sheraton Sacramento	4	Payment	CALAFCO University, K. Rollings-McDonald	185.94	R	Y
7-14	Riverside Rubber Stamp	5	Payment	Office Supplies	151.02	R	Y
7-18	G/M Business Interiors	6	Payment	Office Move	2,988.34	R	Y
7-22	Frontier	7	Payment	Phone Line	61.43	R	N
7-21	Daisy IT	8	Payment	Office Supplies	155.07	R	Y
7-21	DAISY IT	9	Payment	Office Supplies	239.24	R	Y

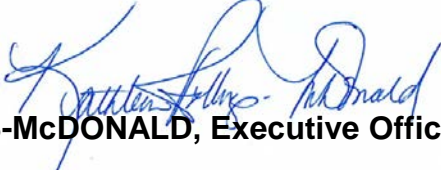
The undersigned, under penalty of perjury, states the above information to be true and correct. If an unauthorized purchase has been made, the undersigned authorizes the County Auditor/Controller-Recorder to withhold the appropriate amount from their payroll check after 15 days from the receipt of the cardholder's Statement of Account.

Cardholder (Print & Sign)	Date
Kathleen Rollings-McDonald 	8/7/2017

Approving Official (Print & Sign)	Date
Kimberly Cox, Chair	8/16/2017

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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www.sbclafco.org

DATE : AUGUST 7, 2017 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: AGENDA ITEM #4 - RATIFY PAYMENTS AS RECONCILED FOR
MONTH OF JULY 2017 AND NOTE REVENUE RECEIPTS

RECOMMENDATION:

Continue the ratification of payments and note cash receipts for the month of July 2017 to the September 20, 2017 hearing.

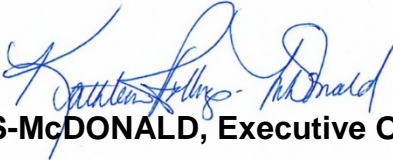
BACKGROUND INFORMATION:

Due to activities related to closing the financial transactions for the Fiscal Year 2016-17 by the County Auditor/Controller, the reports necessary to prepare the payments and cash revenues for the month of July are unavailable. Therefore, staff recommends that the Commission continue this item to the September 20, 2017 hearing.

KRM/LJ

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: AUGUST 8, 2017 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #5: Approval of Contract for Janitorial Services at 1170 West Third Street for the period August 24, 2017 through June 30, 2018

RECOMMENDATION:

Staff recommends that the Commission continue the consideration of its approval of contract for janitorial services for the new LAFCO office located at 1170 West Third Street to the September 20, 2017 hearing.

BACKGROUND:

The move to the new LAFCO office at the San Bernardino Train Depot has prompted the need for janitorial services as this is not a part of the current lease agreement with SBCTA.


As soon as LAFCO staff moved into the new office space, the need for janitorial services was necessary. Therefore, LAFCO staff immediately requested interim janitorial services from the company that currently provides the service throughout the Depot, while the Commission considers contracting with a company on a regular basis.

LAFCO staff contacted several companies to provide quotes for janitorial services. To date, staff received only two quotes from a couple of the prospective vendors. In order to get competitive pricing and to adhere to the County's procurement policies, LAFCO staff is requesting continuance of the item in order to have more time to get additional quotes.

Therefore, staff is recommending continuance of the item to the September hearing.

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DATE: AUGUST 7, 2017 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #7: Status Report on LAFCO 3189 - Special Study of the Morongo Valley Community Services District

RECOMMENDATION:

Staff recommends that the Commission:

1. Note receipt of the status report and file.
2. Conclude status reports of the Morongo Valley Community Services District.

BACKGROUND:

At the July 2015 hearing, the Commission completed its special study of the Morongo Valley Community Services District ("District" or "CSD"), LAFCO 3189. The direction to staff in preparing the special study was narrow in focus – determining the financial sustainability of the district to perform its authorized range of services, most specifically fire protection and emergency medical response.

At the conclusion of the special study, the District took painful measures (reduction of the general manager's salary, and others) and received additional State reimbursement revenue to barely break-even for FY 2014-15. As a part of the special study LAFCO staff provided a forecast for the next five fiscal years (through 2020-21). The forecast did not show even nominal annual revenue gains – basically a break-even scenario. Any deviation would force the razor-thin surplus to evaporate. As a result of the special study, the Commission directed staff to monitor and update the Commission biannually for the next three years regarding the district's financial position.

To illustrate the ongoing monitoring, the following is a portion of the conclusion section from the staff report dated March 14, 2017:

The District attempted to increase its revenues to accommodate its existing service levels; however, its measure for a special tax failed. The only option moving forward is to cut the expenses, thus the service level, for the delivery of fire protection and emergency medical response, is impacted. The District has worked hard to keep itself afloat and should be recognized for these efforts. However, that position is tempered by staff's ongoing concern for its future.

As a result of the failure of the special tax election by such a large margin, it appears to staff that the District realizes a need to move towards realistic expenditures and staffing. The current year budget appeared to be stable, but the mid-year data is indicating a return to expenditures exceeding revenues.

As LAFCO staff has stated before, but must reiterate here, the margin for error in budgeting for the Morongo Valley CSD remains thin. Should any of the following occur then the district's short-term viability would be in jeopardy: (1) immediate replacement of the current fire truck, (2) OES cancels the contract or recalls the wild land fire truck, or (3) any other major expense.

This staff report is the fourth status update, and staff is recommending that the Commission conclude its monitoring of the CSD.

DISCUSSION:

As staff has prepared this update, we again return to the same topic – the funding of fire protection and emergency medical response for the Morongo Valley community. The District continues its ongoing discussion about what level of fire service is desired by the community as a whole - how to pay for it, how to reduce costs, and to what level of service. The materials provided at the last update, identified the development of an ad hoc committee to provide input on service alternatives; but according to the general manager, although formed, the committee never materialized due to lack of participation.

Neither LAFCO staff nor the Commission have ever recommended a specific course of action for the CSD regarding fire protection. Rather, the special study and the subsequent monitoring reports have outlined and analyzed the feasible options for fire protection and paramedic response. The options, previously four, have been whittled down to two:

1. Annex to County Fire and its FP-5 service zone. This option would:
 - a. Divest the CSD of its fire protection function (and related services)
 - b. Annex the CSD area to County Fire and its South Desert and FP-5 service zones
 - c. Remove the CSD Fire and Paramedic Assessment, annual average of \$150 per parcel
 - d. Extend the FP-5 special tax over the area, currently \$152.68 per parcel annually
 - e. Park and recreation would remain with the CSD
2. The District can continue to reduce the level of its fire protection service until it reaches a financially sustainable level recognizing the requirement to have a full-time paid paramedic position in order to continue to receive its benefit assessment.

On July 12, CSD representatives met with LAFCO and County Fire staffs to discuss potential annexation to County Fire. It was determined that the costs to operate a full-time three-person crew (at least one of which is a paramedic) would exceed the revenues available from within the community. Alternative staffing options and station locations were discussed. In the end, County Fire and the CSD agreed to continue the dialog.

The CSD staff has formulated a draft long-term plan document which summarizes the challenges of adopting a special tax due to the disadvantaged status of the community, loosely identifies making adjustments to maintain fiscal control, and additional staff restructuring to further reduce costs (copy included as an attachment to this report). This plan has not been presented to the CSD board for adoption as of the date of this report. Nonetheless, this document indicates a shift towards Option 2 identified above - reduce the level of its fire protection service until it reaches a sustainable level. However, it lacks detail to substantiate its policy shift. Importantly, as the CSD and the community evaluate its options, the current assessment was approved for paramedic and fire related services. Therefore, as noted above, in order for the CSD to receive its assessment it must have a full-time paramedic stationed within the community.

LAFCO staff's position is that on-going discussions between County Fire and the CSD should continue. Additionally, the special study and the three status reports have analyzed the financial ability and sustainability of the district to perform its authorized range of services, most specifically fire protection and emergency medical response. Specifically, the special study provided a financial forecast through 2020-21, which did not show even nominal annual revenue gains – basically a break-even scenario.

At this juncture, staff's position is that further LAFCO involvement is not warranted and that the Commission conclude monitoring of the CSD. Staff bases its position on the determination that only two feasible options remain and that the CSD and County Fire have agreed to continue the dialog.

CONCLUSION:

As the opening paragraph of the CSD Long Term Plan Summary outlines, the CSD is fully aware of its options. Since in the staff view, only two feasible options remain (annexation to County Fire or reduction of expenditures to meet revenues), further LAFCO monitoring/involvement is not warranted. Therefore, staff recommends that the Commission take the actions outlined on page 1 of this report concluding its monitoring of the District. However, LAFCO staff remains available to answer questions and review the process for any future change of organization with the District.

KRM/MT

Attachments:

- (1) Draft 2017 Long-term Plan Summary
- (2) Final Morongo Valley CSD Budget for FY 2017-18
- (3) Five-year Summary of Changes in Fund Balance by Service

Draft 2017 Long-term Plan Summary

Attachment 1

DRAFT

DRAFT

Morongo Valley Community Services District

2017 Long-Term Plan Summary

Introduction

The Morongo Valley Community Services District is committed to providing local fire and paramedic services. The district's mission is to provide the community with local quality service because this maintains the shortest emergency-call response times. In comparison, other fire agencies are a considerable distance away and cannot provide the three to seven-minute response times that the Morongo Valley Fire Department maintains in its efforts to ensure immediate professional assistance to the district's residents. For example, outside agency response times for assistance such as mutual aid scenarios, have been charted to be a minimum of 20 minutes, including dispatch services. This is much too long a response time when a resident is suffering a medical emergency such as a heart attack, stroke, or severe automobile accident on Highway 62.

The district has met with San Bernardino County (SBC) to discuss the potential for annexation. In reviewing the options, the community would be asked to pay a flat tax of approximately \$150.00 over 2,611 parcels for a total of \$391,650 spread over approximately 1,602 households. This amount of revenue would not satisfy the amount of money needed to cover SBC's cost of \$2.2 to \$2.4 million for comparable services that Morongo Valley Fire and Paramedic Department provide.

In this disadvantaged community, the 2015 median income is \$34,276, which is lower than other areas in the Morongo Basin and well below San Bernardino County at \$53,433 and far below California's median income of \$61,818. Most residents cannot afford an increase in taxes with about 19% of the population living below the federal poverty level (2015 Census) and more than 74% of the community's elementary school-aged children eligible for free and reduced-priced meals (www.cde.ca.gov) due to low family incomes.

Another option to pay for services would be to use all tax and assessment funds for the fire department. This would leave no money to fund park services that are another part of the MVCSD's responsibility overlay. The park and its buildings are widely used by residents and provide the only public recreational facility in Morongo Valley. The park is highly valued by our residents and it is not under consideration for closure. In alignment with these findings, the

DRAFT

General Manager will continue monitoring all of the district's expenses closely and will work with the elected Board of Directors to make adjustments accordingly to maintain fiscal control.

The Fire and Paramedic services we provide on a shoe-string budget are vital to our community's well-being. Medical assists make up the majority (68%) of the calls received from dispatch. Morongo Valley fire department provides critical time-sensitive and life-saving assistance to the community. Having 24/7 Paramedic/ALS service on hand is the difference between saving lives in a matter of minutes in Morongo Valley instead of a range of documented 20-30 minute response times from outside agencies. The district will continue to provide services and reorganize to maintain its fiduciary responsibility.

Staffing

The staffing plan was reduced prior to the beginning of the 2017-18 fiscal year. Currently, there are no changes. Although the district has ended the last two years with a net income, the district anticipates restructuring and changing staffing patterns for the 2018-19 fiscal year to further reduce costs. To increase revenues, the district has made an agreement with the local college, Copper Mountain College (CMC). This program will bring Reserves and Interns to the CSD and Fire Department to provide hands-on training. The cost of training CMC students will be reimbursed to the district by CMC. The Fire Department also has the option of providing training to outside fire personnel and first responders that will further enhance revenues. A fundraiser was successfully held late in the 2016-17 FY. The district anticipates planning other fundraisers this year. The Morongo Valley Firefighters' Auxiliary (MVFA) also provides needed equipment and firehouse amenities through its 501(c)(3) non-profit organization. The MVFA has proven its dedication to maintaining local fire and paramedic protection through its active participation in raising funds for the fire department.

The CSD staff and Board will continue actively seeking options to increase revenues.

Reference

Data Access and Dissemination Systems (DADS). "American FactFinder-Community Facts." *Census 2015*. Census Bureau, 05 Oct. 2015. Web. 19 July 2017.

California Department of Education, 3 August 2017. www.cde.ca.gov

**Final Morongo Valley CSD
Budget for FY 2017-18**

Attachment 2

Morongo Valley C.S.D.
Final Budget
July 2017 through June 2018

Jul '17 - Jun 18

Ordinary Income/Expense

Income

4000 · County Taxes

4001 · Countywide & Unitary Accrued 412,415

4006 · Fire Suppression Assessment 308,233

Total 4000 · County Taxes 720,648

4100 · CSD

4101 · Community Donations 2,012

4105 · Interest -

4107 · Note Payments Gun Range/Mojave 3,334

4190 · Income - Other -

Total 4100 · CSD 5,346

4200 · FIRE SERVICES

4290 · Income - Other

4291 · Donations 5,000

4293 · OES Reimbursement -

4294 · Cost Recovery - Reimbursement 3,500

4296 · Fire Inspections 2,400

Total 4200 · FIRE SERVICES 10,900

4300 · COVINGTON PARK

4310 · Rents & Concessions 5,820

Total 4300 · COVINGTON PARK 5,820

4700 · Grant Income

4701 · Reimbursable Expenditures 10,000

Total 4700 · Grant Income 10,000

Total Income 752,714

Gross Profit 752,714

Expense

5006 · Fire Operations

Operating Supplies

5252 · Fire Prevention Services 1,500

5265 · Paramedic Supply & Equipment 6,000

5275 · OES & Mutual Aid Expense -

5285 · Disaster Preparedness -

Total Operating Supplies 7,500

Training & Safety

Morongo Valley C.S.D.
Final Budget
July 2017 through June 2018

Jul '17 - Jun 18

5247 · Physicals & Vaccinations	3,200
5249 · Firefighter Personal Equipment	5,500
5250 · Firefighter Training Expense	7,000
5256 · Uniforms	4,000
Total Training & Safety	19,700

Administration

5225 · County Dispatch	8,460
5227 · Communicatons	4,150
5237 · Inspections ICEMA/Zoll	2,400
5245 · Other Expense-Recruitment	-
5260 · Building Maintenance	3,500
5280 · Medical Director	5,000
5290 · Special Assessment	2,900
5295 · Office Equipment	1,500
5296 · Office Expenses & Supplies	1,050
5297 · Supplies	2,000
5298 · Memberships & Associations	750
Total Administration	31,710

Apparatus

5234 · Apparatus\Equipment Purchased	9,750
5235 · Apparatus Gasoline	10,000
5240 · Apparatus Maint. & Repair	2,000
5241 · Fire Engine Maint. & Repair	15,000
5243 · Yearly Equipment Testing	6,200
5244 · Radio Equipment	1,250
5293 · Command Vehicle	2,000
Total Apparatus	46,200

Compensation

5203 · Compensation - Paramedics	107,877
5204 · Compensation - Engineers	74,570
5205 · OES & Mutual Aid w/ taxes w/c	10,000
5206 · Compensation - Captains	42,218
5207 · Compensation - Chief	51,251
5209 · Payroll Taxes	25,375
5215 · Worker's Comp. Ins.	46,646
5219 · Employee Benefits	21,000
5230 · Subsistence Pay Reserves	36,400
5232 · EMS Coordinator	10,400
8 MOU Holiday/3 CA Law sick -w taxes, wc	19,466
Total Compensation	445,203

Morongo Valley C.S.D.
Final Budget
July 2017 through June 2018
Jul '17 - Jun 18

Total 5006 · Fire Operations	550,313
 5005 · Wages & Benefits	
5002 · Wages - Administrative	40,000
5003 · Wages - Support Staff	12,000
5004 · Wages - Parks	27,500
5015 · Payroll Taxes - Employer	7,506
5018 · CSD Workers Comp.	8,917
5019 · Employee Benefits	9,792
Total 5005 · Wages & Benefits	105,715
 5000 · Administration	
5071 · Repair and Maintenance	
5320 · CP Equipment	4,000
5365 · CP Buildings	6,000
5370 · CP Grounds	4,000
5371 · Ball Park	1,500
5375 · Gasoline	1,300
Total 5071 · Repair and Maintenance	16,800
 5070 · Insurance-General	 15,964
5080 · Office Expense	
5065 · Postage	500
5068 · Printing/Copies	1,500
5073 · Legal & Professional Expense	8,500
5074 · Internet Service	850
5075 · Publications & Education	1,500
5076 · Memberships	2,500
5077 · Registrar of Voters Expense	-
5078 · Meeting Expense	200
5081 · Office Equip & Maintenance	2,250
5082 · Bank Charges	600
5083 · Expenses & Supplies	2,100
5099 · Other Expense	500
Total 5080 · Office Expense	21,000
 5085 · Auditing/Accounting	 14,900
5090 · Children's Programs	-
5096 · Street Lights	4,300
5100 · Utilities	
5052 · 5252 Water	2,600
5053 · 5053 Electricity	13,000
5054 · 5054 Gas	2,100

Morongo Valley C.S.D.
Final Budget
July 2017 through June 2018

	<u>Jul '17 - Jun 18</u>
5060 · 5060 Telephone	<u>2,200</u>
Total 5100 · Utilities	<u>19,900</u>
5200 · Debt Service	
5220 · Lease/Purchase Equip. Reserve	<u>3,393</u>
Total 5200 · Debt Service	<u>3,393</u>
Total 5000 · Administration	<u>96,257</u>
Total Expense	<u>752,284</u>
Net Ordinary Income	430

**Five-year Summary of
Changes in Fund Balance by
Service**

Attachment 3

Morongo Valley CSD

Five-year Summary of Changes in Fund Balance by Service

FY 2011-12		Fire	Park & Rec	Streetlights	Total
Revenues:					
	Property tax	324,425	35,305	2,264	361,994
	Fire assessment	286,528	-	-	286,528
	Other	58,002	5,877	-	63,879
	Total Revenues	\$ 668,955	\$ 41,182	\$ 2,264	\$ 712,401
Expenditures:					
	Salaries & wages	341,444	35,985	-	377,429
	Benefits	38,757	10,957	-	49,714
	Operations expense	213,196	32,772	4,074	250,042
	Debt service	12,313	-	-	12,313
	Total Expenditures	\$ 605,710	\$ 79,714	\$ 4,074	\$ 689,498
	Revenues less Expenditures	\$ 63,245	\$ (38,532)	\$ (1,810)	\$ 22,903
	Fund Balance, beginning	381,448	157,848	3,148	542,444
	Fund Balance, ending	\$ 444,693	\$ 119,316	\$ 1,338	\$ 565,347
FY 2012-13		Fire	Park & Rec	Streetlights	Total
Revenues:					
	Property tax	325,437	34,754	5,645	365,836
	Fire assessment	292,076	-	-	292,076
	Other	24,745	11,700	-	36,445
	Total Revenues	\$ 642,258	\$ 46,454	\$ 5,645	\$ 694,357
Expenditures:					
	Salaries & wages	412,277	27,235	840	440,352
	Benefits	57,448	10,775	-	68,223
	Operations expense	188,040	39,425	4,805	232,270
	Debt service	1,454	-	-	1,454
	Total Expenditures	\$ 659,219	\$ 77,435	\$ 5,645	\$ 742,299
	Revenues less Expenditures	\$ (16,961)	\$ (30,981)	\$ -	\$ (47,942)
	Fund Balance, Beginning	444,693	119,316	1,338	565,347
	Adjustments to Beginning	(47,836)			(47,836)
	Fund Balance, End	\$ 379,896	\$ 88,335	\$ 1,338	\$ 469,569


FY 2013-14		Fire	Park & Rec	Streetlights	Total
Revenues:					
	Property tax	266,673	91,602	4,786	363,061
	Fire assessment	313,913	-	-	313,913
	Other	47,207	14,482	-	61,689
	Total Revenues	\$ 627,793	\$ 106,084	\$ 4,786	\$ 738,663
Expenditures:					
	Salaries & wages	441,253	35,268	364	476,885
	Benefits	73,745	10,325	64	84,134
	Operations expense	219,369	60,491	4,358	284,218
	Debt service	5,816	-	-	5,816
	Total Expenditures	\$ 740,183	\$ 106,084	\$ 4,786	\$ 851,053
	Revenues less Expenditures	\$ (112,390)	\$ -	\$ -	\$ (112,390)
	Fund Balance, Beginning	379,896	88,335	1,338	469,569
	Fund Balance, End	\$ 267,506	\$ 88,335	\$ 1,338	\$ 357,179
FY 2014-15		Fire	Park & Rec	Streetlights	Total
Revenues:					
	Property tax	291,801	77,286	4,844	373,931
	Fire assessment	300,825	-	-	300,825
	Other	138,273	11,127	-	149,400
	Total Revenues	\$ 730,899	\$ 88,413	\$ 4,844	\$ 824,156
Expenditures:					
	Salaries & wages	472,925	35,549	272	508,746
	Benefits	74,047	6,060	33	80,140
	Operations expense	195,471	35,172	4,483	235,126
	Debt service	5,816	-	-	5,816
	Total Expenditures	\$ 748,259	\$ 76,781	\$ 4,788	\$ 829,828
	Revenues less Expenditures	\$ (17,360)	\$ 11,632	\$ 56	\$ (5,672)
	Fund Balance, Beginning	267,506	88,335	1,338	357,179
	Fund Balance, End	\$ 250,146	\$ 99,967	\$ 1,394	\$ 351,507

FY 2015-16		Fire	Park & Rec	Streetlights	Total
Revenues:					
	Property tax	332,904	59,277	6,446	398,627
	Fire assessment	316,702			316,702
	Other	153,395	72,552		225,947
	Total Revenues	\$ 803,001	\$ 131,829	\$ 6,446	\$ 941,276
Expenditures:					
	Salaries & wages	721,743	33,592		755,335
	Benefits	17,683	4,471		22,154
	Operations expense	59,088	20,719	6,393	86,200
	Debt service	5,816			5,816
	Total Expenditures	\$ 804,330	\$ 58,782	\$ 6,393	\$ 869,505
Revenues less Expenditures		\$ (1,329)	\$ 73,047	\$ 53	\$ 71,771
Fund Balance, Beginning		250,146	99,967	1,394	351,507
Fund Balance, End		\$ 248,817	\$ 173,014	\$ 1,447	\$ 423,278

Sources: Combined Statements of Revenues, Expenditures, and Changes in Fund Balance

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: AUGUST 9, 2017 
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
SAMUEL MARTINEZ, Assistant Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #8: Review and Approval of Amended Lease for LAFCO
Office Space at San Bernardino Santa Fe Depot 1170 West 3rd Street, Unit
150, San Bernardino

RECOMMENDATION:

Staff recommends that the Commission approve the First Amendment to Lease Agreement Contract No. 16-1001429 and authorize the Commission Chair and Legal Counsel to sign.

BACKGROUND:

At the July 2016 hearing, the Commission approved the lease agreement with the joint powers authority known as the San Bernardino County Transportation Authority (SBCTA) for occupancy of the former Harvey House premises at 1170 West 3rd Street. During the Commission's Budget review for Fiscal Year 2017-18, staff identified that changes to the lease would be needed based upon the renovations and other issues arising during the construction process.

The renovations were completed the first part of July with staff taking possession of the premises on July 24th. The furnishings were delivered and installed on July 24th and 25th. Actual occupancy of the building began on July 26th, and while there are still some residual issues requiring correction staff is now relocated. The changes reflected in the Lease Amendment are:

1. The square footage of the space occupied by LAFCO has been corrected. Originally the lease identified 3,531 square feet; however, the actual square footage of the space occupied pursuant to the construction drawings is 2,970 square feet. SBCTA has agreed to the change which has reduced the lease amount and the common

area monthly operating expenses. However, it needs to be noted that there will be a “true up” payment at the end of the Fiscal Year for the common area expenses, the cost could be more or less in sum.

2. In addition, the renovation costs were higher than originally anticipated, but due to the historic nature of the building, this was not unexpected. LAFCO staff has worked with SBCTA staff to develop a five-year amortization schedule for the additional \$38,000 in renovations attributable to LAFCO that will allow for full payment within the first five-years of the lease. The two additional five-year lease terms will be without the renovation costs.

The chart which follows shows the financial effects of the changes

EXPENSE ITEM	ORIGINAL LEASE	AMENDED LEASE
Size Modification to lease cost	\$3,337	\$2,822
Common Area Operating Expense	\$2,990	\$2,198
Amortization of Renovation Costs over a Five-Year Period	\$2,167	\$2,816
TOTAL MONTHLY	\$8,494	\$7,836

The difference (\$658) will go towards the costs of electricity and janitorial services.

CONCLUSION:

Staff is recommending that the Commission approve the First Amendment to Lease and authorize the Commission Chair and Legal Counsel to sign. LAFCO staff will be happy to answer any questions on this item prior to or at the hearing.

KRM/

Attachments:

1. First Amendment to Lease Contract No. 1001429
2. Contract No. 16-1001429

**First Amendment to Lease
Contract No. 1001429**

Attachment 1

FIRST AMENDMENT TO LEASE
Contract No: 16-1001429

THIS FIRST AMENDMENT TO LEASE (the "Amendment") is entered into and is effective as of July 18, 2017, by and between San Bernardino County Transportation Authority (SBCTA) ("Landlord"), and Local Agency Formation Commission for San Bernardino County (LAFCO) ("Tenant"), on the basis of the following:

RECITALS

A. Landlord and Tenant previously entered into a Lease agreement (the "Lease") for the Premises described as 1170 W. 3rd Street, Suite 150, San Bernardino, California.

B. Landlord has completed the construction of the Tenant Improvements as provided in Section 29 of the Lease and has delivered possession of the Premises to Tenant.

C. All references to SANBAG in the Lease shall mean the San Bernardino County Transportation Authority ("SBCTA").

AGREEMENT

IT IS HEREBY AGREED by Landlord and Tenant on the basis of the foregoing and in consideration of the premises contained herein, as follows:

1. **Modified Premises.** Section 1.02 of the Lease shall be modified so that the size of the Premises is 2,970 square feet. Further, Section 1.09 of the Lease shall be modified so that Tenant's Share of Common Area Operating Expenses shall be 7.86%

2. **Commencement Date.** Section 1.04 of the Lease shall be modified to establish the Commencement Date as July 24, 2017, and the ending date as July 23, 2022.

3. **Tenant Improvements.** With the exact tenant improvement costs now known, Section 29 of the Lease shall be amended to show the following breakdown:

Contractor's Bid Amount	\$352,885.00
Change Orders	13,668.75
Less Kitchen/Fiber Optic Conduit/220v Outlet	<u>(13,620.00)</u> (paid by Tenant)
Total	\$352,933.75
Less Landlord Contribution	(45,000.00)
Less Tenant Contribution	(230,000.00)
Amount to be shared equally Landlord & Tenant	\$77,933.75 (\$38,966.88 each)

Tenant's share breaks down as follows:

Tenant Total Contribution:	\$230,000.00
Tenant Additional Shared Contribution	38,966.88
Total Tenant Contribution	\$268,966.88
Tenant's lump sum down payment	\$100,000.00
Remaining balance to be amortized	\$168,966.88

Tenant amortization at 60 months: \$2,816.11 per month

Tenant cash payment due within 60 days of commencement of this amendment:
\$13,620.00

4. **Supremacy.** Except as otherwise expressly stated in this Amendment, all other provisions in the Lease shall continue in full force and effect without modification. In the event of any conflict between the terms of this Amendment and those of the Lease, the terms of the Amendment shall govern.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date first set forth above.

Landlord:

San Bernardino County
Transportation Authority

Tenant:

Local Agency Formation Commission for
San Bernardino County

By: _____
Raymond W. Wolfe, Ph.D.
Executive Director

By: _____

Approved as to Form:

By: _____
Julianna K. Tillquist
Assistant General Counsel

Concurrence:

By: _____
Jeffery Hill
Procurement Manager

Contract No. 16-1001429

Attachment 2

CONTRACT NO: 16-1001429

BY AND BETWEEN

SAN BERNARDINO COUNTY TRANSPORTATION COMMISSION

AND

**LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY
(LAFCO)**

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1. Summary of Lease Provisions

1.01 **Parties:** This Lease, dated, for reference purposes only, October 5, 2015, is made by and between **San Bernardino Associated Governments, acting in its capacity as the San Bernardino County Transportation Commission (SANBAG)** (herein called "Landlord") and **Local Agency Formation Commission for San Bernardino County (LAFCO)** (herein called "Tenant").

1.02 **Premises:** Unit Number(s) 150, consisting of **3,513** rentable square feet, more or less, as defined in Section 2 (the "Premises").

1.03 **Building:** Commonly described as being located at **1170 West 3rd Street** in the City of **San Bernardino**, County of **San Bernardino**, State of California.

1.04 **Term:** **Five (5) years**, commencing **June 1, 2017** ("Commencement Date") and ending **March 31, 2022**, as defined in Section 5.

1.05 **Base Rent:** **\$.95** per rentable square foot of Premises per month, payable quarterly in advance on the **first** calendar day of each quarter, per Section 6.

1.06 **Base Rent Increase:** Annually, the monthly Base Rent payable under Section 1.05 shall be adjusted as provided in Section 7.

1.07 **Late Charges:** **6%** if any installment of Base Rent, Operating Expense Increase, or any other sum due from Tenant shall not be received by Landlord within **five (5)** business days after the first day of each month.

1.08 **Security Deposit:** **\$0.00**.

1.09 **Tenant's Share of Common Area Operating Expenses:** **9.3%** as defined in Section 6.

1.10 **Parking:** Maximum **fourteen (14)** unreserved and unassigned vehicle parking spaces for Tenant's employees and visitors (who shall not utilize any spaces reserved for other occupants of the Depot), as provided for in Section 4.

1.11 **Use:** **LAFCO Offices.**

1.12 **Utilities:** Provided by Landlord (subject to reimbursement as may be provided for in this Lease): **Water/Sewer/Gas/Trash** Provided by Tenant: **Electricity/Phone/Data**, as further defined and subject to the provisions in Section 11.

1.13 **Maintenance & Repairs:** Interior of Premises maintained by **Tenant**; Exterior of Building maintained by **Landlord** subject to and in accordance with Section 10.

1.14 **Insurance:** **\$1,000,000** liability policy required to be carried by Tenant prior to Occupancy - see Section 13.

1.15 **Options to Extend:** Tenant has **two (2)** Options to Extend the term of this Lease for a period of **five (5)** years each, as provided for in Section 25.

1.16 **Tenant Improvements:** (check one)

- ☐ Tenant to accept Premises in as-is condition.
☒ Landlord to provide Tenant Improvements as provided for in Paragraph 28.
☐ Tenant to provide Tenant Improvements as provided for in Paragraph ____.

1.17 **Notices:**

To Landlord:

**San Bernardino Associated Governments
(SANBAG)**

**c/o City Commercial Management
10722 Arrow Route - Suite 500
Post Office Box 548
Rancho Cucamonga, CA 91729-0548**

To Tenant:

**Local Agency Formation Commission for
San Bernardino County (LAFCO)**

**215 N. D Street, Suite 204
San Bernardino, CA 92415-0490**

Telephone: (909) 948-1662
FAX : (909) 948-1349
Email: mike@city-commercial.com

(909) 388-0480
(909) 885-8170 fax
Email: lafco@lafco.sbcounty.gov

2. Premises.

Landlord hereby leases to Tenant for the term, at the rental, and upon all of the conditions set forth herein, the Premises as defined in Section 1.02. The Premises, the Building(s), the Common Areas, and the land upon which the same are located, are collectively referred to as the "Depot" (as per the attached Site Plan). It is understood and agreed that the square footage figures set forth in the Basic Lease Provisions are approximations which Landlord and Tenant agree are reasonable and shall not be subject to revision except in connection with an actual change in the size of the Premises.

Tenant hereby accepts the Premises and the Depot in their condition existing as of the Lease Commencement Date or the date that Tenant takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any easements, covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Tenant acknowledges that it has satisfied by its own independent investigation that the Premises are suitable for its intended use, and that neither Landlord nor Landlord's agent or agents has made any representation or warranty as to the present or future suitability of the Premises, Common Areas, or Depot for the conduct of Tenant's business. LANDLORD HEREBY DISCLOSES THAT PURSUANT TO CALIFORNIA CIVIL CODE SECTION 1938, THE PREMISES, COMMON AREAS, AND THE BUSINESS PARK HAS NOT UNDERGONE INSPECTION BY "CERTIFIED ACCESS SPECIALIST" (A CASp), AND THUS HAS NOT BEEN VERIFIED TO MEET ALL APPLICABLE CONSTRUCTION-RELATED ACCESSIBILITY STANDARDS.

3. Common Areas.

"Common Areas" are defined as all areas outside the confines of the Premises, including but not limited to parking areas, loading and unloading zones, trash enclosures, roadways, sidewalks, walkways, parkways, ramps, driveways, landscaped areas, and that are within the Depot that are provided and designated for the general non-exclusive use of Landlord, Tenant, and all other Tenants of the Depot. Tenant, Tenant's employees, visitors, and invitees hereby agree to abide by and conform to all rules and regulations, which Landlord shall have the right in its sole reasonable discretion to modify from time to time. Landlord shall have the exclusive control and management of the Common Areas; however, Landlord shall not be responsible for the non-compliance of said rules and regulations by other tenants, employees, and invitees to the Depot. Landlord shall have the right in its sole discretion to (1) make changes to the Building exterior and/or Common Areas; (2) close temporarily any of the Common Areas for maintenance purposes so long as reasonable access remains available; and (3) to add additional improvements to the Common Areas. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Landlord or Landlord's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Landlord shall have the right, without notice, in addition to such other rights and remedies it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord.

4. Parking.

Tenant shall be entitled to use the vehicle parking spaces as provided for in Section 1.10 on those portions of the Common Areas designated by Landlord for parking. Tenant shall not use more spaces than said maximum number, and spaces shall be used only for vehicles no larger than full-sized passenger vehicles, pick-up trucks, or sport utility vehicles. Any vehicle loading or unloading shall only be permitted in areas and at times designated by Landlord for such activities. Landlord shall have the right, without notice, to tow any of Tenant's vehicles (or Tenant's employees, invitees, contractors, or visitors) that are in violation of any parking rules and regulations, the cost of which shall be the sole responsibility of Tenant.

5. Term.

"Possession" of the Premises shall be deemed tendered to Tenant when (1) improvements, if any, are substantially completed, and (2) Tenant has been given reasonable access to the Premises, including delivery by Landlord of keys to the Premises. If for any reason Landlord cannot deliver possession of the Premises on the Commencement Date as provided for in Section 1.04, the Commencement Date and ending dates shall be correspondingly extended in relation to the Term of this Lease, and Landlord shall not be subject to any liability, nor shall such delay in commencement affect the validity of this Lease or the obligations of Tenant hereunder (except that Tenant shall not be obligated to pay rent until possession of the Premises has been delivered as provided for herein). However, there shall be no abatement of rent or adjustment of the Commencement Date if such delays are caused by actions of Tenant, Tenant's agents or contractors.

6. Rent.

Rent and Base Rent. Any and all amounts from time to time payable to Landlord by Tenant hereunder shall be referred to herein as Rent, including, but not limited to, Base Rent, and shall be paid in full when due without right of offset, setoff or deduction. Tenant shall pay to Landlord the Base Rent for the Premises as provided of in Section 1.05. Base Rent for any period less than one month shall be prorated based upon the actual number of days in the calendar month involved. Rent shall be payable in lawful money of the United States to Landlord at the address stated herein or to any such other persons or at any such other places as Landlord may designate in writing.

Common Area Maintenance Expenses ("CAM"). Tenant shall pay to Landlord during the term hereof, in addition to the Base Rent, Tenant's Share as provided for in Section 1.09 and hereinafter defined, of all Common Area Maintenance Expenses, as herein defined, during each calendar year, also referred to as "CAM Charges", in accordance with the following provisions:

(a) "Common Area Maintenance Expenses" are defined, for purposes of this Lease, as all costs incurred by Landlord, relating to the ownership and operation of the Depot, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, public restrooms, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators, escalators, and roof;

(bb) Exterior signs and any tenant directories.

(cc) Fire detection (including monitoring costs) and sprinkler systems.

(ii) The cost of water, gas, electricity, and telephone to service the Common Areas.

(iii) Trash disposal, property management, security services, association fees, and the costs of any environmental inspections.

(iv) Reserves set aside for maintenance and repair of Common Areas.

(v) Real Property Taxes (as defined in Section 14) for the Building and the Common Areas.

(vi) The cost of the premiums for the insurance policies maintained by Landlord under Section 13.

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) Any other services to be provided by Landlord that are stated elsewhere in this Lease to be a Common Area Maintenance Expense.

(ix) Any management fees incurred by Landlord in connection with the operation of the Depot or, at Landlord's option, in lieu of any such management fees, 15% of CAM Charges as computed without regard to this clause (ix).

(b) Any Common Area Maintenance Expenses and Real Property Taxes that are specifically attributable to the Building or to any other building in the Depot or to the operation, repair, and maintenance thereof, shall be allocated entirely to the building or to such other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair, and maintenance thereof, shall be equitably allocated by Landlord to all buildings in the Depot.

(c) The inclusion of the improvements, facilities, and services set forth in this Section shall not be deemed to impose an obligation upon Landlord to either have said improvements or facilities or to provide those services unless the Depot already has the same or Landlord already provides the services.

(d) Tenant's Share of Common Area Operating Expenses (CAM Charges) shall be payable by Tenant within ten (10) days after a reasonably detailed statement of actual expenses is presented to

Tenant by Landlord's agent. At Landlord's option, however, an amount may be estimated by Landlord from time to time of Tenant's Share of annual CAM Charges and the same shall be payable monthly or quarterly, as Landlord shall designate, during each 12-month period of the Lease term, on the same day as the Base Rent is due hereunder. Landlord shall deliver to Tenant within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Tenant's Share of the actual CAM Charges incurred during the preceding year (the "Reconciliation"). If Tenant's payments during said preceding year exceed Tenant's Share as indicated on said Reconciliation, Landlord shall be credited the amount of such overpayment against Tenant's Share of CAM Charges next becoming due. If Tenant's payments during said preceding year were less than Tenant's Share as indicated on said Reconciliation, Tenant shall pay to Landlord the amount of the deficiency within ten (10) days after delivery by Landlord to Tenant of said Reconciliation.

7. Rent Increase.

On each anniversary date of this Lease, the Base Rent shall be increased by CPI Adjustment (see subsection "A" below) or fixed rental adjustment (see subsection "B" below).

A. CPI Rental Adjustment ("CPI"): At the times set forth in paragraph 1.06 of the Basic Lease Provisions, the monthly Base Rent shall be adjusted by the increase, if any, in the Consumer Price Index of the Bureau of Labor Statistics of the Department of Labor for All Urban Consumers, (1982-84=100), "All Items", for the City nearest the location of the Building, herein referred to as "CPI.", since the date of this Lease. The monthly Base Rent shall be calculated as follows: the Base Rent payable for the first month of the term of this Lease shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month during which the adjustment is to take effect, and the denominator of which shall be the CPI for the calendar month in which the original Lease term commences. The sum so calculated shall constitute the new monthly Base Rent hereunder, but, in no event, shall such new monthly Base Rent be more than one hundred three percent (103%) of the Base Rent payable for the month immediately preceding the date for the rent adjustment. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculations. Tenant shall continue to pay the rent at the rate previously in effect until the increase, if any, is determined. Within ten (10) days following the date on which the increase is determined, Tenant shall make such payment to Landlord as will bring the increased rental current. Thereafter the rental shall be paid at the increased rate.

8. Security Deposit – Intentionally Omitted

9. Use.

The Premises shall be used and occupied only for the purpose as provided for in Section 1.11 and for no other purpose. Tenant shall conduct its business in a lawful manner (including obtaining and maintaining any required governmental permits and licenses) and shall not use or permit use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Depot.

10. Maintenance and Repairs.

Landlord's Obligations: Landlord shall keep the Office Building Project, including the Premises, interior and exterior walls, roof, and common areas, replacement of light bulbs, tubes, and ballasts, and the equipment whether used exclusively for the Premises or in common with other premises, in good condition and repair; provided, however, Landlord shall not be obligated to paint, repair, or replace wall coverings, or to repair or replace any improvements that are not ordinarily a part of the Building or are above the Building standards. There shall be no abatement of rent or liability of Tenant on account of any injury or interference with Tenant's business with respect to any improvements, alterations, or repairs made by Landlord to the Office Building Project or any part thereof. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition, and repair.

Tenant's Obligations: Tenant shall be responsible for payment to Landlord as additional rent of the cost for all repairs to the Premises to the extent such cost is attributable to causes beyond normal wear and tear, including the cost of any maintenance and repair of any equipment (wherever located) that serves

only Tenant or the Premises. Tenant shall be responsible for the cost of painting, repairing or replacing wall coverings, and to repair or replace any Premises improvements that are not ordinarily a part of the Building or that are above the Building standards.

Hazardous Substances. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, chemical, material, or waste whose presence, nature, quantity, and/or intensity of existence, use, manufacture, disposal, transportation, spill, release, or effect, either by itself or in combination with other materials expected to be on the Premises, is either (i) potentially injurious to the public health, safety, or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Landlord to any governmental agency or third party under any applicable statute or common law theory. Tenant shall not engage in any activity in or about the Premises which constitutes a use of Hazardous Substances without the express written consent of Landlord and compliance in a timely matter (at Tenant's sole cost and expense) with all governmental requirements (including but not limited to compliance with all laws, rules, regulations, ordinances, directives, covenants, easements, and restrictions of record, permits, and the requirements of any applicable fire insurance underwriter or rating bureau). Landlord may (but without any obligation to do so) condition its consent, if granted, to Tenant's use of any Hazardous Substance upon Tenant's giving Landlord such additional assurances as Landlord, in its reasonable discretion, deems necessary to protect itself, the public, the Premises, and the environment against damage, contamination, or injury and/or liability therefor, including but not limited to the installation (and, at Landlord's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises and/or the deposit of an additional Security Deposit. Tenant shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

Tenant shall indemnify, protect, defend, and hold Landlord, its agents, employees, lenders, and ground Landlord, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of and involving and Hazardous Substance brought onto the Premises by or for Tenant or by anyone under Tenant's control. Tenant's obligations under this subsection shall include, but not be limited to, the effects of any contamination or injury to person, property, or the environment created or suffered by Tenant, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration, and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation, or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Landlord in writing at the time of such agreement.

11. Utilities & Services.

Landlord shall be responsible for the payment of the following utilities and services that serve the Premises, subject to reimbursement of same as provided for herein (check those that apply):

- ☐ Electricity
- ☒ Gas
- ☒ Water/Sewer
- ☐ Telephone & Data Service
- ☒ Trash
- ☐ Security Alarm Monitoring
- ☐ Janitorial Service & Supplies

Tenant shall be responsible for the direct payment or reimbursement to Landlord of the following utilities and services that serve the Premises (check those that apply):

- ☒ Electricity
- ☐ Gas
- ☐ Water/Sewer
- ☒ Telephone & Data Service
- ☐ Trash
- ☒ Security Alarm Monitoring
- ☒ Janitorial Service & Supplies

In the event any of Tenant's afore-mentioned utilities are not separately metered to the Premises,

Tenant shall pay at Landlord's option, either Tenant's Share or a reasonable proportion to be determined by Landlord of all charges jointly metered with other Premises in the Building.

Said services and utilities shall be provided during generally accepted business days and hours or such other days or hours as may hereafter be set forth. Utilities and services required at other times shall be subject to advance request and reimbursement by Tenant to Landlord of the cost thereof. Tenant shall not make connection to the utilities except by or through existing outlets and shall not install or use machinery or equipment in or about the Premises that uses excess water, lighting, or power, or suffer or permit any act that causes extra burden upon the utilities or services. Landlord shall require Tenant reimburse Landlord for any excess expenses or costs that may arise out of a breach of this subparagraph by Tenant at actual cost or at a predetermined rate of **\$50.00** per hour of usage. Landlord may, in its sole discretion, install at Tenant's expense supplemental equipment and/or separate metering applicable to Tenant's excess usage or loading.

There shall be no abatement of rent and Landlord shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption, or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair, or other cause beyond Landlord's reasonable control or in cooperation with governmental request or directions.

Promptly upon request from Landlord,, Tenant shall provide monthly electricity and other utility usage data for the Premises to Landlord for the period of time requested by Landlord in electronic or paper format, or, at Landlord's sole option, provide any written authorization or other documentation required for Landlord to request information regarding Tenant's electricity and other utility usage data with respect to the Premises directly from the appropriate utility company.

12. Alterations and Additions.

Tenant shall not without Landlord's prior written consent make any alterations, improvements, additions, or repairs (hereinafter collectively referred to as "Alterations") in, on or about the Premises or the Depot. Should Landlord permit Tenant to make its own Alterations, Tenant shall use only contractors that are properly and adequately licensed and insured, and Landlord may require Tenant to provide Landlord, at Tenant's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Landlord against any liability for mechanic's and materialmen's liens and to ensure completion of the work. Any Alterations in or about the Premises or the Depot that Tenant shall desire to make shall be presented to Landlord in written form, with proposed detailed plans. If Landlord shall give its consent to making such Alteration, the consent shall be deemed conditioned upon Tenant acquiring a permit to do so from the applicable governmental agencies, furnishing of a copy thereof to Landlord prior to the commencement of the work, and compliance by Tenant of all conditions of said permit in a prompt and expeditious manner.

Tenant shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Tenant at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, the Building, or the Depot, or any interest therein. Tenant shall give Landlord not less than ten (10) days' notice prior to the commencement of any work in the Premises by Tenant, and Landlord shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law.

All Alterations which may be made on the Premises by Tenant shall be made and done in a good and workmanlike manner and of good and sufficient quality and materials and shall be the property of Landlord and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Landlord requires their removal pursuant to Section 18.

Tenant further acknowledges that the Depot is an historical landmark and thus cannot be altered or modified in any way (including hanging anything on the walls or puncturing wall surfaces with any nail, screw, etc.) without the express written consent of Landlord.

13. Insurance and Indemnity.

Liability and Property Insurance -Tenant: Tenant shall provide a certificate of self insurance to Landlord of not less than \$1,000,000 per occurrence of bodily injury and property damage, or Tenant shall, at Tenant's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance in an amount of not less than \$1,000,000 per occurrence of bodily injury and property damage combined and damage to premises rented by Tenant or in a greater amount as

reasonably determined by Landlord and shall insure Tenant with Landlord as additional insured against liability arising out of the use, occupancy, or maintenance of the Premises. The policy shall be endorsed to provide: "This insurance will be primary and noncontributory with any other insurance of the additional insureds." Compliance with the above requirement shall not, however, limit the liability of Tenant hereunder. Tenant shall also maintain insurance coverage on all of Tenant's personal property, trade fixtures, and alterations and improvements in, on, or about the Premises similar in coverage to that carried by Landlord (such insurance shall be full replacement cost coverage with a deductible not to exceed \$2,500 per occurrence, and the proceeds from any such insurance shall be used exclusively for the replacement of personal property and the restoration of trade fixtures, alterations, and improvements). To the fullest extent permitted by law, Tenant hereby waives all rights of recovery under subrogation against the Additional Insured, and any other consultant, subconsultant or sub-subconsultant performing work or rendering services on behalf of SANBAG, in connection to the Depot. Tenant shall deliver to Landlord certificates evidencing the existence and amounts of such insurance within seven (7) days after the Commencement Date of this Lease, and shall, at least thirty (30) days prior to the expiration of such policies, furnish Landlord with renewals thereof.

The cost of the premiums for the insurance policies maintained by Landlord hereinafter shall be a Common Area Operating Expense.

Liability Insurance - Landlord: Landlord shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Broad Form Property Damage Insurance, plus coverage against such other risks Landlord deems advisable from time to time, insuring Landlord, but not Tenant, against liability arising out of the ownership, use, occupancy, or maintenance of the Depot in an amount not less than \$1,000,000 per occurrence.

Property Insurance: Landlord shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Depot improvements, but not Tenant's personal property, fixtures, equipment, or tenant improvements, in an amount of the full replacement cost thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, plate glass, and such other perils as Landlord deems advisable or may be required by a lender having a lien on the Depot. In addition, Landlord shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Landlord, which insurance shall also cover all Operating Expenses for said period. Tenant shall not be named in any such policies carried by Landlord and shall have no right to any proceeds therefrom. In the event that the Premises shall suffer any insured losses, the deductible amounts under the applicable insurance policies shall be deemed an Operating Expense. Tenant shall not do or permit to be done anything which shall invalidate the insurance policies carried by Landlord. Tenant shall pay the entirety of any increase in the property insurance premium for the Depot over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Landlord's insurance carrier as being caused by the nature of Tenant's occupancy or any act or omission of Tenant.

Waiver of Subrogation: Tenant and Landlord each hereby release and relieve the other, and waive their entire right of recovery against the other for direct or consequential loss or damage arising out of or incident to the perils covered by property insurance carried by such party, whether due to the negligence of Landlord or Tenant or their agents, employees, contractors, and/or invitees.

Indemnity: Tenant shall indemnify and hold harmless Landlord and its agents, Landlord's master or ground Landlord, partners and lenders, from and against any and all claims for damage to the person or property of anyone or any entity arising from Tenant's use of the Depot, or from the conduct of Tenant's business or from any activity, work or things done, permitted or suffered by Tenant in or about the Premises or elsewhere and shall further indemnify and hold harmless Landlord from and against any and all claims, costs and expenses arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any act or omission of Tenant, or any of Tenant's agents, contractors, employees, or invitees, and from and against all costs, attorney's fees, expenses and liabilities incurred by Landlord as the result of any such use, conduct, activity, work, things done, permitted or suffered, breach, default, or negligence, and in dealing reasonably therewith, including but not limited to the defense or pursuit of any claim or any action or proceeding involved therein; and in case any action or proceeding be brought against Landlord by reason of any such matter. Tenant, upon notice from Landlord, shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord and Landlord shall cooperate with Tenant in such defense. Landlord need not have first paid any such claim in order to be so indemnified.

Exemption of Landlord from Liability: Tenant hereby agrees the Landlord shall not be liable to Tenant's

business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Tenant, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage results from conditions arising upon the Premises or upon other portions of the Depot, or from other sources or places, or from new construction or the repair, alteration, or improvement of any part of the Depot, or of the equipment, fixtures, or appurtenances applicable thereto, and regardless of whether the cause of such damage or the means or repairing the same is inaccessible. Landlord shall not be liable for any damages arising from any act or neglect of any other Tenant, occupant or user of the Depot, nor from the failure of Landlord to enforce the provisions of any other lease of any other Tenant of the Depot.

14. Property Taxes.

Real Property Taxes: Landlord shall pay real property taxes and associated assessments applicable to the Depot, subject to reimbursement as a Common Area Operating Expense by Tenant in accordance with the provisions of Sections 1.09 and 6. Tenant shall also pay to Landlord the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Tenant or at Tenant's request. Real property taxes shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income, or estate taxes) imposed on the Depot or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agriculture, sanitary, fire, street, drainage or other improvement district thereof.

Personal Property Taxes: Tenant shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or elsewhere.

15. Assignment & Subletting.

Tenant shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in the Lease or in the Premises, without Landlord's prior written consent, which Landlord shall not unreasonably withhold (however, Landlord reserves the right to condition any approval to assign or sublet upon Landlord's determination that (a) the proposed assignee or subtenant shall conduct a business on the Premises of a quality substantially equal to that of Tenant and consistent with the general character of the other occupants of the Depot and not in violation of any exclusives or rights then held by other tenants, and (b) the proposed assignee or subtenant be at least as financially responsible as Tenant was expected to be at the time of the execution of this Lease or of such assignment or subletting, whichever is greater). Regardless of Landlord's consent, no assignment or subletting shall release Tenant of Tenant's obligations hereunder or alter the primary liability of Tenant to pay the rent and other sums due Landlord hereunder including Tenant's Share of Operating Expense Increase, and to perform all other obligations to be performed by Tenant hereunder. If Tenant's obligations under this Lease have been guaranteed by third parties, then an assignment or sublease, and Landlord's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof. The consent by Landlord to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Tenant or to any subsequent or successive assignment or subletting by the subtenant. Landlord shall be a party to, and have the right to review, any proposed subleases and associated documents. If Tenant shall request the consent of Landlord for a proposed assignment or subletting, then Tenant shall pay Landlord's reasonable costs and expenses incurred in connection therewith, including attorneys', architects', engineers', or other consultants' fees.

In the event of any default under this Lease, Landlord may proceed directly against Tenant, any guarantors or anyone else responsible for the performance of this Lease, including the subtenant, without first exhausting Landlord's remedies against any other person or entity responsible therefor to Landlord, or any security held by Landlord or Tenant. The discovery of the fact that any financial statement relied upon by Landlord in giving its consent to an assignment or subletting was materially false shall, at Landlord's election, render Landlord's said consent null and void.

16. Default; Breach; Remedies.

Tenant's Default/Breach: The occurrence of any one or more of the following events shall constitute a material default of this Lease by Tenant:

(a) The breach by Tenant of any of the covenants, conditions or provisions contained within this Lease, where such breach is of an incurable nature.

(b) The failure by Tenant to make any payment of rent or any other payment required to be made by Tenant hereunder, and as when due, where such failure shall continue for a period of three (3) days after written notice thereof from Landlord to Tenant. In the event that Landlord serves Tenant with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) The failure of Tenant to observe or perform any of the covenants, conditions, or provisions of this Lease to be observed or performed by Tenant, where such failure is curable in nature and continues for a period of three (3) business days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's noncompliance is such that more than three (3) business days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commenced such cure within said three (3) business day period and thereafter diligently pursues such cure to completion. Such three (3) business day notice shall constitute the sole and exclusive notice required to be given to Tenant under applicable Unlawful Detainer statutes.

(d) The discovery by Landlord that any financial statement given to Landlord by Tenant, or its successor in interest or by any guarantor of Tenant's obligation hereunder, was materially false.

Landlord's Default/Breach: Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event later than three (3) business days after written notice by Tenant to Landlord; provided, however, that if the nature of Landlord's obligation is such that more than three (3) business days are required for performance then Landlord shall not be in default if Landlord commences performance within such three (3) business day period and thereafter diligently pursues the same to completion.

Remedies: In the event of any material default or breach of this Lease by Tenant, Landlord may at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy which Landlord may have by reason of such default:

(a) Terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, recapture of any inducement such as abated rent periods, reasonable attorneys' fees, and any real estate commission actually paid; the worth at the time of award of the court having jurisdiction thereof the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Tenant proves could be reasonably avoided; that portion of the leasing commission paid by Landlord applicable to the unexpired term of this Lease.

(b) Maintain Tenant's right to possession in which case this Lease shall continue in effect whether or not Tenant shall have vacated or abandoned the Premises. In such event Landlord shall be entitled to enforce all of Landlord's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Tenant under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

Late Charges: Tenant hereby acknowledges that the late payment by Tenant to Landlord of Base Rent, Tenant's Share of Operating Expense Increase or other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Accordingly, if any installment of Base Rent, Operating Expense Increase, or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within **five business (5) days** after such amount shall be due, then, without any requirement for notice to Tenant, Tenant shall pay to Landlord a late charge equal to **six percent (6%)** of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder.

17. Estoppel Certificate.

Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge, and deliver to the requesting party a

statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Depot or of the business of Tenant. At the requesting party's option, the failure to deliver such statement within such time shall be conclusive upon such party that (i) this 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 Landlord is the requesting party, not more than one month's rent has been paid in advance.

18. Surrender; Move-out.

On the last day of the term hereof, or on any sooner termination, Tenant shall surrender the Premises to Landlord, which shall include the return of all keys and access control devices, in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by reasonable maintenance practices by Tenant. Tenant shall repair any damage to the Premises occasioned by the installation or removal of Tenant's trade fixtures, alterations, furnishings and equipment, and shall leave the HVAC equipment, power panels, electrical distribution systems, lighting fixtures and lamps, window coverings, wall and floor coverings, ceilings, plumbing fixtures, and all other building systems in the Premises in good operating condition.

19. Holding Over.

If Tenant, with Landlord's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Tenant, except that the rent payable shall be **125%** of the rent immediately preceding the termination date of this Lease, and all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

20. Substituted Premises - Intentionally Omitted

21. Landlord's Access.

Landlord and Landlord's agents shall have the right to enter the Premises at reasonable time for the purpose of inspecting the same, performing any services required of Landlord, showing the same to prospective purchasers, lenders, or tenants, making such alterations, repairs, improvements, or additions to the Premises or to the Depot as Landlord may reasonably deem necessary or desirable and the erecting, using, and maintaining of utilities, services, pipes, and conduits through the Premises and/or other premises as long as there is no unreasonable interference with Tenant's property or business use of the Premises. Landlord may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Landlord may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Landlord pursuant to this paragraph shall be without abatement of rent, nor shall Landlord have any liability to Tenant for the same.

Landlord shall have the right to retain keys to the Premises and to unlock all doors in or upon the Premises other than to files, vaults, and safes, and in the case of emergency to enter the Premises by any reasonably appropriate means, and any such entry shall not be deemed a forcible or unlawful entry or detainer of the Premises or an eviction. This Section shall in no event constitute a waiver of Tenant's right to quiet enjoyment of the Premises.

22. Security.

Tenant hereby acknowledges that Landlord shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Depot. Tenant assumes all responsibility for the protection of Tenant, its agents, and invitees and the property of Tenant and of Tenant's agents and invitees from acts of third parties. Nothing herein contained shall prevent Landlord, at Landlord's sole option, from providing security protection for the Depot or any part thereof, in which event the cost thereof shall be included within the definition of Common Area Operating Expenses.

Tenant shall not permit anyone, except in emergency or with Landlord's prior approval, to go upon the roof of the building nor to access electrical, utility, elevator, machinery or equipment rooms.

23. Signs.

Tenant shall not place any sign upon the Premises or the Depot without Landlord's prior consent. Under no circumstances shall Tenant place a sign on any roof of the Depot. Lettering on directory or monument signs, if applicable and which must be expressly approved herein, shall be provided by ☐ Landlord ☒ Tenant, and shall conform to the Depot sign criteria. In the event Tenant is permitted signage on the Building exterior, such signage shall be subject to the Depot sign criteria and in accordance with applicable codes, requirements, and governmental approval of the City in which the Building is located. The installation, maintenance, repair, and removal (including any underlying damage caused by removal) of such exterior signage shall be provided by Tenant, at Tenant's sole cost and expense. Failure to maintain such signage shall, at Landlord's option, result in forfeiture of the sign position(s) and removal of existing signage (at Tenant's cost).

24. Subordination.

This Lease, and any Option or first refusal granted hereby, at Landlord's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Depot. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed if Tenant is not in default and so long as Tenant shall pay the rent and observe and perform all of the provisions of this Lease, unless otherwise terminated pursuant to its terms. Tenant agrees to execute any documents required to effectuate an attornment, a subordination, or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust, or ground lease, as the case may be. Tenant's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Tenant hereunder without further notice to Tenant or, at Landlord's option, Landlord shall execute such documents on behalf of Tenant as Tenant's attorney-in-fact.

25. Options.

As used in this paragraph the word "Option" means the right or option to extend the term of this Lease or to renew this Lease;

Each Option granted to Tenant in this Lease is personal to the original Tenant and may be exercised only by the original Tenant while occupying the Premises. In the event that Tenant has multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised. All rights of Tenant under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Tenant's due and timely exercise of the Option, if, during the term of this Lease, (i) Tenant fails to pay Landlord a monetary obligation of Tenant for a period of thirty (30) days after such obligation becomes due (without any necessity of Landlord to give notice thereof to Tenant), or (ii) Tenant fails to commence to cure any curable default or breach of any other provision of this Lease within thirty (30) days after the date that Landlord gives notice to Tenant of such default and/or Tenant fails thereafter to diligently prosecute said cure to completion, or (iii) Landlord gives to Tenant three or more notices of default for the non-payment of rent, whether or not the defaults are cured, or (iv) if Tenant has committed any non-curable breach or is otherwise in default of any of the terms, covenants, and conditions of this Lease.

Any and all Options granted to Tenant, if any, are hereby prescribed as follows:

Option to Extend: So long as Tenant is not in default of this Lease, and has not been habitually in default during the initial or any previously extended Term as determined by Landlord in its sole discretion, Landlord hereby grants Tenant the right to extend the term of this Lease for two (2) additional periods of five (5) years each. Each successive option shall be deemed to have been automatically exercised by Tenant unless Tenant notifies Landlord, in writing, no later than ninety (90) days prior to the expiration of the preceding term, of its intent not to exercise the Option to Extend. The monthly Base Rent for these Option periods granted herein, if exercised, shall be increased annually in accordance with Section 7(a) of this Lease.

26. Damage or Destruction.

In the event the Premises sustains damages of less than fifty percent (50%) of its then replacement value, then Landlord shall repair such damage (except for Tenant's improvements, trade fixtures and equipment) as soon as reasonably possible, and this Lease shall continue in full force and effect, and Rent and other charges shall be abated in proportion to the degree to which Tenant's use of the Premises is impaired. In the event such damages are uninsured, Landlord may elect not to restore and repair the Premises, in which case this Lease shall be terminated. In either case, if such damages or destruction was caused by a negligent or willful act of Tenant, then Tenant shall make all necessary repairs and restorations at its sole cost and expense and this Lease shall continue in full force and effect with no abatement of rent.

In the event the Premises sustains damages of more than fifty percent (50%) of its then replacement value, (unless caused by a negligent or willful act of Tenant in which case Tenant shall make all necessary repairs and restorations at its sole cost and expense and this Lease shall continue in full force and effect with no abatement of rent), this Lease shall terminate effective on the date of such damage or destruction.

27. Eminent Domain.

Eminent domain proceedings resulting in the condemnation of part of the Premises herein that leave the remaining portion usable by Tenant for purposes of the business for which the Premises are leased will not terminate this Lease. If Tenant determines that the remaining portion is not reasonably usable, Tenant may terminate this Lease by giving written notice of termination to Landlord no more than ninety (90) days after the notice of condemnation or taking. The effect of such condemnation, should Tenant not terminate this Lease, will be to terminate this Lease as to the portion of the Premises condemned and leave it in effect as to the remainder of the Premises, and the Rent and all other expenses provided for herein shall be adjusted accordingly. Compensation awarded as a result of such condemnation shall belong to Landlord (including damages for the bonus value of Tenant's leasehold improvements), except to the extent that part of the award is allocated as damages to fixtures of the Depot which were furnished by Tenant, or expenses for Tenant's relocation.

28. General Lease Terms:

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.

Time of Essence. Time is of the essence with respect to the obligations to be performed under this Lease.

Additional Rent. All monetary obligations of Tenant to Landlord under the terms of this Lease, including but not limited to Tenant's Share of Operating Expense Increase and any other expenses payable by Tenant hereunder shall be deemed to be rent.

Prior Agreements; Amendments. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter, including but not limited to Letters of Intent, Proposals to Lease, and other documentation associated with the negotiation of this tenancy, shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Tenant hereby acknowledges that no real estate broker on this transaction nor the Landlord or any employee or agents of any said persons has made any oral or written warranties or representations to Tenant relative to the condition or use by Tenant of the Premises or the Depot and Tenant acknowledges that Tenant assumes all responsibility regarding the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease, including but not limited to the Occupational Safety Health Act and the Americans with Disabilities Act ("ADA"); However, Tenant shall not be responsible for ADA and/or CAL OSHA related requirements which may or may not have been addressed prior to the initiation of this Lease.

Notices. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified or registered mail, and shall be deemed sufficiently given if delivered or addressed to Tenant or to Landlord at the address noted in Section 1.17. Mailed notices shall be deemed given upon actual receipt at the address required, or forty-eight hours following deposit in the mail, postage prepaid, whichever first occurs. Either party may by notice to the other specify a different address for notice purposes. A copy of all notices required or permitted to be given to Landlord hereunder shall be concurrently transmitted to such party or parties at such addresses as Landlord may from time to time

hereafter designate by notice to Tenant.

Waivers. No waiver by Landlord or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Tenant of the same or any other provision. Landlord's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant. The acceptance of rent hereunder by Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent.

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.

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. If it shall be adjusted that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as if it was not legally required to pay under the provisions of this Lease.

Covenants and Conditions. Each provision of this Lease performable by Tenant shall be deemed both a covenant and a condition.

Binding Effect; Jurisdiction. This Lease shall bind the parties, their personal representatives, successors, and assigns. This Lease shall be governed by the laws of the State where the Depot is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Depot is located.

Attorney's Fees. If either party brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, trial or appeal thereon, shall be entitled to his reasonable attorneys' fees to be paid by the losing party as fixed by the court in the same or a separate suit, and whether or not such action is pursued to decision or judgment. Landlord shall be entitled to reasonable attorneys' fees and all other costs and expenses incurred in the preparation and service of notice of default (including but not limited to notices required under the Unlawful Detainer statutes) and consultations in connection therewith, whether or not a legal transaction is subsequently commenced in connection with such default. The costs, salary and expenses of the City Attorney and members of his office in enforcing this contract on behalf of the City of San Bernardino shall be considered as "attorney's fees" for the purposes of this paragraph".

Consents. Wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

Guarantor. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Tenant under this Lease.

Authority. The individuals executing this Lease on behalf of the Landlord represent and warrant to Tenant that they are fully authorized and legally capable of executing this Lease on behalf of Landlord and that such execution is binding upon all parties holding an ownership interest in the Depot. If Tenant is a corporation, trust, or general or limited partnership, Tenant, and each individual executing this Lease on behalf of such entity represent and warrant that such individual is duly authorized to execute and deliver this Lease on behalf of such entity.

Conflict. Any conflict between the printed provisions, Exhibits, or Addenda of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

Multiple Parties. If more than one person or entity is named as either Landlord or Tenant herein, except as otherwise expressly provided herein, the obligations of the Landlord or Tenant herein shall be the joint and several responsibility of all persons or entities named herein as such Landlord or Tenant, respectively.

ATTACHMENTS:

Attached hereto are the following documents which constitute a part of this Lease:

Exhibit "A" - Rules and Regulations
Exhibit "B" - [Intentionally omitted]
Exhibit "C" - Space Plan

ADDITIONAL TERMS:

29. Tenant Improvements. Landlord shall provide tenant improvements and other site improvements for the Premises based upon working drawings and specifications mutually agreed upon by Landlord and Tenant and prepared in accordance with the Space Plan and Specifications, attached hereto as Exhibit "C". The cost of such improvements, including but not limited to architects ' and engineers' fees, cost of permits, materials, labor, general contractor's fees, overhead, Landlord's construction management fee, and other costs related to the construction of the improvements (but shall not include costs for Tenant's cabling, furniture, fixtures, or equipment) shall be paid for by Landlord initially, and Tenant shall reimburse Landlord for such costs, with \$100,000 paid up front in a lump sum due at the beginning of construction, and the remaining balance amortized over the initial term of the Lease and payable monthly concurrent to other rents due. The cost of the tenant improvements is currently estimated to be approximately \$230,000. In addition to the tenant improvements, the parties have identified and estimated the cost of certain necessary site improvements outside of the Tenant's actual leased space that are necessary or beneficial to Tenant's use and occupancy of the Premises. Landlord has agreed to contribute \$45,000 toward the cost of these site improvements, which will not be reimbursed by Tenant. By way of example only using estimated figures (which may not be accurate and are dependent upon the final scope of work and actual costs incurred):

Total improvements costs:	\$275,000.00
Less site improvement costs paid by Landlord:	\$45,000.00
Total tenant improvement costs reimbursed by Tenant:	\$230,000.00
Up front lump sum due from Tenant:	\$100,000.00
Balance owed by Tenant:	\$130,000.00

Amortized monthly over 5 years: \$2,166.67 per month (Amortization Payment)

The Amortization Payment each month shall be paid separately and directly to SANBAG regardless of any agent relationship SANBAG may have for collection of rents.

In the event

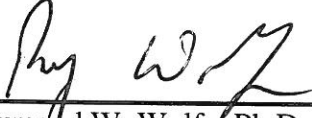
LANDLORD AND TENANT HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE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

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE REAL ESTATE BROKERS, OR ANY OF THEIR AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO. THE PARTIES SHALL RELY SOLELY UPON THE ADVISE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

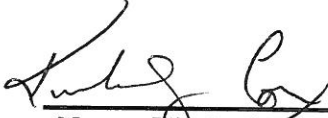
----- Signatures on next page -----

San Bernardino Associated Governments

**Local Agency Formation Commission
for San Bernardino County (LAFCO)**

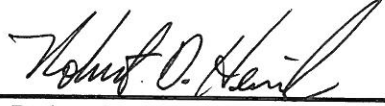
By: 
Raymond W. Wolfe, Ph.D.
Executive Director

Date: 8/1/16

By: 
Name: Kimberly Cox
Title: Commission Chair

Date: 7-20-16

APPROVED AS TO FORM

By: 
Robert D. Herrick
Assistant General Counsel

CONCURRENCE

By: 
Jeffrey Hill
Procurement Manager

EXHIBIT "A"

RULES AND REGULATIONS

GENERAL RULES

1. Tenant shall not suffer or permit the obstruction of any Common Areas.
2. Landlord reserves the right to refuse access to any persons Landlord in good faith judges to be a threat to the safety, reputation, or property of the Depot or its occupants.
3. Tenant shall not make or permit any noise or odors that annoy or interfere with other Tenants or persons having business within the Depot.
4. Tenant shall not keep animals or birds within the Depot (unless a part of approved use as per Section 9 of this Lease), and shall not bring bicycles, motorcycles, or other vehicles into areas not designated as authorized for same.
5. Tenant shall not make, suffer, or permit litter except in appropriate receptacles for that purpose. All garbage and refuse shall be placed in containers designated for refuse collection, and such items must fit entirely within the receptacles. All large boxes and other refuse shall be broken down prior to placing in the containers. The outside areas immediately adjoining the Premises shall be kept clean and free from dirt and rubbish by Tenant to the satisfaction of Landlord.
6. Tenant shall not alter any exterior lock or install new or additional locks or bolts on exterior doors without providing Landlord copies of same.
7. Tenant shall not deface the walls, partitions, or other surfaces of the premises or the Depot.
8. Tenant shall not employ any service or contractor for services or work to be performed in the Building, except as approved by Landlord.
9. Tenant shall return all keys, including duplicates, at the termination of its tenancy and shall be responsible for the cost of replacing any keys that are lost.
10. No window coverings, shades, or awnings shall be installed or used by Tenant without Landlord's prior approval.
11. No Tenant, employee, or invitee shall go upon the roof of the Building without Landlord's prior approval.
12. Smoking shall be restricted to designated smoking areas, if any, and then not near, doors, windows, or other entrances, exits, or openings to other units within the Depot
13. Tenant shall not install, maintain, or operate any vending machines upon the Premises without Landlord's written consent.
14. The premises shall not be used for lodging or manufacturing, cooking, or food preparation, except as an approved Use per Section 9 of this Lease.
15. Tenant shall comply with all safety, fire protection, and evacuation regulations established by Landlord or any applicable governmental agency.
16. Landlord reserves the right to waive any one of these rules or regulations, and/or as to any particular Tenant, and any such waiver shall not constitute a waiver of any other rule or regulation or any subsequent application thereof to such Tenant.
17. Tenant assumes all risks from theft or vandalism and agrees to keep its Premises locked as may be required.
18. Landlord reserves the right to make such other reasonable rules and regulations as it may from time to time deem necessary for the appropriate operation and safety of the Depot and its occupants. Tenant agrees to abide by these and such rules and regulations.
19. Signs shall conform to sign criteria established by Landlord and shall not exceed the quantity or dimensions authorized by Landlord. No signs (other than signs that strictly conform to sign criteria), placards, pictures, advertisements, names, or notices shall be inscribed, displayed, painted, or affixed on or to any part of the outside or inside of the Building or within the Common Areas of the Depot. Landlord shall have the right to remove any such non-conforming signs without notice to Tenant, at the expense of Tenant.
20. Tenant shall not disturb, solicit, or canvass any other Tenant within the Depot.
21. Tenant, its contractors, employers, or invitees, shall not loiter in the Common Areas of the Depot or in any way obstruct the entrances and driveways.
22. No antenna, aerial, discs, satellite dishes, or other such device shall be erected on the roof or exterior walls of the Building without Landlord's express consent.

PARKING RULES

1. Parking areas shall be used only for parking by vehicles no longer than full size, passenger automobiles, non-commercial pick-up trucks, and sport utility vehicles herein called "Permitted Size Vehicles". Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles".
2. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Landlord for such activities.
3. Parking stickers or identification devices shall be the property of Landlord and be returned to Landlord by the holder thereof upon termination of the holder's parking privileges. Tenant will pay such replacement charge as is reasonably established by Landlord for the loss of such devices.
4. Landlord reserves the right to refuse the sale or issuance of identification devices to any person or entity that willfully refuses to comply with the applicable rules, regulations, laws, and/or agreements.
5. Landlord reserves the right to relocate all or a part of parking spaces, and to reasonably allocate them between compact and standard size spaces, as long as the same complies with applicable laws, ordinances, and regulations.
6. Users of the parking area will obey all posted signs and park only in the areas designated for vehicle parking.
7. Unless otherwise instructed, every person using the parking area is required to park and lock his own vehicle. Landlord will not be responsible for any damage to vehicles, injury to persons, or loss of property, all of which risks are assumed by the party using the parking area. No overnight parking shall be permitted.
8. The maintenance, washing, waxing, or cleaning of vehicles in the parking structure or Common Areas is prohibited.
9. Tenant shall be responsible for seeing that all of its employees, agents, and invitees comply with the applicable parking rules, regulations, laws, and agreements.
10. Landlord reserves the right to modify these rules and/or adopt such other reasonable and non-discriminatory rules and regulations as it may deem necessary for the proper operation of the parking area.
11. Such parking use as is herein provided is intended merely as a license only and no bailment is intended or shall be created hereby.
12. Violation of any of the parking rules or regulations may result, without notice, in the towing of any of Tenant's vehicles (or Tenant's employees, invitees, contractors, or visitors), the cost of which (including impound fees) shall be the sole responsibility of Tenant.

EXHIBIT "B"

[Intentionally omitted]

EXHIBIT "C" SPACE PLAN

