RESOLUTION NO. 16-06

RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK BOARD OF DIRECTORS PROVIDING FINAL APPROVAL OF AN INFRASTRUCTURE STATE REVOLVING FUND PROGRAM FINANCING IN AN AMOUNT NOT TO EXCEED $25,000,000 FOR THE CITY OF SANTA CRUZ

WHEREAS, the California Infrastructure and Economic Development Bank ("IBank") established and existing pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 and following) (the "IBank Act"), for the purpose of, among other things, providing financial assistance to eligible projects; and

WHEREAS, the City of Santa Cruz, a municipal corporation, (the "Borrower") is seeking financing under the Infrastructure State Revolving Fund Program (the "ISRF Program") requesting $25,000,000 for financing eligible project costs of certain components of the Santa Cruz Safe and Reliable Drinking Water Project, as more fully described in Attachment A hereto (the "Project"); and

WHEREAS, the Borrower and the Project meet all applicable eligibility requirements, for infrastructure projects, mandated by the IBank Act and by the Criteria, Priorities and Guidelines for the Selection of Projects for Financing under the ISRF Program, dated February 23, 2016 (the "Criteria"); and

WHEREAS, pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and those U.S. Treasury Regulations implementing such provisions (collectively, "Federal Tax Law"), any funds incurred or expended by the Borrower for the purpose of financing costs associated with the Project on a long-term basis using proceeds of tax-exempt bonds or other tax exempt obligations may be reimbursed from the proceeds of the ISRF Financing (as defined below) provided that the applicable requirements of Federal Tax Law are met (the "Reimbursable Expenditures").

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Infrastructure and Economic Development Bank (the "Board"), as follows:

Section 1. The above recitals are true and correct.

Section 2. Pursuant to this resolution (this "Resolution"), the Board authorizes and approves providing a financing under the ISRF Program in a principal amount not to exceed $25,000,000 to the Borrower for the costs of the Project (the "ISRF Financing"), subject to the execution of a financing agreement between IBank and the Borrower and associated loan documentation (collectively, the "Financing Agreement"). Such Financing Agreement shall reflect the Board-approved financing terms and conditions as set forth in Attachment B hereto.

Section 3. All actions heretofore taken by the officers and employees of IBank with respect to the consideration and approval of the ISRF Financing are hereby approved, confirmed and ratified. IBank's Executive Director (the "Executive Director") or the Executive Director's

assignees, each acting alone, is hereby authorized and directed, jointly and severally, to perform their duties, provide funding, take actions and execute and deliver the Financing Agreement and any and all other financing documents and instruments which they may deem necessary or desirable in order to (i) effect the financing of the Project; (ii) facilitate the transactions contemplated by the ISRF Financing; and (iii) to otherwise effectuate the purposes of this Resolution.

Section 4. This Resolution shall not be construed as an unconditional commitment to finance the Project, but rather IBank approval pursuant to this Resolution is conditioned upon entry by IBank and the Borrower into the Financing Agreement, in form and substance satisfactory to IBank, within 180 days from the date of its adoption. Such satisfaction is conclusively evidenced by IBank's execution and delivery of same.

Section 5. For purposes of assisting the Borrower in seeking reimbursement for any Reimbursable Expenditures pursuant to Federal Tax Law, the Board hereby declares its reasonable official intent to use proceeds of tax-exempt bonds to reimburse the Borrower for any such Reimbursable Expenditures. This declaration is made solely for purposes of establishing compliance with applicable requirements of Federal Tax Law. This declaration does not bind IBank to provide the ISRF Financing or to reimburse the Borrower any of its Project expenditures.

Section 6. This Resolution shall take effect immediately upon its adoption.

PASSED, APPROVED, AND ADOPTED at a meeting of the Board of Directors of the California Infrastructure and Economic Development Bank on March 22, 2016, by the following vote:

AYES: AVDIS, ORTEGA, JIMENEZ, LUCHETTI

NOES:

ABSENT: GORDON

ABSTAIN:

By: _____
Teveia R. Barnes, Executive Director

ATTEST

By: _____
William D. Pahland, Jr.,
Secretary of the Board of Directors

ATTACHMENT A

Description of the Project

Generally, the Project involves improvements to the City of Santa Cruz's water system infrastructure. More specifically, the Project consists of the following components:

- Replacement of approximately 17,200 linear feet of water pipe primarily located parallel and south of Highway 1 from the Wilder Ranch Headquarters to Scaroni Road.
- Installation of a well on Tait Street, developing a test well, and thereafter designing and constructing the permanent well.
- Design and construction of an iron and manganese pressure filter vessel, two 35,000 gallon reclaim tanks, a 450 square foot block house and appurtenant underground storm water drainage for the Beltz Well.
- Rehabilitation and upgrade of six dual media granular filters at the Graham Hill Water Treatment Plant.
- Removal of a temporary bolted steel water tank and construction of a new permanent water tank at the Bay Street Reservoir site.
- Replacement of water mains on Soquel Avenue (1) between the San Lorenzo River Bridge and Ocean Street, and (2) between South Branciforte Avenue and Morrissey Boulevard.
- Replacement of two large diameter emergency isolation valves in the Gravity Trunk Main running between the Graham Hill Water Treatment Plant and the intersection of Ocean Street and Kennan Street.
- Other components necessary or desirable in connection with an infrastructure project of this type and that are consistent with the applicable requirements of the IBank Act and the Criteria.

ATTACHMENT B

Financing Terms

1. **Applicant/Borrower:** City of Santa Cruz
2. **Project:** A Portion of Santa Cruz Safe and Reliable Drinking Water Project
3. **Amount of ISRF Program Financing:** $25,000,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** Lien on Net Revenues on parity with the lien of the 2014 Bonds
6. **Interest Rate:** 3.24%
7. **Fees:** The City to pay an origination fee of 1.00%, $250,000, upon loan closing, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** The IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution in conditioned upon entry by IBank and the City into an ISRF Program financing agreement, in form and substance satisfactory to IBank.
9. **Limited Time**: The Board's approval expires 180 days from the date of its adoption. Thus, the City and IBank must enter into the ISRF Program financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to provide the ISRF Program financing to the City or consider extending the approval period.
10. **Special Covenants, Terms and Conditions:** The financing agreement shall include, among other things, the following covenants:
    a. The City will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.20 times aggregate annual debt service ratio for obligations on parity with the ISRF Program financing.
    b. The City will be prohibited from issuing future debt senior to the IBank financing.
    c. Parity debt will be allowed if Net Revenues amount to at least 1.20 times the MADS taking into consideration the MADS payable in any Fiscal Year on the proposed parity debt.
    d. Subordinate debt ("Subordinate Debt") will be allowed if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed Subordinate Debt.
    e. The City will covenant against reducing rates below levels used for all debt service payable from the Fund, and to take actions to increase rates or fund a rate stabilization fund if the debt service coverage ratios fall below required levels.
    f. The City to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
    g. The City to submit audited financial statements to IBank annually within 240 days of fiscal year end.
    h. The City to submit to IBank annual certifications demonstrating compliance with foregoing covenants and other terms and conditions of the ISRF Program financing agreement with the City's audited financial statements.
    i. The City to submit other information to IBank as may be requested from time to time.

j. As a condition precedent to initial disbursement of funds, the City must adopt a new water rate structure that fully complies with Prop 218.

k. In implementing future rates and charges, the City covenants to ensure that its rate structure conforms to the requirements of Proposition 218 (Prop 218) and the statutes implementing it and any case law interpreting it. Further, the City to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

l. Condition precedent to entry into financing agreement that the City successfully complete a passive validation action with respect to its authority to incur an obligation for the proposed financing under its authority under state law.

m. Receipt by IBank of a favorable opinion from bond counsel as to satisfaction of the 2014 parity debt conditions will be required as a condition of the ISRF Program loan.