EAST PALO ALTO CITY COUNCIL
SPECIAL MEETING AMENDED AGENDA

Tuesday, June 9, 2026, 6:00 PM
EPA Government Center
2415 University Avenue, First Floor
East Palo Alto, CA 94303

NOTICE

This meeting will be held virtually and in- person at the Council Chambers located on 2415 University Ave, First Floor East Palo Alto, CA 94303. The virtual portion of this City Council meeting will be conducted in accordance with City of East Palo Alto Resolution adopted pursuant to Assembly Bill 361.

The public may participate in the City Council Meeting via Zoom Meeting or by attending in-person in the Council Chambers at 2415 University Ave, First Floor East Palo Alto, CA 94303. Community members may provide comments by emailing cityclerk@cityofepa.org, submitting a speaker card at the meeting, or using the **RAISE HAND** feature when the Mayor or City Clerk call for public comment. Emailed comments should include the specific agenda item on which you are commenting.

Please click this URL to join

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+ 1 312 626 6799 or
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+ 1 301 715 8592

Webinar ID: 834 4078 7322

International numbers available: https://zoom.us/u/aMWYF4KT

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1. **CALL TO ORDER AND ROLL CALL**

2. **APPROVAL OF THE AGENDA**

3. **PUBLIC COMMENT**

4. **PUBLIC HEARINGS**

4.1 Temporary Housing Development Incentive Program Ordinance Introduction

Recommendation:

Staff recommends that the City Council adopt a resolution to:

1. Waive the First Reading and introduce an uncodified ordinance titled "Temporary Housing Development Incentive Program" ("THDIP") to encourage the construction of new housing by reducing inclusionary housing obligations for residential developments, including the residential component of mixed-use projects, effective until December 30, 2027 (with complete Vertical Building Permit application due by January 30, 2028); or until some other sunset date approved by the Council;

2. Direct the City Manager or designee to adopt Administrative Guidelines for the implementation of the THDIP; and

3. Find that the proposed actions do not constitute "projects" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines sections 15378(b)(4) and 15378(b)(5) (governmental, administrative or financial activity) and Section 15061(b)(3) (common sense).

5. **POLICY AND ACTION**

5.1 Three-Year Water Lease Amendment and Restatement

Recommendation: Staff recommends that the City Council adopt a resolution:

1. Authorizing the City Manager to negotiate and execute, in a form

approved by the City Attorney, a three -year amendment and restatement of the 2001 agreement with American Water Services, Inc., which was assigned to Veolia Water North America-West, LLC in 2020; and

2. Finding that the proposed action—a water system lease amendment and restatement—is not a "project" under the California Environmental Quality Act ("CEQA"), pursuant to CEQA Guidelines sections 15378(b)(4) and (5), in that it is a governmental fiscal, organizational or administrative activity that will not result in direct or indirect changes in the environment.

6. CLOSED SESSION

6.1 CONFERENCE WITH LEGAL COUNSEL—EXISTING LITIGATION (Government Code Section 54956.9(d).) County of San Mateo, et al. v. State of California, et al., San Francisco Superior Court Case No. CPF-25-519270.

7. ADJOURNMENT

This AGENDA is posted in accordance with Government Code Section 54954.2(a)

This Notice of Availability of Public Records: All public records relating to an open session item which are not exempt from disclosure pursuant to the Public Records Act, that are distributed to the majority of the City Council will be available for public inspection at the City Clerk's Office, 2415 University Avenue, East Palo Alto, CA at the same time that the public records are distributed or made available to the City Council. Such documents may also be available on the East Palo Alto website www.cityofepa.org subject to staff's ability to post the documents prior to the meeting. Information may be obtained by calling (650) 853-3100.

The City Council meeting packet may be reviewed by the public in the Library or the City Clerk's Office. Any writings or documents pertaining to an open session item provided to a majority of the City Council less than 72 hours prior to the meeting, shall be made available for public inspection at the front counter at the City Clerk's Office, 2ND Floor, City Hall, 2415 University Avenue, East Palo Alto, California 94303 during normal business hours. Information distributed to the Council at the Council meeting becomes part of the public record. A copy of written material, pictures, etc. should be provided for this purpose.

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DECLARATION OF POSTING

This Notice is posted in accordance with Government Code §54954.2(a) or §54956. Members of the public can view electronic agendas and staff reports by accessing the City website. Under penalty of perjury, this Agenda was posted to the public at least 72 hours prior to the meeting.

POSTED: June 3, 2026
AMENDED: June 5, 2026

ATTEST:

James Colin
City Clerk

EAST PALO ALTO CITY COUNCIL STAFF REPORT

DATE: June 9, 2026

TO: Honorable Mayor and Members of the City Council

VIA: Melvin E. Gaines, City Manager

BY: Yajaira Morales, Housing Project Manager
Karen Camacho, Housing & Economic Development Manager
Elena Lee, Planning Manager
Natasha Raiburn, Interim Community & Economic Development Director
Shiri Klima, Assistant City Manager

SUBJECT: Temporary Housing Development Incentive Program Ordinance Introduction

Recommendation

Staff recommends that the City Council adopt a resolution to:

1. Waive the First Reading and introduce an uncodified ordinance titled “Temporary Housing Development Incentive Program” (“THDIP”) to encourage the construction of new housing by reducing inclusionary housing obligations for residential developments, including the residential component of mixed-use projects, effective until December 30, 2027 (with complete Vertical Building Permit application due by January 30, 2028), or until some other sunset date approved by the Council;

2. Direct the City Manager or designee to adopt Administrative Guidelines for the implementation of the THDIP; and

3. Find that the proposed actions do not constitute “projects” with the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines sections 15378(b)(4) and 15378(b)(5) (governmental, administrative or financial activity) and Section 15061(b)(3) (common sense).

Alignment with City Council Strategic Plan

This recommendation is primarily aligned with:

Priority: Comprehensive Housing
Priority: Land Use, Economic, and Workforce Development

Executive Summary

On March 24, 2026, Council hosted a study session on the current inclusionary zoning ordinance that included a three-part discussion. First, staff described the San Mateo County Grand Nexus and Feasibility Study, which is evaluating the financial feasibility of development requirements across multiple jurisdictions, including East Palo Alto. The study will provide jurisdiction-specific data regarding inclusionary housing, development impact fees, and market conditions affecting housing production. Outcomes and potential updates to East Palo Alto Municipal Code Chapter 18.37 are expected in late spring 2027.

Second, the study session covered the current inclusionary housing ordinance, including requirements, outcomes and comparison to nearby jurisdictions. Finally, the study session offered the option to adopt a Temporary Housing Development Incentive Program ("THDIP") to temporarily reduce inclusionary requirements while the Grand Nexus and Feasibility Study is completed. Staff and our consultant reviewed a variety of programmatic considerations for temporary and/or permanent changes to the inclusionary housing requirements. In the end of that study session, the City Council requested staff return with a draft THDIP ordinance for Council's consideration. The Council also requested some additional information on housing needs, housing affordability, pipeline projects and related elements, many of which are addressed in this report.

Staff now presents a THDIP ordinance for Council's consideration. Staff recommends a specific program design, informed by the Council discussion and additional research. As there was no consensus among Councilmembers on potential THDIP parameters, the draft ordinance also provides a bracketed range of options for key program elements (see underlined text in the draft ordinance). Staff is proposing the following components:

Proposed THDIP Program Components

Component	Staff Recommendation
Purpose	Temporarily incentivize new housing production by reducing inclusionary housing requirements while the City completes the Grand Nexus and Feasibility Study and considers permanent updates to the Inclusionary Housing Ordinance.
Program Duration	Effective until **December 30, 2027** (with complete Vertical Building Permit application due by January 30, 2028).
Rental Projects	60% IHO Reduction - Developers may provide either **8% of units at 50% AMI (Very Low Income)** or **15% of units at 60% AMI (Low Income)**.

Component	Staff Recommendation
Ownership Projects	60% IHO Reduction - Developers may provide either **7% of units at 80% AMI (Median Income)** or **9% of units at 120% AMI (Moderate Income)**.
Small Project Exemption	Projects with **10 units or fewer** would be exempt from inclusionary housing requirements.
SB 330 Projects	Eligible to participate if they amend their inclusionary obligations and become subject to current development impact fees; alternatively, they may retain existing obligations.
Development Agreement Projects	Excluded from THDIP and would require separate Council action to modify existing obligations.
Off-Site Compliance Projects	Excluded from THDIP due to the project-specific nature of their affordability agreements.
Eligibility Requirements	Projects must obtain approval of a THDIP amendment, apply for a qualifying vertical building permit, and pay applicable permit fees before the program expires.
Program Elements Unchanged	Existing rules related to affordability monitoring, in-lieu fee calculations, unit standards, construction timing, and long-term affordability restrictions remain in effect.

Staff seeks Council direction in the above-listed components. Staff also seeks Council introduction of the THDIP ordinance. Should the City Council provide such direction and introduce the ordinance, staff would return for adoption of the ordinance, which would be effective thirty days thereafter.

Background

Inclusionary Housing Policies Generally and East Palo Alto's Ordinance Specifically

Inclusionary housing policies typically require residential developers to provide a percentage of units at below-market prices or rents as part of new development. The City's Inclusionary Housing Ordinance ("IHO") is codified in Chapter 18.37 of the East Palo Alto Municipal Code. The IHO was originally adopted in 1994 and has been amended several times, most recently in 2019, with minor amendments in 2025. The City of East Palo Alto ("City" or "EPA") first adopted Inclusionary Housing guidelines ("Guidelines") as a companion document to the IHO on October 20, 2020. The last update to the Guidelines was July 16, 2025. The Guidelines are intended to assist developers by addressing the key components of the IHO.

Chapter 18.37 applies to newly constructed residential development, including the residential component of mixed-use projects, subject to certain exemptions. Accessory

dwelling units and lot split projects developed pursuant to Senate Bill 9 are currently exempt.

For residential developments consisting of five or more units, the IHO requires that 20 percent of the units be provided as inclusionary units on the same site as the development unless the City Council approves an alternative compliance option (such as paying in-lieu fees). For developments with fewer than five units, the developer chooses to either pay an in-lieu fee or provide one inclusionary unit.

Rental projects must provide inclusionary units at multiple income levels, including units affordable to households at approximately 35 percent, 50 percent, and 60 percent of area median income ("AMI"). Ownership projects must provide units affordable to households at approximately 80 percent and 120 percent of AMI. Affordability restrictions are generally required in perpetuity.

The IHO allows alternative compliance options with City Council approval, including off-site construction, payment of in-lieu fees, accessory dwelling units, or other methods that provide an equivalent or greater public benefit. When alternative compliance is approved, the required percentage increases to 25 percent.

Table 2 in Attachment 1 compares the current program to the proposed THDIP.

Analysis

This section reviews the draft THDIP uncodified ordinance. The discussion is organized by topic and correlates to Tables 1 and 2 in Attachment 1, which provides a summary of staff's recommendations and options for Council's consideration. For each topic, there is an overview, a review of regional trends, notes about current pipeline projects, staff's recommendation, and some alternatives for Council's consideration. Pipeline projects consist of projects with an approved or entitled application, or a pending application or pre-application, that are not yet built. In some instances, discussion of regional trends will reference the cities of Redwood City and the City/County of San Francisco's temporary incentive programs, which were discussed in more detail on March 24th. In other instances, it will reference County or regional inclusionary housing trends.

Topic 1: Duration of the THDIP

THDIP is a temporary program, intended to incentivize development for an interim period. To provide opportunity and certainty for new or pipeline projects, the expiration of the THDIP should have a certain end date that provides applicants opportunity to utilize the program. The THDIP is intended to provide a development incentive for the interim period while the Grand Nexus and Feasibility Study and related legislative amendments are developed. Staff anticipate legislative updates to be considered in late spring of 2027. Legislative changes could be effective mid- to late-summer 2027, or later.

THDIP is targeting projects that are initiating construction, not simply advancing through the permitting process. To advance a project under the THDIP, projects must apply for a THDIP Amendment, apply for a Vertical Building Permit, and pay the relevant building permit fees before the program expires. The term Vertical Building Permit refers to foundation and/or core/shell, excluding grading and demolition permits. Generally, these permits require measurable investment in design, fees and strongly signal the start of construction.

For administrative purposes, the THDIP also provides an additional 30-day period, whereby applicants must complete the qualifying Vertical Building Permit application, if deemed incomplete at application. The 30-day period is intended to remedy any unforeseen administrative burden.

Regional Trends: The City of Redwood City's Affordable Housing Incentive Program, which offered a temporary reduction to inclusionary requirements starting November 2025, expires on June 30th, 2027. Redwood City allows projects entitled after the effective date of the ordinance to participate.

The City and County of San Francisco ("San Francisco")'s program sunsets May 1, 2029, approximately 5.5 years after the effective date. However, the San Francisco program is limited to projects that were fully entitled prior to the effective date.

> **Staff Recommendation:** The duration of the THDIP can be through January 30, 2028, past the Grand Nexus and Feasibility timeline, to provide certainty and eliminate interface with Council deliberations on changes to the IHO.

Alternatives: Council could limit the program to twelve months after the effective date or extend the program beyond staff's recommended timeframe.

Topic 2 & 3: Housing Projects or Mixed-Use Projects that May Not Avail Themselves of the THDIP

Projects that are entitled under SB 330, also known as the Housing Crisis Act of 2019, codified in Government Code Chapter 654, are afforded certain rights including limiting the number of hearings, shortening of Permit Streamlining Act timelines, and exemption from any ordinances, policies, and standards adopted after the preliminary application was submitted pursuant to Section 65941.1, except where the housing development has not commenced construction within two and one-half years following the date that the project received final approval. SB 330, however, does not prevent localities from reducing fees or other obligations, subsequent to the project's approval.

Applicants who want additional certainty that their entitlements would be subject to the policies, rules, regulations, and conditions of approval applicable to the project at the time of approval, can also request a Development Agreement ("DA"). The DA, which is both an ordinance and a contract with the City, would lock in those provisions regardless of any subsequent changes to City policies, rules, and regulations after project approval. Generally, these agreements include a carefully crafted set of agreements, including site-specific inclusionary housing requirements. The DA and entitlements are typically approved concurrently by the City Council. The City has two projects that have DAs: Woodland Park Euclid Improvements and the University Circle Office project. Only the former includes housing.

Similarly, projects proposing to fulfill their inclusionary housing requirements through off-site compliance would require Council approval due to the site-specific nature of these agreements.

Regional Trends: The City of Redwood City excluded several project types from their temporary incentive program including: development projects requiring special discretionary approval, initiated by City Council, that involved General Plan Amendments; projects regulated by development agreements; and projects that have already paid development impact fees.

The City/County of San Francisco ("San Francisco") excluded several project types from their temporary incentive program including projects regulated by development agreements; projects that chose to comply through land dedication; projects that have already paid impact fees; and projects that are approved after November 1, 2023.

Neither jurisdiction identified unique requirements for projects entitled under SB 330.

San Francisco is also considering a plan to reduce their inclusionary housing requirements from 15 percent to 5 percent and exempt projects with 25 or fewer units from providing on-site affordable housing altogether. This plan would be paired with a ballot initiative that would more than double San Francisco's annual contribution to its Housing Trust Fund,

used to finance and preserve affordable units. If approved by voters, San Francisco would increase its annual budget for affordable housing from $52 million to $125 million.

Development Pipeline Considerations: East Palo Alto has a total of seven SB 330 projects in the pipeline, five of which are in pre-application proposing entitlements under SB 330 and two of which already have secured entitlement approvals under SB 330.

There is only one residential project that is controlled by a DA. In the existing DA for this project, the developer selected and the Council approved an offsite inclusionary housing option, which requires the developer to ensure the production of 78 studio and one-bedroom units for seniors at income levels ranging from 35 to 60 percent of the area median income. Stating financial difficulty meeting this obligation, the developer is proposing amendments to the DA that, among other things, would modify the inclusionary housing obligation. As of the writing of this staff report, the City Council is scheduled to consider these amendments on June 16, 2026.

Staff Recommendations: Provide two options for projects entitled under SB 330:

1. Maintain current entitlements including their existing inclusionary housing compliance plans; or

2. Update their entitlement obligations to the inclusionary housing requirements in the THDIP but then be subject to current development impact fees.

THDIP projects that are controlled by DAs or elect to fulfill inclusionary requirements by providing units off-site would be excluded. These projects may seek site-specific amendments to their site-specific agreements from Council.

Alternatives: The City Council could not allow projects entitled under SB 330 to seek reductions under the THDIP program, or the Council could allow projects entitled under SB 330 to qualify for the THDIP with no additional requirements. The City Council could also include projects controlled by DAs, projects electing to fulfill inclusionary requirements by providing off-site units, or both.

Topics 4 and 5: Exempting Smaller Projects

Currently, Chapter 18.37 (EPA's IHO) applies to most projects with one or more units. In contrast, many programs in the region exempt smaller projects from inclusionary requirements. The THDIP could temporarily exempt projects below a certain unit count from the inclusionary requirements to incentivize this construction type. To exempt smaller projects, the City Council must define exactly which projects are exempt.

Regional Trends: In San Mateo County, most jurisdictions exempt smaller projects from inclusionary housing requirements; however, the definitions of smaller projects vary.

- 9 jurisdictions exempt projects less than 5 units
- 5 jurisdictions exempt projects less than 7 to 11 units
- 3 jurisdictions exempt projects less than 20 or 25 units

Recently, the regional planning body Metropolitan Transportation Commission ("MTC") established regional standards for inclusionary housing programs which suggested that programs should apply to all projects with more than 10 units.

Development Pipeline Considerations: More than half the projects in the City's current pipeline propose a total of 25 units or less. Most of these projects are under ten units. While the proposed temporary exemption for smaller projects would apply to half of the projects in the pipeline, it would only exempt a small number of the total units in the pipeline (3%). Temporarily exempting smaller projects could enable these projects to move forward; however, it would not meaningfully reduce the ratio of affordable and market-rate units in the pipeline.

The table in Attachment 2 provides an overview of the inclusionary compliance options currently selected by each pipeline project, based on their proposed Inclusionary Housing Plan submittals or IHO requirements.

> **Staff Recommendation:** Staff recommends the THDIP temporarily exempt projects with 10 units or fewer from the IHO. This would exempt 14 of the 29 pipeline projects. Considering existing Inclusionary Housing Plans, nearly 10 affordable units and nearly $2 million in affordable housing fees (were fees assessed at FY 2025-26 rates) would be forfeited.

Alternatives: On March 24th, Council discussed the concept of exempting smaller projects. During that discussion a variety of thresholds were mentioned. Council did not reach a consensus. Council can set this limit at any amount it wishes.

Topics 6 & 7: Onsite Affordability Requirements

The affordability level and percentage of total affordable units both impact the total program costs. The goal of the THDIP is to reduce costs and optimally incentivize new residential development. At the March 24th study session, Councilmembers expressed a variety of policy goals related to the onsite affordability requirements. Also, Councilmembers asked questions about the affordability needs and production in EPA. This section builds on that discussion and suggests a new framework for considering the appropriate reductions available under THDIP.

The City was on track to meet 27% of its State-mandated Regional Housing Needs Assessment ("RHNA") 6 housing goals by the end of 2025 (which count RHNA numbers at the building permit issued stage). Consistent with nearly every jurisdiction in the State, the City could meet the goals by the end of the cycle if development market conditions improve.

The 27% is not spread out evenly across income levels. As previously shown, the City has permitted 54% of its required Extremely Low ("ELI") and Very Low-Income ("VLI") housing (collectively), as well as over 100% of its required Low-Income housing ("LI"). In contrast, the City has only permitted 9% of its required Moderate-Income ("MOD") housing and 5% of its required Above-Moderate-Income ("Above-MOD") housing.

Table A: RHNA 6 Progress

Income Level	RHNA 6 Allocation	2023	2024	2025	Total Progress	Percentage by Income Category
ELI (<30% AMI)	165	0	0	41	41	**54%**
VLI (31% - 50% AMI)		0	26	22	48	
LI (51% - 80% AMI)	95	5	8	84	97	**102%**
MOD (81% - 120% AMI)	159	2	7	5	14	**9%**
Above-MOD (>120% AMI)	410	7	8	6	21	**5%**
Total	**829**	**14**	**49**	**158**	**221**	**27 %**

*Note that Colibri Commons, aka 965 Weeks, received a building permit in 2023 that was previously unaccounted for, and received a certificate of occupancy in December 2025, so it is now being accounted for in the 2025 Annual Progress Report ("APR").

San Mateo County Trends: Compared to all other programs in the County, the City of East Palo Alto's existing IHO requires the highest share of affordable housing and the deepest levels of affordability. If all other development factors were equal, the City's program would have the highest costs of compliance in the County.

Figure B. San Mateo County Inclusionary Programs

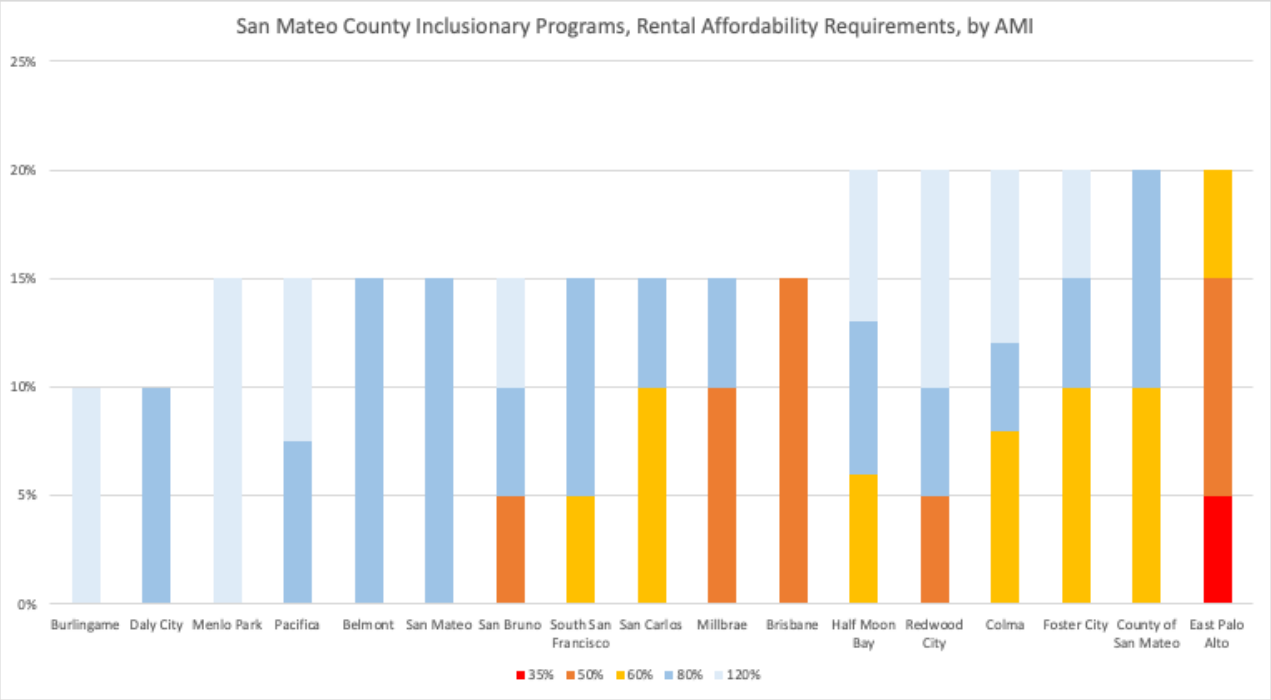


Figure B represents the percentage of affordable units (and affordability levels) required for rental projects by jurisdictions. The graph is roughly organized from least to most costly compliance. Millbrae, near the middle of the chart, requires 10% of the units to be affordable to households at 50% AMI and 5% of units to be affordable at 80% AMI.

Absent a market-specific feasibility analysis, we can only observe some key differences in EPA's market that can inform the THDIP design. First, many jurisdictions in the County require affordable rental units at 80% or 120% AMI. Generally, higher AMIs for affordable units make sense where market rate rents are meaningfully above what 80% or 120% AMI households can afford. However, based on a preliminary review of recent market rents in East Palo Alto, market rents are very close to the rental rates for 80% AMI units, even if we limit the comparison to newer, higher-amenity rental opportunities. This indicates that households seeking a rental affordable at 80% AMI are already served by the private market. Further, it would be difficult for developers to fill 80% AMI rental units, as households would have a preference for units that do not require income qualification if available. That is why the maximum income for rental households targeted by the existing IHO and the proposed THDIP is Low Income, or 60% of AMI.

Second, no other jurisdiction in the County requires onsite inclusionary units at 35% AMI. There are programmatic and feasibility reasons for this policy trend. The cost of subsidizing 35% AMI households through inclusionary requirements is extremely high. Generally, inclusionary programs are more effective at generating affordable housing at deep levels of affordability with in-lieu fees, which are then used to leverage State and federal dollars to provide more affordable units at deeper levels of affordability. Often, the affordable

housing generated with in-lieu fees include targeted amenities and services. The THDIP can meaningfully reduce the cost of compliance and still generate affordable housing if it eliminates the requirement to provide housing at the deepest levels of affordability.

Using a methodology of calculating the costs to subsidize inclusionary units compared to the potential market rate income, we were able to measure the relative costs of compliance of various potential alternatives. First, we tested a 25% reduction in costs, like the temporary program at Redwood City. To maximize flexibility for potential projects, the THDIP can offer two equivalent compliance options for rental projects (i.e. 15% at Very Low Income or 30% at Low Income) and two equivalent compliance options for ownership projects (i.e. 13% at Median Income or 15% at Moderate Income):

Tables C and D: Affordability Requirements for a 25% a THDIP Reduction

Rental Recommendation - 25% Reduction	Very Low Income[1]	Low Income[2]
Rental Option A	15%	
Rental Option B		30%

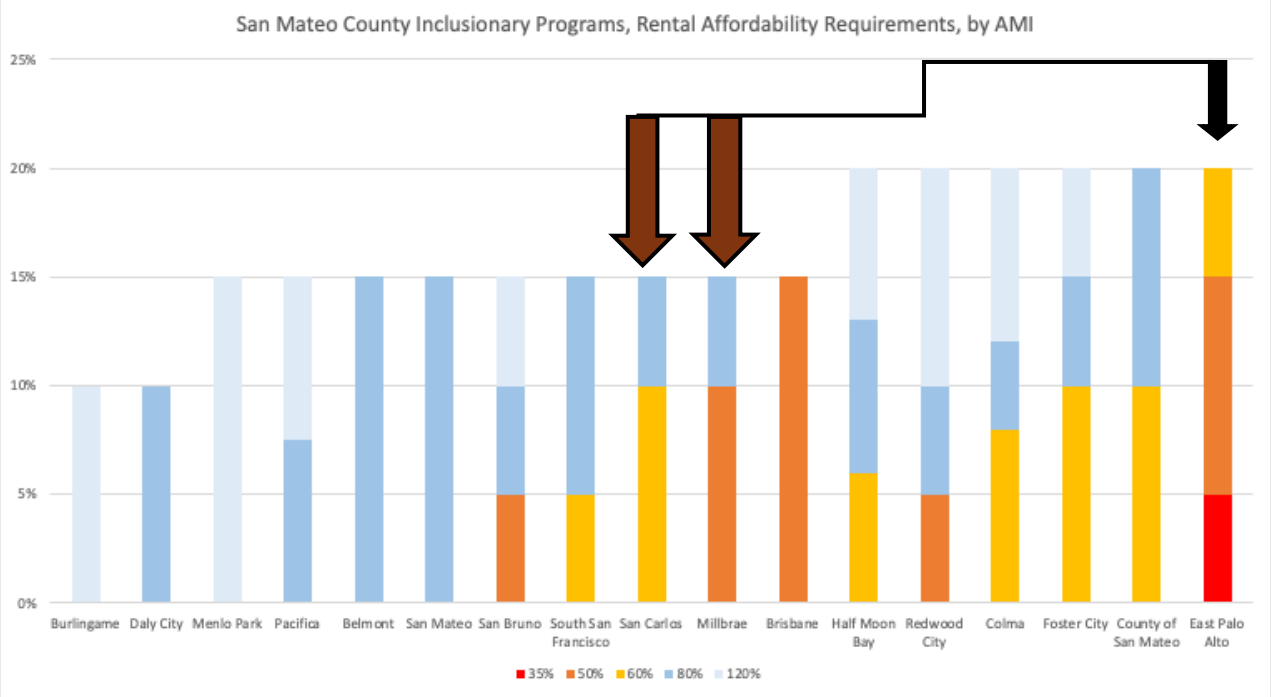
Ownership Recommendation - 25% Reduction	Median Income[3]	Moderate Income[4]
Ownership Option A		15%
Ownership Option B	13%	

[1] Very Low Income in this rental context is defined as households earning up to 50% AMI.
[2] Low Income in this rental context is defined as households earning up to 60% AMI.
[3] Median Income in this ownership context is defined as households earning up to 80% AMI. Though the City has already exceeded its RHNA goal for lower income units (specifically, for units at or below 80% AMI), the City's intent is to provide maximum flexibility on inclusionary housing compliance, so staff recommends offering developers this option.
[4] Moderate Income in this ownership context is defined as households earning up to 120% AMI.

Given factors outside the City's control, including current market conditions, a 25% reduction in the City of East Palo Alto's existing inclusionary requirements may not, by itself, sufficiently reduce overall compliance cost from a developer's perspective and for that reason result in the production of additional inclusionary units beyond those otherwise anticipated.

Next, we asked, what percentage costs in reduction would make the City's THDIP map to roughly the middle of the cost of compliance of all County programs. With a 60% reduction in compliance costs, the City's THDIP would map roughly to the middle of the cost of compliance of various inclusionary housing programs in the County.

Figure E. San Mateo County Inclusionary Programs and 60% THDIP Reduction



Again, the THDIP can offer two equivalent compliance options for rental projects and two equivalent compliance options for ownership projects. This option would allow a developer to produce 8% VLI rental units, 15% LI rental units, 9% Moderate Income ownership units, or 7% Median Income ownership units. In other words:

Tables F and G: Affordability Requirements for a 60% THDIP Reduction

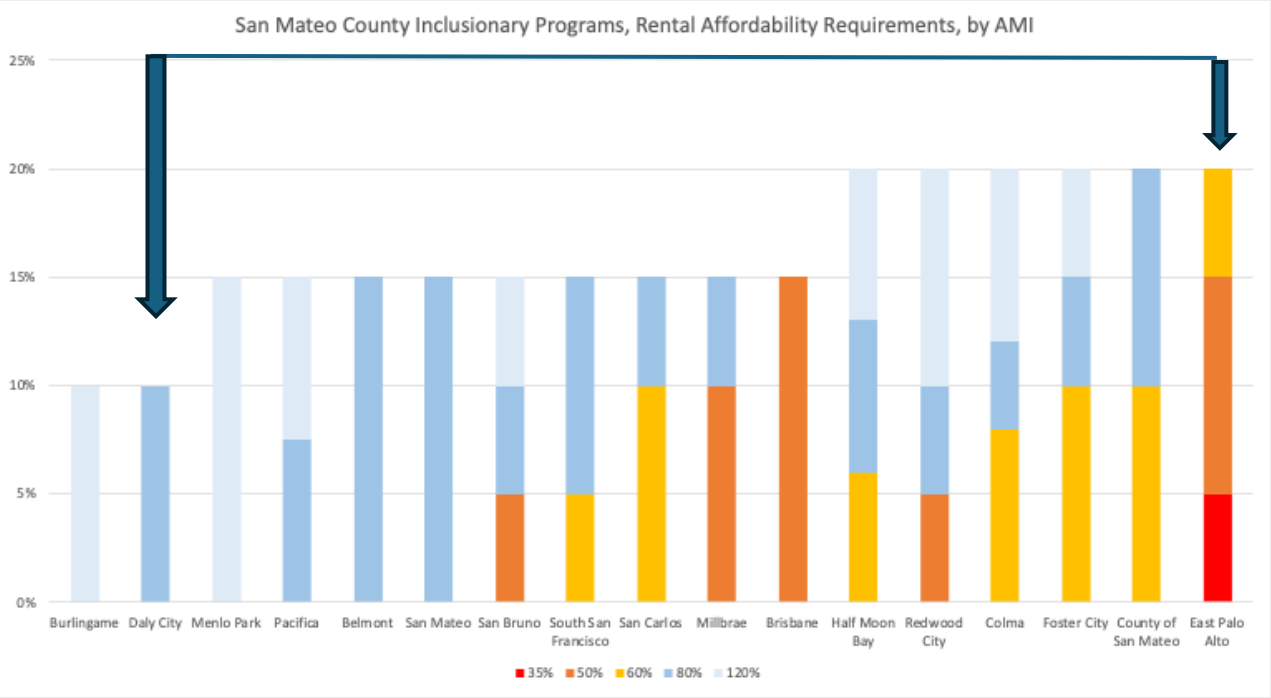
Rental Recommendation - 60% Reduction	Very Low Income	Low Income
Rental Option A	8%	
Rental Option B		15%

Ownership Recommendation - 60% Reduction	Median Income	Moderate Income
Ownership Option A		9%
Ownership Option B	7%	

To understand the housing outcomes of a 60% IHO reduction under THDIP, staff offers two examples. If a 40-unit rental project were to advance under this THDIP option, it would have to provide 3 VLI units or 6 LI units, and accordingly, either 37 or 34 market rate units. A 25-unit ownership project would be required to provide 2 moderate- or median-income units and 23 market rate units.

To swing the pendulum in the complete opposite direction as the current IHO, and to be the most drastic in the City's THDIP without completely removing all inclusionary requirements, a 90% reduction in compliance costs would map roughly to below the costs of South San Francisco or San Bruno's inclusionary housing programs. A 90% reduction in the City of East Palo Alto's program would require fewer affordable units than those jurisdictions.

Figure H. San Mateo County Inclusionary Programs and 90% THDIP Reduction



Once more, here are two equivalent compliance options for rental projects and two equivalent compliance options for ownership projects. Under this option, the developer would be required to produce 2.5% VLI rental units, 5% LI rental units, 2.5% Moderate Income ownership units, or 2% Median Income ownership units. In other words:

Tables I and J: Affordability Requirements for a 90% THDIP Reduction

Rental Recommendation - 90% Reduction	Very Low Income	Low Income
Rental Option A	2.5%	
Rental Option B		5%

Ownership Recommendation - 90% Reduction	Median Income	Moderate Income
Ownership Option A		2.5%
Ownership Option B	2%	

Going back to the examples, if a 40-unit rental project were to advance under this THDIP option, it would require 1 VLI unit or 2 LI units, and accordingly, either 38 or 39 market rate

units. A 25-unit ownership project would be required to provide 1 moderate- or median-income unit and 24 market rate units.

> **Staff Recommendation:** A 25% reduction does not seem to meet the City Council's goal of incentivizing developers to build by meaningfully reducing the cost of compliance. However, a 90% reduction all but eliminates inclusionary housing in the City, which Council has not said it wishes to do. Staff understands Council's goal to be to meaningfully reduce the cost of compliance to incentivize housing production while preserving inclusionary housing. If this understanding is correct, staff recommends the THDIP reduce the overall costs of compliance for rental and ownership by 60%. Also, a 60% reduction in compliance costs would map roughly to the middle of the cost of compliance of various inclusionary housing programs in the County.

Alternatives: The City Council can consider a range of reductions to the program. Additionally, the City Council can also choose to provide only one compliance option for each tenure.

Program Administration

In order to participate in the THDIP, there are a few steps:

1. Developer must apply for and receive approval of a THDIP Amendment to Inclusionary Housing Plan and/or Agreement.
2. Developer must *apply* for a Vertical Building Permit and pay the necessary fee(s).
3. Developer must receive notice from the City that the application is deemed complete within 30 days (note that application completion does not equate application approval).

The THDIP would temporarily amend some projects' inclusionary housing obligations, with the intent of incentivizing housing development. Other than the elements explicitly called out in the draft THDIP, the inclusionary program would continue to operate consistent with the current IHO. The existing IHO components that would remain consistent with THDIP include: most of the definitions; the methodology for calculating the number of inclusionary units, affordable rents, affordable for-sale prices, and in-lieu fees; comparability and housing standards including unit sizes, design, location, and amenities; the timing of construction of inclusionary units; developers' option to request alternative compliance options; all application and review procedures; and continued affordability.

Economic Considerations

To provide an assessment of the economic impact of projects moving forward, staff has analyzed the typical one-time fiscal impact and property taxes from development, assuming that they may more likely occur due to the incentive of the temporary ordinance.

Without proposing an exact fiscal impact of the THDIP, we have approximated potential net fiscal impact for a theoretical 10-unit project and 40-unit project. The approximations rely on data from a more detailed study of the Euclid Improvements Project completed for the City in 2020.

One-time fiscal impacts of new residential development include new jobs, taxes and fees related to construction activities. One-time revenues would include permit fees, employment taxes, business taxes, purchase of good and services by construction workers for the duration of the construction period and related sales tax revenues. Additionally, impact fees for Parks and Trails, Public Facilities, Transportation Infrastructure, water capacity and storm drainage, would generate roughly $343,000 for a theoretical 10-unit project and $1.37 million for a theoretical larger project.

The ongoing fiscal impacts of new residential development include an increase in property tax and sales tax revenues. Assuming an average assessed value of $750,000 per unit, East Palo Alto's share of property tax revenues could be $25,000 annually for a 10-unit ownership project. Assuming an average assessed value of $500,000 for rental units, East Palo Alto's share of property tax revenue could be roughly $66,000 annually for 40-unit rental project, depending on the assessed value of the units. New residents could also spend money in our restaurants and retail shops.

Next Steps

If the City Council votes to introduce the ordinance today, staff will return shortly with a second reading and adoption of the ordinance. That ordinance would take effect thirty days after adoption; in the interim, staff would update the City website and create some materials summarizing the program, including administratively adopting THDIP program guidelines for implementation.

Fiscal Impact

Adoption of the ordinance itself does not have an immediate fiscal impact. However, implementation of the THDIP may reduce future inclusionary housing in-lieu fee revenue and affordable housing obligations associated with qualifying development projects. The extent of any such reduction depends on the number and type of projects that utilize the program.

The purpose of the THDIP is to incentivize residential development activity during the temporary program period. While additional development activity could generate future economic and fiscal benefits to the City, including potential increases in property tax and other revenues, any attempts to quantify those impacts at this time are speculative.

Public Notice

The public was provided notice by making the agenda and report available on the City's website and on a bulletin board located at City Hall: 2415 University Avenue, East Palo Alto. Additionally, notice of the public hearing for June 2 was published in the local newspaper: San Mateo Daily Journal on May 22, 2026. On May 28, 2026, the public was noticed that the June 2, 2026 public hearing was continued to June 9, 2026.

Environmental

The Temporary Housing Development Incentive Program (THDIP) Ordinance is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Sections 15378(b)(4) and 15378(b)(5). CEQA Guidelines Section 15061(b)(3), commonly referred to as the "common sense exemption," provides that CEQA applies only to projects that have the potential to result in a significant effect on the environment, and that where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. CEQA Guidelines Section 15378(a) provides that a project under CEQA is one that "has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment." Section 15378(b) provides that administrative and organizational activities that will not result in direct or indirect physical changes in the environment are not projects for purposes of CEQA.

The proposed Ordinance establishes a Temporary Housing Development Incentive Program, applicable to Smaller Projects, Pipeline Projects, and projects entitled pursuant to SB 330 that meet the applicability criteria. The Ordinance applies exclusively to residential and mixed-use development projects that have already secured the necessary land use entitlements and that have either completed environmental review under CEQA or are consistent with previously certified, adopted, or otherwise relied-upon CEQA documentation. The Ordinance does not approve or authorize any specific development project, nor does it expand development potential or introduce new land use entitlements beyond those previously analyzed.

The Ordinance temporarily modifies the implementation of existing affordable housing requirements contained in Chapter 18.37 of the East Palo Alto Development Code by establishing a framework through which eligible projects may request a THDIP Amendment. As provided in the Municipal Code, the program allows for administrative adjustments to inclusionary housing requirements, in-lieu fee obligations, and related affordability provisions, consistent with the objective standards of the ordinance.

The Ordinance does not result in any direct or indirect physical changes to the environment, as it governs administrative procedures and financial obligations associated with affordable housing compliance rather than land use intensity, site configuration, or construction activity. All participating projects are required to have received "Final Approval," as defined

by the ordinance, and therefore have undergone, or are consistent with, environmental review as required under CEQA. Because the Ordinance does not have the potential to have a significant effect on the environment, it can be seen with certainty that no such impacts would occur. Because the Ordinance governs administrative procedures and financial obligations and does not result in, or have the potential to result in, direct or indirect physical changes to the environment, it does not constitute a "project" under CEQA pursuant to CEQA Guidelines Sections 15378(b)(4) and (b)(5).

Government Code § 84308

Applicability of Levine Act: No, as the proposed action does not involve an entitlement.

Analysis of Levine Act Compliance: Not applicable.

Attachments

Attachment 1. THDIP Staff Recommendation and Alternatives Guide
Attachment 2. Pipeline Project Table and Inclusionary Requirements
Attachment 3. 2025 Area Median Incomes and Rent Levels
Attachment 4. Draft THDIP Ordinance

Attachment 1. THDIP Staff Recommendation and Alternatives Guide

Table 1: New Terms for Proposed Temporary Housing Development Incentive Program

Topic #	Topic	Purpose	Staff Recommendation	Alternatives for Council Consideration	Notes
1	Duration of THDIP	Defines the period that THDIP would be available to projects	Projects must apply for and receive a THDIP Amendment, apply for a vertical building permit and pay related permit fees on or before **December 30, 2027** (with complete Vertical Building Permit application due by January 30, 2028). Ordinance also requires vertical building permit application be deemed complete within 30 days.	If introduced today and adopted on June 16, 2026, the THDIP could end any date thereafter.	Staff recommends the program be effective for roughly 18 months. Redwood City's program is also effective for ~18 months. Council will likely consider changes to Chapter 18.37 in spring 2027 following completion of the feasibility study.
2	SB 330 Projects	Defines a subset of pipeline projects by entitlement approvals to enable unique application of THDIP, including off-site compliance provisions	Eligible for THDIP with additional conditions; project must comply with then-current impact fees.	Ineligible for THDIP; or eligible with no additional conditions.	
3	DA Entitlements & Off-site Compliance		Project not eligible for THDIP; requires Council approval to modify.	Eligible for THDIP with or without additional conditions.	One project in the pipeline with off-site approved; it is through a DA, and the developer has separately requested changes

4	Smaller Projects Exempt	Defines projects that would be temporarily exempt from inclusionary	10 total units or less exempt from all IHO requirements	5, 8, 10, 12, 20, or 25 units or less exempt from all IH requirements	

Attachment 1. THDIP Staff Recommendation and Alternatives Guide

Table 2. Comparing the Current EPA Inclusionary Housing Ordinance with the Proposed THDIP

Topic #	Requirement Topic	Current Ordinance	Staff THDIP Recommendation	Alternatives for Council Consideration	Notes
5	Affordability Requirements for Smaller Projects	20% Overall Requirement At range of AMIs for rental or ownership	0%	0 to 75% reduction in costs	
6	On-site Affordability Requirements for Ownership Projects	20% Overall Requirement 10% of units restricted to Median Income ("MED" or 80% AMI households); and 10% of units restricted to Moderate Income ("MOD" or 120% AMI households)	~60% reduction in costs 7% at 80% AMI; or 9% at 120% AMI;	0 to 75% reduction in costs: 4% to 13% at 80% AMI or 6% to 17% at 120% AMI	Staff recommend a single AMI per project to minimize fractional unit considerations.

7	On-site Affordability Requirements for Rental Projects	20% Overall Requirement 5% of units restricted to 35% AMI households; and 10% of units restricted to Very Low Income ("VLI" or 50% AMI households); and 5% of units restricted to Low Income ("LI" or 60% AMI households)	~60% reduction in costs 8% at 50% AMI or 15% at 60% AMI	0 to 75% reduction in costs: 5% - 18% at 50% AMI or 4% to 13% at 60% AMI	A single AMI will minimize fractional unit considerations. 80% AMI for rental is not recommended; too close to market rents in EPA. 35% AMI has high costs; may be better served through 100% affordable funded by in-lieu fee.

Attachment 2. Pipeline Project Table and Inclusionary Requirements

Year	Project Name	Area	Total Unit Count	Total Unit Count with ADUs	Market Rate Units	Affordable Units (included in the Total unit count)	Tenure	Stage	Inclusionary Requirement	Inclusionary/ Affordable Agreement Status	In-Lieu Fee Payment Amount (if applicable)	State Bill Invoked
2022	1215 Cypress		1	TBD	TBD	TBD	Ownership	Building	In-Lieu Fee equivalent to 1*20% or 1 unit	Pending Inclusionary Housing Plan	$53,760	N/A
2022	805 Runnymede		2	TBD	TBD	TBD	Ownership	Building	In-Lieu Fee equivalent to 1*20% or 1 unit	Pending Inclusionary Housing Plan	$53,760	N/A
2019	924 Runnymede St.		3	3	2	1	Rental	Completed	1 affordable unit onsite	Approved Inclusionary Housing Plan & Recorded Agreement Plan	$0	N/A
2019	812 Green St		4	4	4	0	Ownership	Planning/ Building	In-Lieu Fee equivalent to 4*20% = .8	In-Lieu Fee	$215,040	N/A
2020	120-126 Maple Lane		4	4	4	0	Ownership	Building	In-Lieu Fee equivalent to 4*20% = .8	In-Lieu Fee (Approved)	$215,040	N/A
2020	842 Green St / Subdivision		4	4	4	0	Ownership	Planning	In-Lieu Fee equivalent to 4*20% = .8	In-Lieu Fee (under review)	$215,040	N/A
2025	1269 Westminster		4	4	4	0	Ownership	Building	In-Lieu Fee equivalent to 4*20% = .8	Inclusionary Housing Plan Approved	$215,040	N/A
2022	755 Schembri Lane and 739		4	6	4	0	Rental	Building	In-Lieu Fee equivalent to 4*.20%= .8 units	In-Lieu Fee (Approved)	$239,360	N/A

	Schembri Lane										
2020	990 Garden St	7	7	7	0	Ownership	Building	In-Lieu Fee equivalent to 7*25% = 1.75	In-Lieu Fee	$470,400	
2020	2340 Cooley Ave	8	8	7	1	Ownership		1 affordable unit and In-Lieu Fee equivalent to 4*25%in-lieu fee payment	In-Lieu Fee	$268,800	
2020	547 Runnymede Street	8	8	8	TBD	Ownership	Planning	1.6 affordable units onsite or 8*25% in-lieu fee payment	Pending Inclusionary Housing Plan	TBD	N/A
2021	1062 Runnymede St	8	8	8	TBD	TBD	Planning	1.6 affordable units onsite or 8*25% in-lieu fee payment	Pending Inclusionary Housing Plan	TBD	N/A
2020	760 Weeks St	10	10	10	2	Ownership	Building	2 affordable units onsite	Approved Inclusionary Housing Plan	0	SB35
2025	1010 Runnymede	10	10	8	2	Ownership	Planning	2 affordable units onsite or In-Lieu Fee equivalent to 10*25%	Pending Inclusionary Housing Plan	TBD	N/A
2025	717 Donohoe St	14	14	12	2	Ownership	Building	1 median-income & 1 moderate-income unit; in-Lieu Fee equivalent to 0.8	In-Lieu Fee (Approved)	$43,008	N/A

2025	801 Donohoe		17	17	16	4	Ownership (Multifamily Co-Op)	Planning	4 affordable units onsite	Plan submitted, developer providing 20% requirement	$0	SB330
2023	1201 Runnymede	RBD	20	20	17	3	Ownership	Building	4 affordable units onsite	Pending Inclusionary Housing Agreement	TBD	N/A
2025	1933 Pulgas Ave		58	58	49	9	Ownership	Map	5 median-income and 4 moderate-income	Pending Inclusionary Housing Agreement		SB330
2020	1804 Bay Rd	RBD	75	75	75	TBD	TBD	Planning	15 affordable units onsite			
2023	851 Weeks Street (offsite for Woodland 1)		79	79	1 manager's unit	78	Rental	Building	None – see Woodland I Apartment Expansion / Euclid Improvements	Pending	TBD	
2020	Harvest: The Landing - Eden Offsite BMR Component	RBD	95	95	0	95	Rental	Planning	19 affordable units onsite	Off-site component	$0	N/A
2024	4 Corners Townhome (1675 Bay)	RBD	106	106	95	11	Ownership	Building	10% affordable units at 120% AMI approved by Council	Pending Inclusionary Housing Agreement	$0	SB 330
2025	1620 Bay Road - Design Review and Lot Merge	RBD	135	135	TBD	TBD	Rental	Planning		Pending Inclusionary Housing Plan	TBD	N/A
2024	4 Corners Mixed Use (1675 Bay)	RBD	168	168	143	25	Rental	Building	20% affordable units at 80%	Pending Inclusionary	$0	SB 330

									AMI approved by Council	Housing Agreement		
2024	EPA Waterfront Phase I	RBD	299	299		TBD	TBD	Planning	60 affordable units onsite			N/A
2023	2120-2160 Euclid Avenue		430	430	0	430	Rental	Planning	86 affordable units onsite	Pending Application review-they will resubmit in September	$0	SB330
2019	Woodland I Apartment Expansion / Euclid Improvements	West Side	550	550	550	78 off site units per DA (and 1 manager unit). Not included in total unit count	Rental	Planning/ Building	390 market rate units, 160 demolished RSO units replaced, and 79 units offsite	Pending Development Agreement Amendment		N/A
2025	Woodland Park III W. Bayshore Newell Improvement Project	West Side	772	772	641	129	Rental/Ownership	Planning	128 affordable units onsite	Pending Inclusionary Housing Plan	$0	SB330
2025	Woodland Park II	West Side	1071	1071	384	122	Rental/Ownership	Planning	TBD	Pending Inclusionary Housing Plan	$0	SB330

Attachment 3. 2025 Area Median Incomes and Rent Levels

San Mateo County (based on Federal Income Limits for SMC)

Prepared 4/30/2025 - HUD-established area median Income $185,700 (based on household of 4).

	Income Limits by Family Size ($)							
Income Category	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Extremely Low (30% AMI) *	40,600	46,400	52,200	**58,000**	62,650	67,300	71,950	76,600
Very Low (50% AMI) *	67,700	77,400	87,050	**96,700**	104,450	112,200	119,950	127,650
HOME Limit (60% AMI) *	**81,240**	**92,880**	**104,460**	**116,040**	**125,340**	**134,640**	**143,940**	**153,180**
Low (80% AMI) *	108,300	123,800	139,250	**154,700**	167,100	179,500	191,850	204,250

NOTES

* Income figures provided by HUD for following San Mateo County federal entitlement programs: CDBG, HOME, ESG.

Note: 35% of AMI is $47,971 for a household of one and $68,530 for a household of four for East Palo Alto.

	Maximum Affordable Rent Payment ($)					
Income Category	**SRO *+**	**Studio**	**1-BR**	**2-BR**	**3-BR**	**4-BR**
Extremely Low *	761	1,015	1,088	1,305	1,508	1,683
Very Low *	1,269	1,692	1,813	2,176	2,514	2,805
Low HOME Limit*	N/A	**1,713**	**1,836**	**2,203**	**2,545**	**2,840**
High HOME Limit *	1,706	**2,208**	**2,366**	**2,842**	**3,275**	**3,634**
HERA Special VLI (50% AMI) ***	1,468	1,958	2,098	2,518	2,910	3,246
HERA Special Limit (60% AMI) ***	1,762	2,350	2,518	3,022	3,492	3,895
Low**	2,031	2,708	2,902	3,482	4,023	4,488
HUD Fair Market Rent (FMR)	**N/A**	**2,275**	**2,780**	**3,318**	**4,138**	**4,399**
Median **	2,448	3,384	3,626	4,352	5,028	5,610

Source: 2025 Income Limits, https://www.smcgov.org/housing/income-limits-and-rent-payments

ORDINANCE NO. _____ (UNCODIFIED)

AN UNCODIFIED ORDINANCE OF THE CITY COUNCIL OF THE CITY OF EAST PALO ALTO

TEMPORARY HOUSING DEVELOPMENT INCENTIVE PROGRAM FOR SOME PROJECTS

WHEREAS, the City of East Palo Alto ("City") is experiencing a housing crisis. California has one of the most expensive housing markets and one of the highest rates of homelessness in the nation. The City Council has adopted Chapter 18.37 of the East Palo Alto Development Code (Inclusionary Housing) (hereinafter referred to as the "Inclusionary Housing Ordinance" or "IHO") in 2019, which was updated in 2025, in recognition of the need for homes affordable to lower income households in East Palo Alto and that Bay Area housing costs are high. The IHO's purpose is to increase the supply of affordable housing by imposing inclusionary requirements for residential developers to help meet the needs of all community members; and

WHEREAS, addressing the housing crisis requires a broad spectrum of land use and financing tools. For example, the Legislature has adopted State Density Bonus Law to address the financing gap by allowing a developer to include more total units in a project than would otherwise be allowed by the local zoning ordinance in exchange for affordable units. The City has a role to play too; and

WHEREAS, City staff has identified that certain residential and mixed-use projects have received their land use planning entitlements, but have not pulled any building permits to begin construction (defined below as "Pipeline Projects"). The applicants for these Pipeline Projects have raised a variety of concerns that the projects are not financially feasible. Because these projects are typical of most of the housing production in East Palo Alto, this suggests that residential development more broadly is not financially feasible under current economic conditions. Economic conditions that render residential and mixed-use development infeasible threaten several important policy priorities of the City, including expansion of the City's housing supply well as the creation of jobs and growth of tax revenue; and

WHEREAS, as the IHO inclusionary housing requirements may affect the economic infeasibility of residential and mixed-use development, temporarily reducing the IHO requirements, such as reducing the inclusionary housing percentage rates required for rental and ownership projects, as set forth in Section 4 below ("Temporary Housing Development Incentive Program for Some Projects"), may stimulate residential and mixed-use development, increase production of housing, create jobs, and grow tax revenue; and

WHEREAS, on June 9, 2026, the City Council held a duly-noticed public hearing on the proposed Temporary Housing Development Incentive Program as required by State law and the East Palo Alto Development Code to review and consider the Temporary Housing Development Incentive Program, thereby introducing the below ordinance; and

WHEREAS, after the public hearing, the City Council has considered the whole of the record for the Temporary Housing Development Incentive Program, including all relevant testimony, and determined that it desires to adopt the Temporary Housing Development Incentive Program by the ordinance below.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EAST PALO ALTO DOES ORDAIN AS FOLLOWS:

SECTION 1. FINDINGS

A. The City Council hereby finds that all the foregoing recitals are true and correct and incorporated herein by reference.

B. The City Council further finds that the Temporary Housing Development Incentive Program is consistent with the City's General Plan and housing priority policies for the reasons set forth in the staff report associated herewith and the Council adopts such reasons as its own.

C. The City Council further finds the proposed ordinance will not be detrimental to the public interest, health, safety, convenience, or welfare of the City.

D. The City Council further finds that the Temporary Housing Development Incentive Program, in which the Inclusionary Housing Ordinance requirements in Chapter 18.37 are temporarily amended to reduce the affordable housing requirements for some Projects, is a programmatic regulatory adjustment that will uniformly provide an incentive for projects to advance to the construction stage which furthers the City's housing and other policy priorities.

SECTION 2. CEQA COMPLIANCE

The City Council finds that the Temporary Housing Development Incentive Program (THDIP) Ordinance is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Sections 15378(b)(4) and 15378(b)(5). CEQA Guidelines Section 15061(b)(3), commonly referred to as the "common sense exemption," provides that CEQA applies only to projects that have the potential to result in a significant effect on the environment, and that where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. CEQA Guidelines Section 15378(a) provides that a project under CEQA is one that "has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment." Section 15378(b) provides that administrative and organizational activities that will not result in direct or indirect physical changes in the environment are not projects for purposes of CEQA.

The proposed Ordinance establishes a Temporary Housing Development Incentive Program, applicable to Smaller Projects, Pipeline Projects, and projects entitled pursuant to SB 330 that meet the applicability criteria. The Ordinance applies exclusively to residential and mixed-use development projects that have already secured the necessary land use entitlements and that have either completed environmental review under CEQA or are consistent with previously certified, adopted, or otherwise relied-upon CEQA documentation. The Ordinance does not approve or authorize any specific development project, nor does it expand development potential or introduce new land use entitlements beyond those previously analyzed.

The Ordinance temporarily modifies the implementation of existing affordable housing requirements contained in Chapter 18.37 of the East Palo Alto Development Code by establishing a framework through which eligible projects may request a THDIP Amendment. As provided in the Municipal Code, the program allows for administrative adjustments to inclusionary housing requirements, in-lieu fee obligations, and related affordability provisions, consistent with the objective standards of the ordinance.

The Ordinance does not result in any direct or indirect physical changes to the environment, as it governs administrative procedures and financial obligations associated with affordable housing compliance rather than land use intensity, site configuration, or construction activity. All participating projects are required to have received "Final Approval," as defined by the ordinance, and therefore have undergone, or are consistent with, environmental review as required under CEQA. Because the Ordinance does not have the potential to have a significant effect on the environment, it can be seen with certainty that no such impacts would occur. Because the Ordinance governs administrative procedures and financial obligations and does not result in, or have the potential to result in, direct or indirect physical changes to the environment, it does not constitute a "project" under CEQA pursuant to CEQA Guidelines Sections 15378(b)(4) and (b)(5).

SECTION 3. ADOPTION OF UNCODIFIED ORDINANCE

The following language, titled "Temporary Housing Development Incentive Program for Some Projects" is hereby adopted as follows:

UNCODIFIED ORDINANCE. TEMPORARY HOUSING DEVELOPMENT INCENTIVE PROGRAM FOR SOME PROJECTS

XXXX.01 Purpose

A. The purpose of this chapter is to temporarily provide development incentives for some residential and mixed-use development projects, to help meet the City's regional share of housing needs, during an interim period of the effective date until **(December 30, 2027, or any other date)**.
B. To encourage construction of certain residential projects subject to the Inclusionary Housing Ordinance, the following Temporary Housing Development Incentive Program shall apply to eligible projects that meet the applicability requirements.
C. The City Council of the City of East Palo Alto does hereby adopts an uncodified ordinance that has the effect of temporarily amending the Development Code, such that this section supersedes all relevant requirements in Chapter 18.37 of the East Palo Alto Development Code, to effectuate the purposes set forth herein.

XXXX.02 Definitions

This Chapter shall rely on the definitions of Chapter 18.37.020 and also the definitions below:

A. "Final Approval" shall mean that the residential or mixed-use development project has received all necessary entitlements to be eligible to apply for, and

obtain, a building permit or permits and either of the following is met: (i) The expiration of all applicable appeal periods, petition periods, reconsideration periods, or statute of limitations for challenging that final approval, or (ii) If a challenge is filed, that challenge is fully resolved or settled in favor of the housing development project. Consistent with 65589.5(o)(2)(D).

B. "Smaller Projects" shall mean any residential or mixed-use project with less than (**6, 10, 11, 13, or 26**) units.

C. "Pipeline Projects" means those residential development projects, including the residential mixed-use projects, that either: (a) have received all required land use planning entitlements as of the adoption of this Ordinance but have not yet obtained Vertical Building Permits for all residential components of the project, regardless of the building permit status for that project's non-residential components or for one or more separate residential or mixed-use buildings or phases, or (b) have received all required land use planning entitlements after the adoption of this Ordinance with appeal period running prior to a request for THDIP amendment.

Notwithstanding the foregoing, **Pipeline Projects shall not include: (a) any project entitled under SB 330, relying on the streamlining provisions by filing a Pre-Application, (b) any project regulated by a development agreement, (c) any project that has already paid housing impact fees or in lieu fees, or (d) any project that elect to comply with Chapter 18.37 of the Development Code through offsite construction of inclusionary units.**

D. "Projects entitled under a Development Agreement" shall mean projects that have a City-Council approved development agreement as obtained in compliance with applicable law, including Government Code Section 65864 and East Palo Alto Municipal Code Chapter 18.108.

E. "Projects entitled under SB 330" shall mean projects that invoked State Bill 330, also known as the Housing Crisis Act of 2019, codified in Government Code Chapter 654, for entitlement of the development project.

F. "THDIP Amendment" shall mean a City Manager, or their designee, approved amendment to a project's Inclusionary Housing plan and agreement (Chapter 18.37.090(A) & (B)) consistent with Chapter XXXX.04, for any projects meeting the eligibility requirements stated in XXXX.02.

G. "Vertical Building Permit" shall mean foundation and/or core/shell, excluding grading permits and demolition permits.

XXXX.02 Applicability

The provisions of this chapter shall apply to:

A. Projects that: apply for a THDIP Amendment for the residential or mixed-use development, apply for a Vertical Building Permit for the residential or mixed-use development, and pay necessary permit fees by **(December 30, 2027, or any**

other date); and the Vertical Building Permit application is deemed complete by the City within 30 days, and no later than **(January 30, 2028, or any other date).**

B. Projects that fail to file for a THDIP Amendment, file for a Vertical Building Permit or pay the associated building permit fee in full for the residential or mixed-use development by **(December 30, 2027, or any other date),** or have the Vertical Building Permit application deemed complete within 30 days, and no later than **(January 30, 2028, or any other date),** shall automatically revert to the then current affordable housing requirements of Chapter 18.37.

XXXX. 03 Exclusions

The provisions of this chapter shall not apply to:

A. Projects entitled under a development agreement shall seek City Council approval for any changes to the agreement, including any related documents, including changes to the Inclusionary Housing requirements, Inclusionary Housing Plan, and/or the Inclusionary Housing Agreement.

B. Projects that elected to comply with Chapter 18.37 of the Development Code through offsite construction of inclusionary units are exempted from this ordinance.

XXXX.04 Temporary Housing Development Incentive Requirements

Provided that projects meet the applicability requirements of this section XXXX.02, Affordable Housing Requirements in section 18.37.050 shall be temporarily superseded by the following:

A. Temporary Housing Development Incentive for Smaller Projects. For Smaller Projects, as defined herein, the applicant may request a THDIP Amendment whereby the residential or mixed-use development would be exempt from Chapter 18.37 of the East Palo Alto Development Code and instead subject to the provisions of this Chapter.

B. Temporary Housing Development Incentive Program for Pipeline Projects. Applicants of Pipeline Projects, as defined herein, may request a THDIP Amendment, whereby the residential or mixed-use development be subject to the following temporarily reduced affordable housing requirements rather than the requirements set forth in Chapter 18.37.050:

1. Temporary On-site inclusionary requirement.
   a) Ownership residential or mixed-use development shall provide one of the following:
      i **(2.5*% - 15%)*** of the proposed residential units in an ownership residential or mixed-use development project shall be affordable to Moderate-Income households, or
      ii ***(2% - 13%)*** of proposed residential units in an ownership residential or mixed-use development project shall be affordable to Median-Income households.

b) Rental residential or mixed-use development shall provide one of the following:
    i **(*5% - 30%)*** of the proposed residential units in a rental residential or mixed-use development project shall be affordable to Low-Income households. or
    ii **(*2.5% - 15%)*** of the proposed residential units in a rental residential or mixed-use development project shall be affordable to Very Low-Income households,

2. Temporary Alternative Compliance, In-lieu Fee.
   a) Ownership residential or mixed-use development in-lieu fee shall be 5% greater than the onsite requirements for On-site moderate income ownership units (XXXX.04(B)1.a.i).
   b) Rental residential or mixed-use development in-lieu fee shall be 5% greater than the onsite requirements for On-site low-income rental units (XXXX.04(B)1.b.i).

C. Temporary Housing Development Incentive Program for residential or mixed-use projects entitled under SB 330. Projects entitled under SB 330 at or before the effective date of this ordinance that meet the applicability requirements detailed in XXXX.02 (A) have the following options:

1. Maintain project's entitlement rights and obligations as detailed in the project's entitlements under SB 330, including affordable housing requirements per Chapter 18.37.050.
2. Request a change to the project's entitlements, which would include both:
   a. A THDIP amendment request, which would amend a project's affordable housing compliance plan, to the requirements detailed in Chapter XXXX.05(B) and
   b. A signed affidavit requesting and agreeing to opt into the City of East Palo Alto's then current Development Impact Fees, including but not limited to Parks & Trails, Public Facilities, Transportation, Storm Drainage, and Water Capacity as approved by City Council on March 4, 2025, or subsequently updated by action of City Council.
2. Projects entitled under SB 330 subsequent to the effective date of this ordinance may request a THDIP Amendment.

XXXX.05 Implementation

A. Eligible applicants may request the City Manager or their designee grant a THDIP amendment for specific development projects**.**

B. Notwithstanding any Development Code provisions to the contrary, in order to implement the Temporary Housing Development Incentive Program established by this Chapter, the City Manager or their designee is hereby authorized to review, approve, and modify, without a public hearing for discretionary review, the Inclusionary Housing plan and agreement (Chapter 18.37.090(A) and (B)), consistent with this Chapter, including:

1. The applicable percentage of affordable housing units required by

Chapter 18.37.050 in a manner consistent with this Chapter;

2. The applicable fee required by Section 18.37.080 in a manner consistent with this Chapter;

3. The number and/or affordability levels of units provided for projects that elected to develop using the State Density Bonus Laws (Government Code Section 65915 *et seq*.) and required findings related to eligibility for a density bonus, concessions and/or waivers and parking reductions, in a manner consistent with this Chapter. However, any such modification must ensure that Projects that receive any State Density Bonus benefits (e.g., additional density, concessions, waivers, and/or parking reductions) continue to meet the minimum affordability requirements and all applicable requirements under the State Density Bonus Law (Gov't Code § 65915 et seq.) for the full affordability term to maintain those benefits;

4. The conditions of approval related to the City's requirements for affordable housing;

5. The affordable housing plan and/or affordable housing agreement; (The affordability covenants;)

6. The "no net loss" findings required under Government Code Section 65863; and/or

7. Any and all related affordable housing documentation that may be necessary to ensure compliance with Chapter 18.37 or other applicable laws.

Any modification to entitlements made pursuant to this Ordinance shall include a condition that a Project must secure and pay for a Vertical Building Permit on residential or mixed use development on or before **(December 30, 2027, or any other date)**, that this permit application must be deemed complete by the City by **(January 30, 2028, or any other date),** and that the developer must commit to pay all other City impact fees applicable to the affordability levels of the units (e.g., Parks & Trails, Public Facilities, Transportation, Storm Drainage, and Water Capacity Impact Fees), and if an applicant fails to do so, the affordable housing requirements applicable to the project shall automatically revert to the then current affordable housing requirements of Chapter 18.37.

All terms of Chapter 18.37 not explicitly temporarily superseded by this Chapter shall apply to residential or mixed-use projects that seek a THDIP Amendment.

C. Continued Validity of Inclusionary Housing Ordinance. Except as expressly provided for in this Ordinance, all provisions of Chapter 18.37 shall remain in full force and effect.

SECTION 4. SAVINGS CLAUSE

If any section, subsection, clause or phrase of this Ordinance is for any reason held to be invalid, such decision shall not affect the validity of the remaining portion or sections of the Ordinance. The City Council hereby declares that it would have adopted the Ordinance and each section, subsection, sentence, clause or phrase thereof irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional.

SECTION 5. CONSISTENCY

Any provision of the East Palo Alto Municipal Code inconsistent with this uncodified Ordinance, to the extent of such inconsistencies and no further, is hereby inapplicable and the provisions of this Ordinance control to the extent necessary to effectuate this Ordinance.

SECTION 6. PUBLICATION

The City Clerk shall publish this Ordinance as an uncodified ordinance in accordance with applicable law.

SECTION 7. EFFECTIVE DATE AND SUNSET PROVISION

This Ordinance shall be effective thirty (30) days after its adoption. This Ordinance shall expire by operation of law on (**January 30, 2028, or any other date**), unless extended by an amendment of this ordinance by the City Council before that date.

PASSED AND ADOPTED this ____ day of _____, 2026, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

_____
Webster Lincoln, Mayor

ATTEST:

_____
James Colin, City Clerk

APPROVED AS TO FORM:

_____
John D. Lê, City Attorney

EAST PALO ALTO CITY COUNCIL STAFF REPORT

DATE: June 9, 2026

TO: Honorable Mayor and Members of the City Council

VIA: Melvin E. Gaines, City Manager
Matt Vining, Utilities Manager
Michelle Magarrell, Deputy City Attorney
Humza Javed, Public Works Director

BY: Tomo Oku, Finance Director
Shiri Klima, Assistant City Manager
John D. Lê, City Attorney

SUBJECT: Three-Year Water Lease Amendment and Restatement

Recommendation

Staff recommends that the City Council adopt a resolution:

1. Authorizing the City Manager to negotiate and execute, in a form approved by the City Attorney, an amended and restated agreement based on the 2001 agreement with American Water Services, Inc., which was assigned to Veolia Water North America-West, LLC in 2020, in various ways, including without limitation to: (a) extend the term for an additional three (3) years; (b) redefine various terms, including “contractual gross revenues”; (c) amend the true-up process; (d) address other obligations; (e) add a definition of prudent industry practice for cybersecurity; (f) expand the definition of “hazardous substances” to include PFAS/PFOS: (g) ensure compliance with system improvements to comport with applicable law; (h) amend insurance requirements; (i) amend indemnity obligations; (j) modify limitations on liability; (k) revise environmental representations; remove historical references to Cal-Am; and any other amendments approved by the Council; and

2. Finding that the proposed action—a water system lease amendment and restatement—is not a “project” under the California Environmental Quality Act (“CEQA”), pursuant to CEQA Guidelines sections 15378(b)(4) and (5), in that it is a governmental fiscal, organizational or administrative activity that will not result in

direct or indirect changes in the environment.

Alignment with City Council Strategic Plan

This recommendation is primarily aligned with:

Priority: Public Infrastructure and Utilities
Priority: Public Health, Safety, and Quality of Life

Background

In the early 20th century, the area that is now East Palo Alto largely relied on individual wells and water tanks. In the mid-1920s, as individual wells went dry or suffered from saltwater contamination, neighborhoods began to form their own water districts. Thus, the East Palo Alto County Waterworks District (EPACWD) formed in 1927. EPACWD merged with a neighboring district in 1961 and served most of the area that would become East Palo Alto, as well as part of Menlo Park, until it dissolved in 2000. Upon dissolution, EPACWD's water service responsibilities, physical assets, and fund balances were assigned to the cities of Menlo Park and East Palo Alto.

In 2001, the City of East Palo Alto entered into a 25-year lease agreement with American Water Services, Inc. At that time, the City provided water service to approximately 3,800 domestic and industrial customers. In 2020, American Water Services, Inc. assigned the water system lease to Veolia Water North America-West, LLC, which assumed the duties and responsibilities of the lease. Since the exact date of termination is not clear, Veolia and the City have agreed that the commencement date of the original lease with American Water was June 28, 2001, and thus, the termination date of that lease is June 27, 2026. Veolia now provides water service to approximately 4,030 domestic and industrial customers.

The existing water system lease agreement between the City and Veolia is scheduled to expire on June 27, 2026. The City began exploring alternative options to the water system lease agreement in 2023; however, was unable to focus this effort until 2025 due to staff transitions and other City priorities, including the effort to make the East Palo Alto Sanitary District a City subsidiary. Alternative operations options included bringing water operations in house, partnering with a neighboring jurisdiction on water operations, and switching from a lease to a water operations agreement. Staff determined none of these options were viable within the timeline before the Veolia lease expired, therefore, the City began conversations with Veolia about a short-term lease extension.

Following months of negotiation with Veolia, staff recommends a three-year extension and restatement of the agreement to ensure continued, uninterrupted water service while the City evaluates its long-term options for operating and managing the water system.

Analysis

While water system leases are no longer common, water operations agreements are usually long term (meaning over a decade). Determining the most appropriate long-term operating model will require significant analysis, including completion of a comprehensive water rate study, review of accumulated true-up obligations, evaluation of the costs and feasibility of bringing operations in-house, and consideration of whether to conduct a competitive procurement process for future water system operations. If the City elects to pursue a new operating agreement through a request for proposals (RFP), the procurement and transition process could take multiple years to complete.

The proposed water system agreement amendment and restatement would commence on June 28, 2026, and terminate on June 27, 2029. It largely maintains the existing allocation of responsibilities between the City and Veolia while updating key provisions related to financial reconciliation, cybersecurity, environmental compliance, insurance, liability, and regulatory requirements.

Veolia would continue to operate the City's water system and pay all costs and expenses relating to standard maintenance, and the City would continue to manage and pay for all the major repairs and replacements under its Capital Improvement Plan (CIP). Veolia would also continue to bill customers, collect charges, and manage customer service; to conduct water quality testing; to prepare regulatory reporting; to be responsible for the release and disposal of hazardous substances in the water system; and to receive and deliver water from the Hetch Hetchy reservoir that is treated by the City and County of San Francisco. Additionally, this three-year extension would continue the current payment system from Veolia to the City, which is an annual lease payment of six percent, and an annual franchise fee payment of five percent, of the annual gross revenues generated by the water system. The City and Veolia would continue to be able to "true-up" finances at the end of each year and at the end of the term.

The extension provides the City with adequate time to make informed long-term decisions regarding water system governance and operations without disrupting service to approximately 4,030 customers.

Overview of Proposed Changes

Although many core obligations remain unchanged, the proposed amendment and restatement includes a number of significant changes from the original 2001 agreement with American Water Services, Inc. These changes are summarized below.

- **Form of Agreement (Preamble / Recitals; Section 28)**. The proposed agreement is an amendment and restatement of the original 2001 contract—not merely an amendment or extension. This means the entire agreement is restated in a single, consolidated document that supersedes the original lease and any prior amendments. This means that the restated agreement stands on its own as the

governing document going forward, eliminating any ambiguity about which terms from the original remain in effect.

- **Contractual Gross Revenues and Inflation Index (Section 1)**. The definition of "Contractual Gross Revenues"—which drives the annual true-up calculation—has been significantly revised. The Base SFPUC Rate (the reference rate for the Water Rate Differential) has been updated from $2.93 per centum cubic feet (ccf), the FY 2014-15 rate used under the original lease, to the FY 2026-27 SFPUC rate. Additionally, the inflation escalator used to adjust the Base SFPUC Rate annually has been changed from a blended index (65% CPI-U Fuels and Utilities plus 35% Employment Cost Index) to a single index: the annual CPI-U All Items for the San Francisco-Oakland-Hayward Combined Statistical Area as published by the Bureau of Labor Statistics. This simplification aligns the escalator with a single, widely recognized inflation measure. The agreement also provides that the calculated Base SFPUC Rate may never exceed the actual SFPUC rate per ccf.

- **Accounts Receivable Valuation (Section 6H)**. A new Exhibit G establishes a schedule for valuing outstanding accounts receivable at the end of the Term. The valuation discounts receivables based on aging: current to 60 days overdue at 100%, 61-90 days at 85%, 90-120 days at 50%, 121-365 days at 25%, 365-730 days at 10%, and over 730 days at 0%. This amount is included as a credit to the Veolia in the Final True-Up.

- **Rate Relief and Shortfall Year Provisions (Sections 8A and 8B)**. Veolia's contractually guaranteed after-tax rate of return remains at eight percent (8%) of Contractual Gross Revenues. No significant changes occur here. The agreement provides that if the Company's after-tax return falls below 8% of Contractual Gross Revenues in any year (a "Shortfall Year"), and accumulated Annual True-Up amounts are insufficient to cover the shortfall, the City agrees to put forth recommended water rate increases to ratepayers that would enable the Company to earn a cumulative after-tax return of 8%. The City must act on Requests for Rate Relief by initiating a Proposition 218 study and process within 60 days of receipt. The City may also adopt automatic rate adjustments to pass through increases in wholesale water charges in a manner consistent with applicable law.

- **Line Locating (Section 7E)**. The City has now formally assumed the role of line locating (identifying and mapping underground utility lines to prevent damage during excavation and construction activities) and participation in the 811 program (the national call-before-you-dig service). This extension formalizes that change of responsibilities and expressly provides that Veolia shall have no responsibility or liability with respect to line locating.

- **Prudent Industry Practices and Cybersecurity (Section 1)**. The agreement introduces a new defined term, "Prudent Industry Practices," which means

methods, techniques, standards, and practices generally accepted as reasonably prudent in the municipal water distribution industry, including specifically the NIST Cybersecurity Framework 2.0 and applicable guidance in NIST SP 800-82 with respect to data related to the Water System. The Company is required to use Prudent Industry Practices (including those related to cybersecurity) to keep all customer information confidential. This replaces the original lease's more general "best efforts" standard for data protection.

- **Hazardous Substances Definition (Section 1)**. The definition of "Hazardous Substance" has been substantially expanded to include emerging contaminants as identified by the U.S. Environmental Protection Agency or other governmental authorities, specifically including perfluoroalkyl and polyfluoroalkyl substances ("PFAS") such as PFOA and PFOS. This modernization reflects current environmental regulatory concerns.

- **System Improvements and Capital Projects (Section 9)**. The City remains responsible for financing all System Improvements. When the City requests that the Company manage or undertake System Improvements, the current agreement requires the Company to go through the City's competitive bidding process under applicable law. If selected, the parties will enter into a separate agreement.

- **Insurance Requirements (Section 13)**. The Company's insurance requirements have been updated as follows: Commercial General Liability coverage has been set at $12 million per occurrence, $12 million general aggregate, and $12 million products and completed operations aggregate (the original amounts are not available for comparison); Workers' Compensation and Employers' Liability has been set at $1 million each accident or disease; Business Automobile Liability has been set at $5 million per accident; and a new Cyber Liability Insurance requirement of $1 million per claim has been added, covering invasion of privacy, information theft, release of personally identifiable information, extortion, and network security. All policies (except Workers' Compensation and Cyber Liability) must name the City as additional insured with primary and non-contributory endorsements. The City is required to maintain property insurance covering the Water System at full replacement cost and business interruption coverage for the term of the agreement.

- **Indemnity and Defense Obligations (Section 23A)**. The Company's general indemnity obligations under Section 23 are now expressly limited such that the Company shall be liable only for that percentage of total damages that corresponds to its percentage of total negligence or fault. This is a proportionate-fault standard that limits the Company's exposure to its share of responsibility in multi-party claims. Both parties retain mutual indemnification obligations for hazardous substances under Section 22 and general breaches under Section 23, and these obligations survive expiration or termination of the lease.

- **Limitation of Liability Cap (Section 23E)**. The agreement includes a new contractual limitation of liability. The Company's total cumulative liability for the duration of the agreement shall not exceed $12 million. This cap does not apply to losses resulting from: (A) the gross negligence or willful misconduct of the Company or its subcontractors, employees, or agents; (B) the Company's indemnification obligations under Section 22 relating to hazardous substances; and (C) violations of the Company's obligations under Section 13 relating to insurance. Further, nothing in this limitation reduces or limits any party's ability to pursue or collect proceeds available from the insurance coverages required under the agreement up to the coverage amounts specified. Neither party may recover indirect, consequential, exemplary, special, incidental, reliance, or punitive damages, or lost profits.

- **Surrender and Transition Provisions (Section 16)**. Upon expiration or termination, the Company must return the Water System in the same condition as it was upon American Water's assignment on June 1, 2020 (rather than the original 2001 Commencement Date), ordinary wear and tear excepted. The Company must provide all Water System customer records, system maps, plats, shapefiles, maintenance records, and other records at least 180 days prior to the end of the Term in a format reasonably acceptable to the City. The obligation to facilitate an orderly transition is expressly not conditioned upon the City's purchase of customer receivables, which is addressed separately in the Final True-Up.

- **Environmental Representations (Section 17A(10))**. The City's representation regarding soil and groundwater contamination has been qualified with a knowledge standard ("the City is unaware of any" contamination rather than a flat representation that "there is no" contamination). Exhibit D has been updated to reference the California State Water Resources Control Board's order to construct 3.7 million gallons of water storage facilities and an EPA Notice of Violation requiring updates to the Emergency Response Plan and Risk and Resilience Assessment by July 2026.

- **Title and New Development (Section 5)**. Any property added to or incorporated into the Water System by new developments shall vest in the City. The agreement adds a requirement that the City give Veolia reasonable written notice before adding or incorporating assets and that any required Governmental Body approvals (including from the California State Water Resources Control Board) be obtained.

- **Other Service Obligations (Section 7E)**. The Company must now assist the City in matters related to the Water System, including cooperating with investigations related to harm to the Water System by third parties. This is a new obligation not present in the original lease.

- **Removal of Cal-Am References (Section 1; Section 3; Recitals)**. All references to California-American Water Company (Cal-Am) have been removed. The original lease contemplated that the Company would use Cal-Am as its local affiliate to operate the Water System; this is no longer the operational model.

Separate Note on "True-Up"

Under the current lease structure, Veolia is required to prepare annual "true-up" calculations that reconcile actual operating revenues and expenses for the water system against the contractual framework established in the agreement. The annual true-up process is intended to determine whether water system revenues were sufficient to cover operating costs and allowable returns under the lease terms, and to calculate any resulting annual surplus or deficit. Annual results are then accumulated over time, creating either an accumulated reserve balance or an accumulated deficit balance.

Based on annual true-up calculations submitted by Veolia and subsequent discussions and financial reviews conducted between Veolia's Chief Financial Officer and the City's Finance Director, the water system reflected an accumulated deficit of approximately $0.5 million at the end of FY 2024-25. Based on current projections and submitted calculations for FY 2025-26, the accumulated deficit is expected to increase to approximately $1.1 million by fiscal year-end.

The projected increase primarily reflects operating revenues not keeping pace with increasing operating costs, including inflationary cost increases, increased operating expenses, and increased wholesale water costs that have not been passed through to customers (i.e., SFPUC wholesale water rates increased, but the City did not pass on these increases to customers. These figures remain subject to further review as part of the proposed agreement's true-up review process.

Next Steps

If the City Council authorizes negotiation and execution of the amended and restated agreement, staff will undertake the following actions during the three-year extension period:

1. Complete Negotiation of the Attached Amendment and Restatement

City staff and Veolia staff are close, but have not finalized, the attached Amendment and Restatement. Thus, there may still be some minor changes to the attached document. Of course, if the changes are substantive, City staff will return to Council for separate approval.

2. Complete a Comprehensive Water Rate Study

Staff is currently working with a consultant to evaluate the financial condition of the water system, including operating costs, wholesale water charges, capital needs, and any validated accumulated true-up obligations. Staff anticipates returning to the City Council in early 2027 with recommendations regarding water rate adjustments and long-term rate stabilization mechanisms.

3. Review Historical True-Up Calculations

The proposed agreement preserves the City's right to conduct a financial review or audit of historical true-up calculations through FY 2025-26. Staff, working with financial consultants as necessary, will evaluate the accumulated true-up deficit and determine whether any adjustments are warranted under the agreement.

4. Evaluate Long-Term Water System Governance and Operations

During the extension period, staff will evaluate long-term alternatives for operation of the City's water system, including:

- Issuing a request for proposals (RFP) for third-party water system operations;
- Negotiating a successor operating agreement with Veolia;
- Bringing water system operations in-house; and
- Other governance or operational models that may improve service delivery, financial sustainability, accountability, or operational efficiency.

This evaluation will include financial, operational, legal, and staffing analyses to determine the advantages, disadvantages, costs, risks, and implementation requirements associated with each option.

5. Develop a Long-Term Transition Strategy

Based on the results of the operational evaluation, staff will return to the City Council with recommendations regarding the preferred long-term management structure for the City's water system. If a transition to a new operating model is recommended, staff will develop an implementation plan designed to ensure uninterrupted water service, regulatory compliance, preservation of institutional knowledge, and a smooth transition for customers.

6. Implement the Transition

If Council determines the City will move water operations to a new vendor, or if water operations move in-house, the actual transition will take anywhere from six months to a year. All of the maps and customer data need to transition in an organized, methodical way. We need to determine systems of utility billing, customer service, and other related services. If we bring the service in-house, we need to hire operators and either hire staff or find vendors for the related services. Finally, we need to communicate with the regulatory agencies, our vendors, and our customers about any such change.

7. Continue Capital Improvement and Regulatory Compliance Efforts

Throughout the extension term, staff will continue implementation of the Water System Capital Improvement Program, including projects necessary to maintain system reliability, address regulatory requirements, and comply with directives issued by State and federal regulatory agencies.

Staff believes a three-year extension strikes an appropriate balance between maintaining uninterrupted water service and providing sufficient time to evaluate the City's long-term water system operational strategy. The extension preserves existing service levels, incorporates updated legal, environmental, cybersecurity, and insurance provisions, clarifies financial reconciliation procedures, and allows the City to conduct the analyses necessary to determine the most effective long-term governance and operational model for the water system.

Fiscal Impact

There is no fiscal impact for the execution of the lease extension. The majority of costs of the service will continue to pass through to the customers who use the City’s water service.

Public Notice

The public was provided notice by making the agenda and report available on the City’s website and on a bulletin board located at City Hall: 2415 University Avenue, East Palo Alto.

Environmental

The proposed water system lease extension is not a “project” under the California Environmental Quality Act (“CEQA”), pursuant to CEQA Guidelines sections 15378(b)(4) and (5), in that it is a governmental fiscal, organizational or administrative activity that will not result in direct or indirect changes in the environment.

Government Code § 84308

Applicability of Levine Act: Yes

Analysis of Levine Act Compliance: The signatory for the agreements would be Aaditya Raman, President, West Region, Veolia.

Attachments

Attachment 1. Resolution

Attachment 2. Original Contract with American Water Services, Inc., dated 2001
Attachment 3. DRAFT Three-Year Water System Lease Extension (Clean)
Attachment 4. DRAFT Three-Year Water System Lease Extension (Redline)

AGREEMENT FOR LEASE OF REAL PROPERTY (WATER SYSTEM)

THIS AGREEMENT FOR LEASE OF REAL PROPERTY (WATER SYSTEM) ("Lease") is entered into as of April 9, -, 2001, between THE CITY OF EAST PALO ALTO, a municipal corporation of the State of California ("City"), and AMERICAN WATER SERVICES, INC., a Delaware corporation (the "Company"), a wholly-owned non-regulated subsidiary of American Water Works Company, Inc.

WITNESSETH:

WHEREAS, through the Water System, City provides water service to approximately 3,800 domestic and industrial customers in the Service Area;

WHEREAS, City desires to lease the Water System to the Company, and the Company desires to lease the Water System from City, for the period and upon the other terms and conditions set forth herein;

WHEREAS, the Company intends to utilize its local affiliate, Cal-Am, to operate, maintain and manage the Water System; and

WHEREAS, the Company and Cal-Am possess the resources, capacity and expertise to operate, maintain and manage the Water System.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein and for good and valuable consideration, the receipt and adequacy of which the parties hereby acknowledge, City and the Company hereby agree as follows:

Section 1. Defined Terms.

For purposes of this Lease, the following terms shall have the meanings set forth below:

"*Cal-Am*" means California-American Water Company, an investor-owned water utility regulated by the CPUC that provides water service to approximately 105,000 domestic and industrial customers in six separate water systems located in Monterey County, Los Angeles County, Ventura County and San Diego County that also is a wholly-owned subsidiary of American Water Works Company, Inc.

"*Capital Charge*" means the cost to be charged to the customers of the Water System to recover the Capital Costs and other costs related to System Improvements.

"*Capital Costs*" means the cost of financing, designing, permitting and constructing recommended System Improvements and other costs associated therewith.

"*Commencement Date*" means the effective date upon which City assumes ownership of the East Palo Alto County Waterworks District.

"*CPUC*" means the California Public Utilities Commission.

"*Environment*" means soil, land, surface or sub-surface strata, surface waters (including navigable waters, oceans, streams, ponds, drainage basins and wetlands), groundwater, drinking water supply, stream sediments, ambient air, plant and animal life, and any other environmental medium or natural resource.

"*Environmental Law*" means any Legal Requirements designed to minimize, prevent, punish or remedy the consequence of actions or omissions that damage or threaten the Environment or public health and safety.

"*Environmental Liabilities*" means any costs, expenses or liabilities relating to or arising from any violation of any Environmental Law, including, without limitation, any potential or actual environmental clean up or remediation of any Hazardous Substances that may be located on any property that constitutes part of the Water System, or that enter the water delivered to customers by the Water System, or any investigation of or environmental reports prepared with respect thereto.

"*Financial Report*" means that report required pursuant to Section 6D.

"*Franchise Fee*" means the franchise fee required pursuant to Paragraph 6B.

"*Governmental Body*" means any governmental officer, agency, authority or entity.

"*Government Charges*" means any new City, State or federally imposed charges, taxes, license or permit fees, including, without limitation, the imposition of a possessory interest tax on the Company's interest in the Water System.

"*Gross Revenues*" means the service charges, water charges and miscellaneous charges generated by the Water System and described in the City's Schedule of Rates for Water Service actually collected by the Company in a particular period. The term Gross Revenues specifically excludes utility tax collections and service connection charges and facility buy-in charges as described in the City's Schedule of Rates for Water Service and Surcharges.

"*Hazardous Substance*" means any substance, material or waste which is defined as "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," "restricted hazardous waste" or similar term under any provision of any federal, state or local law and includes, without limitation, hydrocarbons, petroleum, gasoline, crude oil or any products, by-products or fractions thereof.

"*Initial Rates*" means the Water Service Rates to customers in effect immediately prior to the Commencement Date.

"*Legal Requirement*" means any federal, state, local, municipal or other administrative order, constitution, law, ordinance, principle of common law, regulation, statute, order or other legal requirement.

"b*Lease Payment*" means the lease payment required pursuant to Paragraph 6A.

"Net Capital Investment" means the amount of capital funds invested by the Company for System Improvements, less principal sum payments.

"Operations Report" means that report required pursuant to Section 7F.

"Request for Rate Relief" means a written request for rate relief provided by the Company to City pursuant to which the Company shall propose to City reasonable rates and charges.

"Service Area" means that certain real property described on Exhibit A attached hereto and in which the Water System is located (as such service area may change from time to time during the term of this Lease).

"System Improvements" means necessary capital improvements, replacements, or repairs to the Water System.

"System Improvement Report" means that report required pursuant to Section 9.

"Term" means that period commencing on the Commencement Date and ending 25 years thereafter, unless terminated earlier as provided in this Lease.

"Water System" means that certain real property, easements and rights of way and those certain pipes, mains, pumps and appurtenant facilities (including, without limitation, buildings, pump houses, sheds and other structures) constituting all of City's water system within the Service Area, as more specifically described in Exhibit B attached hereto.

"Water Service Rates" means those rates for water service charged to customers of the Water System.

Section 2. Lease of Water System.

City hereby leases to the Company, and the Company hereby leases from City, the Water System described in Exhibit B with such additions or improvements to the Water System that may occur from time-to-time while this Lease is in effect. City agrees to provide the Company with copies of maps, drawings, plans and specifications of the Water System, along with customer service and account records in a form acceptable to both parties, at least 30 days prior to the Commencement Date, defined below. The Company agrees to use its best efforts to keep all customer information confidential, whether received from City or developed during the Term of the Lease.

Section 3. Revenues and Expenses.

Except as set forth hereafter, City shall be obligated to pay all expenses that relate to the operation of the Water System that are incurred or accrue prior to or after the Term. In addition, City shall pay to the Company any portion of the Operation and Maintenance Service Fee and any other fees due to Cal-Am under the terms of the Service Agreement between Cal-Am and the East Palo Alto County Waterworks District dated July 25, 2000, for the period prior to the Term of this Agreement. The Company shall be obligated to pay all expenses that relate to the

operation of the Water System that are incurred or accrue during the Term. In no event, however, shall the Company be liable or responsible for any Environmental Liabilities unless the Company has caused the violation of the Environmental Laws that created the Environmental Liabilities. City shall be liable and responsible for all such Environmental Liabilities not caused by the Company and shall indemnify and hold harmless the Company from all costs and expenses arising therefrom.

Section 4. Use of Water System.

Subject to the provisions of this Lease, the Company agrees to use the Water System to furnish potable water service and water service for fire protection to all customers in the Service Area in accordance with all applicable Legal Requirements that are in effect during the Term.

The Company may not retire, sell, transfer, convey, or encumber any real property or personal property of the Water System without the prior written consent of City, which consent may not be unreasonably withheld.

The Company is granted the exclusive right to provide water service to customers within the City corporate limits. The City agrees not to allow the creation of additional investor-owned or mutual water companies within the City's corporate limits.

Section 5. Title

All System Improvements to the Water System during the Term shall become part of the Water System and title to such System Improvements shall immediately vest in City. Any other property added to or incorporated into the Water System by the Company pursuant to its obligations under this Lease or which are added by new developments shall be deemed part of the Water System for purposes of this Lease and title to such property shall immediately vest in City. The Company shall not own the Water System or any part thereof.

Section 6. Payments and Transfers of Other Funds to the City

A. Lease Payment. As consideration of the Lease of the Water System, the Company shall pay the City an annual Lease Payment in an amount equal to six percent (6%) of the annual Gross Revenues generated by the Water System. The Company shall make Lease Payments to the City on the fifteenth (15th) business day of each month equal to six percent (6%) of the prior month's Gross Revenues.

B. Franchise Fee. In addition, the Company shall pay the City an annual Franchise Fee equal to five percent (5%) of the annual Gross Revenues generated by the Water System. The Company shall pay Franchise Fees to the City on the fifteenth (15th) business day of each month equal to five percent (5%) of the prior month's Gross Revenues.

C. Utility Tax. The Company shall collect the City's utility tax and transfer all such collections to the City on the fifteenth (15th) business day of each month.

D. Financial Report. The Company shall on annual basis provide City a reasonably detailed Financial Report on the Water System that presents in all material respects the financial

position of the Water System. The Financial Report shall contain a balance sheet and related statements of income, cash flow and capital investment by the Company that conform to accounting principles generally accepted in the United States of America. The Company shall deliver the Financial Report to City sixty (60) days after the close of the fiscal year.

E. Financial Audit. City shall have the right to conduct at any time, at City's expense, an audit of the financial statements of the Water System. The Company shall provide any accounting, financial, or other report or information related to the Company's operation and maintenance of the Water System reasonably requested by City.

Section 7. Operation of Water System.

A. Repair, Maintenance and Operation: The Company shall operate the Water System and pay all costs and expenses relating to its operations, provided, however, that if the total annual maintenance and repair costs exceed $110,000, the excess costs shall be considered System Improvements and shall be included in Capital Charges charged to the customers in the year following the year incurred pursuant to Section 9 of this Lease. City shall not be obligated to pay any cost or expense in connection with or related to the management, operation, improvement, repair or maintenance of the Water System during the Term of this Lease except for any Environmental Liabilities as defined in Section 3. The Company shall undertake any System Improvements and repairs and perform routine and emergency maintenance of the Water System in accordance with customary utility practices. All System Improvements to the Water System shall be subject, however, to the procedures set forth in Section 9 hereof.

B. Customer Service Obligations: The Company shall have the following customer service obligations: sending monthly or bimonthly bills, at the Company's election, to all customers receiving water service in the Service Area; payment processing; responding to customer inquiries on water service, bills, leaks or other concerns; collecting bills; processing applications for new or transfers of service; collecting customer deposits for new service; collecting construction meter deposits; investigating customer complaints.

C. Emergency Service Obligations: The Company shall have the following emergency service obligations while the Lease is in effect: maintaining 24 hour on-call response to emergency calls or customer inquiries; providing an emergency or natural disaster operations plan; maintaining an emergency communications system; providing or having access to equipment required to perform emergency repair work to vital system equipment and water mains.

D. Water Quality Testing Obligations: The Company shall have the following water quality testing obligations while the Lease is in effect: performing, or causing to be performed, by a State of California certified laboratory and all water sampling, analysis, testing and reporting required for water sources, distribution mains or customer premises by the U.S. Environmental Protection Agency, State of California Department of Health Services and Office of Drinking Water and the County Environmental Health Department, or acts of the U.S. Congress or California Legislature; scheduling and collecting water samples to test for microbiological, inorganic and organic constituents; transportation to a certified lab; preparing monitoring plans; sample collection training; reporting to appropriate regulators; record keeping;

analysis interpretation; special or emergency sample collection and analysis, and emergency notification to affected customers, if required; preparing and distributing all published and distributed customer reports on water quality; new well or water source sampling and analysis; response to customer inquiries on water quality; coordination of cross-connection control and potential contamination issues; conducting an annual system survey with the California State Department of Health Services; obtaining any necessary permits and compliance with appropriate air district regulations; providing hazardous materials control program, and ensuring all operator certification compliance with State and Federal requirements.

E. Other Service Obligations: The Company shall have the following additional service obligations while the Lease is in effect: implement a water conservation program; maintain distribution system maps and plat maps; prepare any required urban water management plans; and in general, to do all such acts and perform all such services that are required to operate the Water System in a manner similar to that which is customary and standard in the water utility industry, subject, however, to the provisions of this Lease.

F. Operations Report: The Company shall on annual basis provide City a reasonably detailed Operations Report on the Company's operation and maintenance of the Water System. The Operations Report shall include but not limited to reports on customer inquiries, bad debt, conservation activities, meter replacements, water testing results, system leaks and other pertinent Operations and Maintenance activities and data related to the Water System. The Company shall deliver the Operations Report to City sixty (60) days after the close of the fiscal year. The Company shall periodically provide City any other report or information related to the Company's operations and maintenance of the Water System that is reasonably requested by City.

G. General Operation: Unless inconsistent with the specific terms of this Lease, the Company shall operate the Water System according to the procedures which are customary and standard in the water utility industry and in compliance with all Legal Requirements.

Section 8. Rates and Charges.

A. Rate Relief. During the first three years of the Term of this Lease, without the prior written consent of City, the Company may not increase the Water Service Rates, except for the extraordinary rate relief described in Paragraph 8B, the surcharges described in Paragraph 8C and the Capital Charges for System Improvements described in Section 9. The Company shall propose to City reasonable rates and charges from time-to-time thereafter for water service for customers served by the Water System by a Request for Rate Relief. The Request for Rate Relief shall: (i) be submitted in writing and in the format set forth in Exhibit C; (ii) include pertinent work papers used to develop the Request for Rate Relief; and (iii) set forth the reasons that support the Company's Request for Rate Relief. The Company shall be entitled to recover in its Water Rates all necessary and reasonable costs related to performing the services set forth in this Lease and a fair and reasonable rate of return. The Company shall be entitled to earn an after-tax rate of return of eight percent (8%) on Gross Revenues. If in any year the Company's after-tax rate of return is below 8% ("Shortfall Year"), the City agrees to enact Water Rates that will provide such a return to the Company in the calendar year following the Shortfall Year. All Requests for Rate Relief by the Company shall require approval by City, which approval shall

not be unreasonably withheld. Any disapproval shall state detailed reasons therefor. In determining reasonable rates and charges for water service, City shall consider all relevant information, including current CPUC approved rates and current proposed rates for the water companies operated by Cal-Am.

B. Extraordinary Rate Relief. City shall act on all Requests for Rate Relief within 60 days of receipt of the request. In cases of natural disaster, other emergencies, acts of God or other extraordinary events (including, without limitation, new governmental rules, regulations or permit requirements), City recognizes that extraordinary rate relief on an expedited basis may be necessary and City agrees to expeditiously consider any such reasonable Request for Relief. If City does not act on any Request for Rate Relief either within the 60 day period or on a expedited basis, as the case may be, and such Rate Relief eventually is approved or ordered, the water rates and charges shall be adjusted to recover from customers over a reasonable period of time such amounts as are necessary to restore the Company to the same financial position it would have been in had the rate increase been effective at the end of such 60 day period.

C. Surcharges. Notwithstanding the foregoing, the Company may upon written notice to the City, pass through to customers in the Service Area by means of a surcharge included on customer bills, in a manner substantially similar to that permitted by the CPUC, any increase in Government Charges or any increase in the cost of water or power (to the extent not already reflected in rates) and any property tax levied against the Company as a result of this Lease (as discussed in Section 20 below). Any surcharges also may include the additional amount that the Company will have to pay to City as a Lease Payment or Franchise Fee as a result of the increased water or power cost or Government Charges. The Company shall promptly pass through in a manner substantially similar to that permitted by the CPUC any decreases in water or power costs or Government Charges. The Company shall, at City's request, provide City with any information which City may reasonably request documenting any increases or decreases in the cost of water or power or any new Government Charges. The Company may also impose conservation or rationing penalties on those customers exceeding their allocations, if mandatory water rationing involving penalties is imposed on Water System customers by any water district or other Governmental Body.

Section 9. System Improvements.

Subject to the terms and conditions contained in this Section, the Company shallinvest a maximum of $10 million in the Water System for System Improvements during the first 10 years of this Lease. Further, the Company shall use its best efforts to obtain on behalf of the City, or to assist the City in obtaining, government grants and low-interest loans for System Improvements. The Company shall provide City with a reasonably detailed System Improvement Report recommending, on a priority basis, System Improvements to be undertaken in the following year to preserve or upgrade the Water System. The Company shall deliver the System Improvement Report to City prior to the commencement of the City's fiscal year to which it relates so that City may incorporate it into its budget for the applicable year. All System Improvements must be reviewed and approved by City in writing prior to any implementation thereof, which writing shall specify the source of the necessary funds to make the System Improvements (*e.g.*, City funds, government grants or low-interest loans or Company funds). If for any reason this Lease

is terminated prior to the expiration of the Term, the Company shall have no further obligation to invest funds in the Water System beyond the funds invested at the date of termination.

The annual System Improvements Report shall also contain a proposed Capital Charge, which shall be billed to the customers of the Water System as a surcharge.City shall institute such a Capital Charge to recover all financing and other costs related to System Improvementsfor the Water System. The Company shall be entitled to recover in a Capital Charge all necessary and reasonable financing and other costs related to the Net Capital Investment in the Water System, including but not limited to (i) recovery of financing costs related to the debt portion of the Net Capital Investment (ii) a fair and reasonable return on the equity portion of the Net Capital Investment; and (iii) recovery of the principal sum of the Net Capital Investment at an annual rate of four percent (4%) of the Net Capital Investment. The recovery period shall be adjusted to provide full recovery over the remaining term of the Lease. The Company shall not be obligated to fund or construct any System Improvements unless City approves a Capital Charge recommended by the Company for such System Improvements.

If this Lease is terminated for any reason, , then City shall be required to pay the Company the Net Capital Investment, plus any unpaid financing or other costs related to the Net Capital Investment. City shall make payment to the Company prior to the effective termination date of this Lease.

Section 10. Evaluation of System.

The Company, upon reasonable advance written request of City or its agent, shall permit City or City's agent to conduct a comprehensive inspection of the Water System, including, but not limited to, field inspections, maintenance records and reports, customer complaints and System Improvement installations schedule and plans, in order to assess the condition of the Water System.

If City determines that all or part of the Water System is not being operated or maintained in accordance with customary industry standards, City shall provide written notice to the Company describing the deficiencies which City wishes to be corrected. The Company, shall within 75 days thereafter, file with City its written response describing which deficiencies the Company agrees need to be corrected together with a plan to correct those deficiencies.

If the Company, in its written response to City, disagrees with any or all of the deficiencies described in City's notice or if the Company does not agree to the plan for deficiency corrections proposed by City, the parties shall negotiate in good faith in an attempt to resolve all disputed issues. If agreement cannot be reached between the parties on any or all disputed issues, then the parties agree to submit the unsolved issues to arbitration in accordance with the provisions set forth in Section 30 below.

Section 11. Water Supply.

The City shall assign to the Company and the Company shall accept, the rights and duties of all water supply contracts with respect to the Water System that the City holds at the Commencement Date which previously have been reviewed and approved by the Company, including the Master Water Sales Contract with the San Francisco Public Utilities Commission.

Any bills or invoices received by the City pursuant to such contracts for water delivered after the Commencement Date shall be promptly forwarded to the Company for payment. If assignment or transfer of any other supply or operating contracts is deemed necessary by either the Company or City, City shall cooperate with the Company in completing such assignment or transfer for the duration of this Lease. The City also acknowledges that the Company will receive and deliver water in the Water System from Hetch Hetchy reservoir that will be treated by the City of San Francisco, and the Company shall not be liable or otherwise responsible for the quality of any such water as delivered to it by the City of San Francisco.

Section 12. Customer Billing and Collections.

A. The Company shall bill and collect the charges to customers receiving water through the Water System in accordance with the City's Schedule of Rates for Water Service and administrative rules that govern Water Service Rates, billing and collection of water service charges, which Water Service Rates may be adjusted from time-to-time pursuant to Sections 8 and 9. The Company may propose, however, revisions to City's administrative rules governing billing, collection, payment and credit and City shall approve such revisions if they are reasonable and comply with laws applicable to municipality-owned water systems. The Company shall submit any proposed revisions of such rules to City for prior approval.

B. To the extent required by law, the Company shall bill and collect on behalf of City from Water System customers any additional amounts which City may assess as a City user's tax on such customers and shall promptly pay all such amounts to City.

C. City agrees to cooperate with the Company in collecting unpaid/delinquent accounts and, when necessary and legally appropriate, impose property tax liens against customers whose accounts have been unpaid for an unreasonable period of time. In doing so, City shall not be obligated, however, to pursue collection proceedings on behalf of the Company. The City authorizes the Company to act on its behalf in exercising all powers and remedies available to the City in collecting unpaid/delinquent accounts.

D. The meters of all customers in the Service Area shall be read prior to the Commencement Date in accordance with a schedule agreed upon by City and the Company. All monies received by either City or the Company pertaining to water service furnished prior to the Commencement Date shall be and remain the property of City. Payments of Gross Revenues received by either City or the Company for water service furnished during the Term shall be and remain the property of the Company. If City receives any such payments it shall turn them over to the Company. Payments collected by the Company on accounts that were delinquent prior to the Commencement Date shall be delivered to City. Upon expiration or earlier termination of the Term, the amounts due through such expiration or termination date from all customers shall be calculated by the Company and, in lieu of collection and retention of such amounts by the Company, the Company shall be promptly paid such amount by City less a reasonable amount for bad debts based on the collection history of the customers in the Service Area.

Section 13. Insurance.

A. Obligations of the Company. During the Term, the Company at its own cost and expense shall maintain insurance, issued by a carrier or carriers as follows:

(1) Commercial general liability insurance in the single limit amount of not less than $5,000,000, written on an occurrence basis. This insurance shall include coverage for injury (including death) or damage to persons and/or property arising out of the operations of the Company pursuant to this Lease. The policy shall include coverage for liability assumed under this Lease for personal injury, property damage and all other insurable claims as an "insured contract" for the performance of the Company's obligations under this Lease.

(2) Workers' compensation insurance, or a certificate of self-insurance, insuring against liability under the Workers' Compensation Insurance and Safety Act now in force in California, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof. This insurance shall fully cover all persons employed by the Company in connection with its operations under this Lease for claims of injury (including death) arising in connection with their employment by the Company pursuant to its operation and management of the Water System.

(3) Automobile (vehicle) liability insurance on an occurrence basis for bodily injury and/or property damage in a single limit amount of not less than one million dollars ($1,000,000).

B. All policies of insurance required by this Lease shall contain an endorsement in favor of City.

C. The parties shall periodically review from time-to-time the insurance required hereby to determine if increases in the minimum limits of such insurance are necessary.

D. All insurance shall be written under policies issued by insurers of recognized responsibility, licensed or permitted to do business in the State of California and reasonably acceptable to City.

E. All policies of insurance shall provide that such policies may not be canceled or materially changed without at least 30 days' prior written notice to the Company and to City. A certificate of insurance shall be delivered to City, prior to the Commencement Date and the expiration dates of expiring or non-renewed policies.

F. The limits of insurance required by this Lease or as carried by the Company shall not limit the liability of the Company nor relieve the Company of any obligation hereunder.

G. The Company shall cause each insurance policy obtained by it to provide that the insurance company waives all rights of recovery by way of subrogation against City in connection with any damage covered by any policy.

Section 14. Periodic Reviews.

Either party shall have the option to request a meeting at least 180 days prior to the expiration of each five year period of the Term to evaluate the performance of the Company under the Lease and the financial feasibility for the Company to continue the Lease under its existing terms in light of past events and anticipated future events. If either party requests such a meeting, the parties shall negotiate in good faith on all issues relating to the terms of the Lease or performance under the lease, as to which they may disagree. After the conclusion of these good faith negotiations, either party shall be entitled to terminate the Lease by providing the other party with written notice of termination at least 60 days prior to the 5th, 10th, 15th or 20th anniversary of the Commencement Date, as the case may be, if such party reasonably concludes that it is not in its best interest to continue the Lease.

Section 15. Liens and Encumbrances.

City shall keep the Water System and all revenues arising from its operation free and clear of all liens, security interests and encumbrances except for those consented to by the Company. The Company shall keep its leasehold interest in the Water System created pursuant to this Lease free and clear of all liens, security interests and encumbrances, except for those consented to by the City.

Section 16. Surrender Upon Expiration or Termination.

Upon expiration or termination of this Lease, the Company agrees that it shall surrender to City the Water System in good order and condition and in a state of repair that is consistent with prudent use and maintenance, subject to the City having approved the System Improvements and related Capital Charges proposed from time-to-time by the Company.

Section 17. Representations and Warranties.

A. Representations and Warranties of City. City hereby represents and warrants to the Company that:

(1) City is duly organized and an existing municipal corporation under the laws of the State of California and is duly authorized to execute and deliver this Lease.

(2) City has the power, authority and legal right to enter into and perform this Lease and the execution, delivery and performance hereof by the City (i) have been duly authorized by City, acting by and through its City Council and Mayor, (ii) do not require any other approvals by any Governmental Body, (iii) will not violate any Legal Requirement applicable to City, and (iv) do not constitute a default under, or result in the creation of, any lien, charge, encumbrance or security interest upon the Water System or any agreement or instrument to which City is a party that relates to the Water System or by which the Water System may be bound or affected.

(3) City owns the Water System free and clear of all liens, security interests and encumbrances.

(4) This Lease has been duly entered into by City and constitutes a legal, valid and binding obligation of City, enforceable against City in accordance with its terms.

(5) There is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or threatened against City, or otherwise affecting the Water System, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by City of its obligations hereunder, or which, in any way, would adversely affect the validity or enforceability of this Lease, the operation of the Water System by the Company or any other agreement or instrument entered into by City in connection with the transactions contemplated hereby.

(6) The Water System is being operated in compliance, in all material respects, with all Legal Requirements. Except as described in Exhibit D, there are no outstanding complaints, orders, citations, notices or orders of violation or non-compliance issued with respect thereto under any Legal Requirements, nor does City know or have reasonable grounds to know of any facts which could give rise to a notice of non-compliance under any Legal Requirements.

(7) The Water System is being operated in accordance with all Legal Requirements and all applicable permits have been obtained with respect thereto. City has no knowledge of any proceeding or application which has been instituted or which is pending to amend the terms of any permit issued in connection with or with respect to the operation and maintenance of the Water System. All permit applications required to be filed and all permit fees required to be paid in connection with the Water System have been filed and paid, as applicable.

(8) City has no knowledge of any claim, proceeding, suit or demand alleging responsibility for damage to or destruction of tangible property, including the loss of use resulting therefrom or bodily injury, sickness, disease or death, in any way related to the operation and maintenance of the Water System.

(9) The Water System has been operated and it is in compliance with all material terms of the agreements and contracts relating to its operation and no party thereto is in material violation of or in default thereunder.

(10) The City represents and warrants that the Water System is in compliance with all applicable Legal Requirements and has been designed, installed and maintained to allow continued operation to meet all applicable Legal Requirements currently in existence or known to become effective during the term of this Lease and the Water System does not pose a known undue risk of liability to the Company as its operator. The City further represents and warrants that there is no soil or groundwater contamination or any other condition, defect, occurrence, threatened occurrence or event that could produce soil or groundwater contamination associated with the Water System or that could violate any Environmental Laws except as specifically identified and described on Exhibit E attached hereto.

B. Representations and Warranties of the Company. The Company hereby represents and warrants to City that:

(1) The Company is a corporation duly organized and existing under the laws of the State of Delaware and is qualified to do business in the State of California.

(2) The Company has the power, authority and legal right to enter into and perform its obligations set forth in this Lease, and the execution, delivery and performance hereof (i) have been duly authorized, (ii) do not require the approval of any Governmental Body, (iii) will not violate any Legal Requirements applicable to the Company or any provisions of the organizational documents of the Company, and (iv) do not constitute a default under or result in the creation of, any lien, charge, encumbrance or security interest upon any assets of the Company under any agreement or instrument to which the Company is a party or by which the Company or its assets may be bound or affected.

(3) This Lease has been duly entered into and constitutes a legal, valid and binding obligation of the Company, fully enforceable against the Company in accordance with its terms.

(4) There is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or, to the best of the Company's knowledge, threatened against the Company, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by the Company of its obligations hereunder, or which, in any way, would adversely affect the validity or enforceability of this Lease, the operation of the Water System by the Company or any other agreement or instrument entered into by the Company in connection with the transactions contemplated hereby.

Section 18. Default and Remedies.

A. The occurrence of any of the following shall constitute a default by the Company:

(1) If the Company fails to make any payment to City or to any third party required by this Lease as and when due, or to obtain and maintain any insurance required by this Lease, where such failure continues for 30 days following receipt of written notice from City specifying the failure;

(2) If the Company fails to perform any of its other covenants or agreements contained in this Lease, where such failure continues for 60 days following receipt of written notice from City specifying the failure;

(3) Notwithstanding subsection (2) above, in the case of a failure to perform which cannot feasibly be cured within 60 days (for example, a major repair to the Water System), a default shall only occur if the Company fails to commence and diligently proceed toward full performance of the cure within 60 days following receipt of written notice from City specifying the failure, or if the Company fails to complete such performance within a reasonable time thereafter; or

(4) If (a) the Company becomes bankrupt or insolvent or makes any general arrangement or assignment for the benefit of creditors; (b) if the Company becomes a "debtor" as defined in 11 U.S.C. Section 141 or any successor statute thereto (unless, in the case of a petition filed against the Company, the same is dismissed within 90 days); (c) if a trustee or receiver is

appointed to take possession of substantially all of the Company's assets or of the Company's interest in this Lease and possession is not restored to the Company within 60 days; or (d) if a writ of attachment or execution is levied on, or there is a judicial seizure of, substantially all of the Company's assets or of the Company's interest in this Lease and such seizure is not discharged within 60 days.

B. If City shall default in performing any of its covenants or agreements contained herein, including the unreasonable withholding of approval of Requests for Rate Relief, and such default shall continue for a period of 60 days after receipt by City from the Company of written notice specifying the nature of the default, then the Company may at its option, upon 60 days written notice, cancel and terminate this Lease. In the case of a default which cannot feasibly be cured within 60 days, if City fails to commence performance and diligently proceed toward full performance within 60 days after receipt of notice by the Company of City's failure to perform or fails to complete performance within a reasonable time thereafter, the Company may, upon 60 days prior written notice, terminate this Lease. The Company shall be entitled to all legal and equitable remedies provided by law if it terminates this Lease in accordance with this Paragraph 18B.

C. In the event of a default by the Company, the City may terminate this Lease on 60 days prior written notice. Alternatively, the City may elect to not terminate the Lease during the duration of the default and shall have the right to continue receiving payments hereunder and other required performances by the Company when due hereunder.

D. Notwithstanding any provision of this Section 18 to the contrary, if a default or failure to perform by the Company poses a threat to public health or safety, City shall so notify the Company, and if the Company fails to take corrective action within the time specified in such notice, City may enter the Water System and take all necessary action at the Company's expense. The Company shall promptly reimburse City for its costs.

E. Each party's performance under this Lease shall be excused if the party is unable to perform because of causes beyond its reasonable control, including but not limited to Acts of God, the acts of civil or military authority, floods, earthquakes, riots, strikes, interruption of water deliveries from the San Francisco Public Utilities Commission and commercial impossibility. In the event of any such force majeure, the Company will notify the other party within 24 hours of the existence of such force majeure event and shall be required to resume performance of its obligations under this Agreement upon the termination of the force majeure event.

F. Any disputes regarding the occurrence of a default hereunder, or the consequences thereof, shall be subject to the provisions of Section 30 below regarding arbitration.

Section 19. Discharge of Liens.

The Company shall pay and discharge all claims for materials, parts, labor, water, power and other consumables and supplies furnished at the Company's request upon or to the Water System and to keep the Water System free and clear of all liens resulting from such claims. City

agrees to pay and discharge all claims and obligations for materials, parts, labor, water, power and other consumables and supplies furnished at City's request upon or to the Water System prior to the commencement of the Term of this Lease.

Section 20. Taxes and Assessments; Possessory Interest.

The Company shall pay all taxes, assessments, fees, levies, charges, license or permit fees and other government charges of any kind or nature while this Lease is in effect levied, charged, assessed or imposed upon or against the Water System. The City shall pay all taxes, assessments, fees, levies, charges, license or permit fees and other government charges of any kind or nature levied, charged or imposed upon or against the Water System prior to the Commencement Date of the Lease. Without limiting the generality of the foregoing, the Company acknowledges that this Lease may create a possessory interest which may be subject to property taxation and that the Company may be subject to the payment of property taxes levied on such interest. Any such tax shall be the sole responsibility of the Company; provided, however, the Company may include any such property tax as a surcharge to be billed to customers pursuant to Paragraph 8C.

Section 21. Compliance with Law.

Except as otherwise provided in this Lease, the Company shall, at the Company's sole cost and expense, diligently and in a timely manner, comply in all material respects with all applicable laws, which term is used in this Lease to include all Legal Requirements. The Company shall notify City in writing (with copies of any documents involved) of any threatened or actual claim, notice, inquiry, citation, warning, complaint or report pertaining to or involving failure by the Company or the Water System to comply with any Legal Requirements.

Section 22. Hazardous Substances.

A. The Company shall not cause any release, generation, manufacture, storage, treatment, transportation, or disposal of Hazardous Substance on, in, under, or from the Water System in violation of any Legal Requirement. If the Company does cause any release or disposal of any Hazardous Substance on, in, or under the Water System, the Company, at its own cost and expense, will immediately take such action as is necessary to detain the spread of and remove the Hazardous Substance to the complete satisfaction of City and other appropriate Governmental Bodies. The Company shall promptly notify City of any release or disposal (of which the Company has knowledge or becomes aware) of any Hazardous Substance on, in, under or from the Water System.

B. The Company shall indemnify, defend (with counsel reasonably acceptable to City) and hold City and City's officers, agents and employees, free and harmless from and against, all losses, liabilities, obligations, penalties, claims, litigation, demands, defenses, costs, judgments, suits, proceedings, damages , disbursements or expenses of any kind (including attorneys' and experts' fees and expenses and fees and expenses incurred in investigating, defending, or prosecuting any litigation, claims, or proceeding) that may at any time be imposed upon, incurred by, asserted, or awarded against City in connection with or arising from or out of:

(1) any breach of any covenant or agreement of the Company contained or referred to in this Section 22;

(2) any violation or claim of violation by the Company of any Legal Requirement that is finally adjudicated to be a violation of a Legal Requirement, except a claim that this Lease or any City ordinance violates a Legal Requirement; or

(3) the imposition of any lien on the Water System for the recovery of any Clean Up Costs relating to the release or threatened release of any Hazardous Substance by the Company.

The expiration or termination of this Lease and/or the termination of the Company's right to possession shall not relieve the Company from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the Term hereof by reason of the Company's operation and management of the Water System.

C. City shall, at its sole expense, conduct a Phase I environmental assessment on the Water System prior to or within 14 days of the Commencement Date. If the environmental assessment concludes that there is a reasonable chance that soil or groundwater contamination in violation of applicable legal standards or other violation of a Legal Requirement exists on or below property included in the Water System, the City shall, at its sole expense, conduct a Phase II environmental assessment within 60 days of receipt of the Phase I assessment report in order to confirm the existence of and characterize the problem. The City shall be solely responsible for any future investigation, testing or remediation required as a result of conditions discovered in the Phase I or Phase II environmental assessments and shall conduct any such remediations in coordination with the Company's operation of the Water System.

D. City shall indemnify, defend (with counsel reasonably acceptable to the Company) and hold the Company and its officers, agents, employees, shareholders and affiliates free and harmless from and against, all losses, liabilities, obligations, penalties, claims, litigation, demands, defenses, costs, judgments, suits, proceedings, damages, disbursements or expenses of any kind (including attorneys' and experts' fees and expenses, fees and expenses incurred in investigating, defending, or prosecuting any litigation, claims, or proceeding, and the cost of site investigation, testing and Clean Up Costs) that may at any time be imposed upon, incurred by, asserted, or awarded against the Company in connection with or arising from or out of:

(1) any Hazardous Substance on, in, under, or affecting all, or any portion of the Water System (including, without limitation, the imposition of any lien for the recovery of any Clean Up Costs), excluding any Hazardous Substance released, generated, manufactured, stored, treated, transported or disposed of by the Company or its affiliates;

(2) any breach of any covenant or agreement of City contained or referred to in this Section 22;

(3) any violation or claim of violation by City or any other entity or person, other than the Company or its affiliates of any Legal Requirement; or

(4) the imposition of any lien on the Water System for the recovery of any Clean Up Costs relating to the release or threatened release of any Hazardous Substance other than by the Company.

The expiration or termination of this Lease shall not relieve City from liability under any indemnity provisions of this Lease.

E. The notice and other procedures set forth in Section 23 below shall govern all indemnification claims and rights under this Section 22.

Section 23. Indemnity.

The Company shall hold City, and its officers, agents and employees, free and harmless of and from, and to defend, indemnify, and protect City, and its officers, agents and employees, against all liability, loss, claims, actions, demands, damage, expense, costs (including, without limitation, reasonable attorneys' fees and all costs and fees of litigation and its threat) asserted against City of any kind or nature arising out of or in any way connected with any misrepresentation, breach or inaccuracy of any representation or warranty or material nonfulfillment of or material failure to comply with any agreement, condition or covenant on part of the Company under this Lease, to the maximum extent permitted by law ("Indemnified Losses"). The expiration or termination of this Lease shall not relieve the Company from liability under any indemnity provisions of this Lease.

City shall hold the Company, and its officers, agents, employees, shareholders and affiliates, free and harmless of and from, and to defend and indemnify the Company, and its officers, agents and employees, against all liability, loss, claims, actions, demands, damage, expense, costs (including, without limitation, all costs and fees of litigation and its threat) asserted against the Company of any kind or nature arising out of or any way connected to the ownership or operation of the Water System occurring or accruing prior to or after the Term, including the condition (known or unknown) of the Water System facilities, or any material misrepresentation, breach or inaccuracy of any representation or warranty, or material nonfulfillment or material failure to comply with any agreement, condition or covenant on the part of City under this Lease or any actions or omissions of the City or its employees, agents or officials, to the maximum extent permitted by law ("Indemnified Losses"). The expiration or termination of this Lease shall not relieve the City from liability under any indemnity provisions of this Lease.

If there is asserted any claim, liability or obligation that in the judgment of a party indemnified above (an "Indemnified Party") may give rise to any Indemnified Losses, such Indemnified party shall give the party from whom indemnity is sought (the "Indemnitor") notice within 30 days of the assertion of any claim, liability or obligation, or within 30 days of receipt of notice of the filing of any lawsuit, arbitration action or other proceeding based upon such assertion, or, with respect to a claim not yet asserted against the Indemnified party, promptly upon the determination by the Indemnified Party of the existence of the same, and shall give Indemnitor a reasonable opportunity of assuming the defense of such claim, liability or obligation, using counsel acceptable to the Indemnified Party; provided, however, that the Indemnified Party shall have the right to participate in such defense. Failure by the Indemnified

Party to give timely notice pursuant to this Section shall not relieve the Indemnitor of its obligations, except to the extent that the Indemnitor is actually prejudiced by such failure to give timely notice. No settlement or adjustment shall be made without the Indemnified Party's prior written consent, which consent shall not be unreasonably withheld. If Indemnitor fails to contest in good faith any such claim, liability or obligation, the Indemnified Party shall have the right to defend, settle or pay the same and pursue its remedies for indemnities against Indemnitor hereunder. The Indemnified Party shall cooperate with Indemnitor in any such defense which Indemnitor elects to assume in the event Indemnitor makes such request to the Indemnified party and such request is reasonable, provided Indemnitor will hold the Indemnified Party harmless from all of its reasonable out-of-pocket expenses, including reasonable attorneys' fees, incurred in connection with the Indemnified Party's cooperation. In the event of a disagreement among the parties as to whether any claim, liability or obligation may give rise to an Indemnified Loss, then the Indemnified Party shall have the right to defend, settle or pay the same, and/or to pursue its remedies against Indemnitor hereunder; provided, however, that Indemnitor shall have the right to participate in such defense, and no settlement or adjustment shall be made without Indemnitor's prior written consent, which consent shall not be unreasonably withheld.

Neither party shall be liable to the other party for indirect or consequential damages.

Section 24. City's Access.

City and City's agents shall have the right to enter the Water System at any time in the case of an emergency, and otherwise at reasonable times and on reasonable prior notice for the following purposes (i) to determine whether the Water System is in good condition as required by this Lease and whether the Company is complying with its obligations under this Lease, (ii) to serve, post or keep posted any notices required or allowed by law or under this Lease, and (iii) as City may otherwise reasonably deem necessary.

Section 25. California Law.

This Lease shall be governed by the laws of the State of California without regard to conflict of laws principles.

Section 26. Notices.

Any notice or communication required or permitted hereunder, shall be deemed to have been given if in writing and (a) delivered in person, (b) delivered by confirmed facsimile transmission, (c) sent by overnight carrier, postage prepaid with return receipt requested, or (d) mailed by certified or registered mail, postage prepaid with return receipt requested, addressed as follows:

City: City of East Palo Alto

2415 University Avenue
East Palo Alto, California 94303
Attn: City Manager

The Company: American Water Services, Inc.

10000 Sagemore Drive, Suite 10101
Marlton, New Jersey 08043
Attn: President

With a copy to: California-American Water Company

880 Kuhn Drive
Chula Vista, California 91914
Attn: President

or such other address and to the attention of such other person as a party may notice to the others in accordance with this Section 25. Any such notice or communication shall be deemed received on the date delivered personally or delivered by facsimile transmission, on the first Business Day after it was sent by overnight carrier, postage prepaid with return receipt requested or on the third Business Day after it was sent by overnight carrier, postage prepaid with return receipt requested.

Section 27. Waiver.

The waiver by City of any breach by the Company of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term, covenant or condition hereof. The waiver by the Company of any breach by City of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term, covenant or condition hereof.

Section 28. Merger and Modification.

This Lease sets forth the entire agreement between the parties with respect to the subject matter hereof, and supersedes all other oral or written provisions. This Lease may be modified or terminated only in a writing signed by all parties.

Section 29. Assignment.

The Company shall not assign this Lease or sublet the Water System or any portion thereof without the consent of City, which consent shall not be unreasonably withheld; provided, however, that City's consent shall not be required in connection with any assignment by the Company of any of its rights or obligations hereunder to, or otherwise utilize, Cal-Am or any other affiliated company which is controlled by, controls, or under common control with the Company.

Section 30. Arbitration.

All controversies, claims, disputes or counter-claims arising under or relating to this Lease or any resulting transaction, whether it involves a disagreement about its meeting, interpretation, application, performance, breach, termination, enforceability or validity and whether based on statute, tort, contract, common law or otherwise ("Dispute") shall be determined exclusively by binding arbitration in San Mateo County, California, before one

arbitrator. The arbitration shall determine all questions of arbitrability, including, without limitation, the scope of this agreement to arbitrate, the subject matter of the Dispute, whether an agreement to arbitrate exists and, if so, whether it covers the Dispute in question, and any other form of disagreement or conflict among the parties to this Lease, whether such Dispute existed prior to, or arises after the date of this Lease.

The arbitration shall be governed by the American Arbitration Association ("AAA") under its commercial arbitration rules, provided that the person eligible to be selected as the arbitrator shall be limited to an attorney-at-law who has practiced law for at least 15 years as an attorney in California specializing in either general commercial litigation or general corporate and commercial or utility matters. Any party may commence arbitration at any time, subject to the obligations to negotiate disagreements contained in this Lease, by giving written notice to the other party that such dispute has been referred to arbitration under this Lease. The arbitrator shall be selected by the joint agreement of the parties, subject to the standards set forth above, but if they do not so agree, within 20 days following the notice referred to above, then the selection shall be made pursuant to the AAA Rules from the panel of arbitrators that meet the qualifications set forth above maintained by such association. The parties shall be entitled to conduct discovery in connection with the Dispute in accordance with the Federal Rules of Civil Procedure. Within 10 days following the appointment of the arbitrator, each party shall furnish the arbitrator with a statement of the matters in dispute. The arbitrator shall commence the hearing within 20 days of receiving such statement and shall complete the arbitration and file his/her decision within 60 days following his/her appointment. The cost of arbitration, including the arbitrators fees and the fees and costs of counsel, shall be allocated by the arbitrator in his/her decision. If the arbitrator determines that the dispute and arbitration, or either, is not the result of good faith on the part of any party, then the arbitrator may make an additional award to the other party for such sums as the arbitrator may in his/her discretion determine as a reasonable damage figure.

The award of the arbitrator shall be binding and conclusive upon the parties and may be entered in any state or federal court within San Mateo County, California. There shall be no right of appeal from the award of the arbitrator.

The party and the arbitrator may not disclose the existence, content or results of any arbitration without the prior consent of all of the parties, except as required by any Legal Requirement.

Section 31. Attorneys' Fees.

If any party to this Lease commences legal proceedings or arbitration to interpret this Lease, to enforce any of its terms or for damages for its breach, the prevailing party shall be entitled to recover reasonable attorneys' fees.

Section 32. Execution.

This Lease is effective upon full execution. It is the product of negotiation and therefore shall not be construed against any party.

Section 33. Counterparts.

This Lease may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, but all together shall constitute but one and the same Lease.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed and attested by their proper officers thereunto duly authorized, and their official seals to be hereto affixed, as of the day and year first above written.

CITY OF EAST PALO ALTO

By: _____
CITY MANAGER

Approved to Form and Content:

By: _____
CITY ATTORNEY

THE COMPANY:

AMERICAN WATER SERVICES, INC.,
a Delaware corporation

By: _____
PRESIDENT

Exhibit A—Service Area

EXHIBIT A

LEGAL DESCRIPTION OF THE EAST PALO ALTO COUNTY WATERWORKS DISTRICT

BEGINNING at the point of intersection of the center line of San Francisquito Creek with the westerly line of Woodland Place Subdivision as said San Francisquito Creek and Woodland Place are shown on that certain map entitled "MAP OF WOODLAND PLACE SUBDIVISION NO. ONE OF RAVENSWOOD SAN MATEO COUNTY CALIFORNIA" filed for record August 1st, 1910, in Book 7 of Maps at Page 24, Records of San Mateo County, California, and running thence from said point of beginning northerly along the westerly line of said Woodland Place to the intersection thereof with the southerly line of O'Connor Street as said O'Connor Street is shown on that certain map entitled "CHARLES WEEKS POULTRY COLONY FOURTH ADDITION TO RUNNYMEDE", recorded February 13, 1920, in Book 10 of Maps at Page 28, San Mateo County Records; thence westerly along the southerly line of said O'Connor Street to the intersection thereof with the northerly extension of the easterly line of Byers Drive as said Byers Drive is shown on that certain map entitled "TRACT NO. 629 FALK SUBDIVISION" filed for record April 26, 1956, in Book 44 of Maps at Page 50, San Mateo County Records; thence southerly along said northerly extension and said easterly line of Byers Drive and the southerly extension thereof to the southerly line of Falk Court as shown on said map of "FALK SUBDIVISION"; thence westerly along the southerly line of said Falk Court to the easterly line of Lot 42 as shown on said map of Charles Weeks Poultry Colony; thence southerly along the easterly line of said Lot 42 to the southeasterly corner of said Lot; thence northwesterly along the southerly line of Lots 42, 43, 44, 45 and 46 as said lots are shown on said map of CHARLES WEEKS POULTRY COLONY a distance of 631.76 feet to the northeasterly corner of that certain tract of land described in Deed to Ravenswood School District, recorded March 15, 1956, in Volume 2986 of Official Records at Page 315, (36854-N) San Mateo County Records; thence southerly along the easterly line of the last said tract of land (36854-N) to its intersection with the northerly line of that certain 60.00 foot strip of land described in Deed to the County of San Mateo recorded September 22, 1949, in Volume 1717 of Official Records at Page 178; thence westerly along the northerly line of said 60.00 foot strip of land to the intersection thereof with the westerly line of last said tract of land (36854-N); thence northerly along the westerly line of said tract of land ^36854-N) to the northwesterly corner thereof which is also in the southerly line of that certain tract of land described in Deed to the Ravenswood School District, recorded March 15, 1956, in Volume 2986 of Official Records at Page 319 (36856-N), San Mateo County Records; thence westerly, northerly, easterly, northerly and easterly along the southerly, westerly, and northerly boundary lines of last mentioned tract of land to a point in the westerly line of that certain tract of land described in Deed to the Ravenswood School District, recorded January 18, 1957, in Volume 3161 of Official Records at Page 274 (20569-P), San Mateo County Records; thence northerly, easterly, southerly, easterly and southerly along the westerly, northerly and easterly boundary lines of last mentioned tract of land to the northwesterly corner of that certain tract of land describe in Deed to the Ravenswood School District, recorded March 15, 1956, in Volume 2986 of Official Records at Page 317 (36855-N), San Mateo County Records; thence along the northerly line of last mentioned tract of land South 79ÿ 43' East 154.899 feet to the northeasterly corner thereof and a point in the westerly line of that certain tract of land described in Deed to the Ravenswood School District, recorded January 18, 1957, in Volume 3161 of Official Records at Page 271 (20567-P), San Mateo County Records; thence along the westerly line of last mentioned tract of land North 10ÿ 19' East 90.00

feet to the northwesterly corner of said tract of land; thence South 79ÿ 43' East 309.80 feet to the easterly line of Lot 42 as shown on said map of CHARLES WEEKS POULTRY COLONY; thence along the easterly line of said Lot 42, South 10ÿ 19' East 137.28 feet to the intersection thereof with the northerly line of Falk Court as shown on the hereinbefore referred to map of the Falk Subdivision; thence easterly along the northerly line of Falk Court and northerly along the westerly line of Byers Drive, as said Falk Court and Byers Drive are shown on said map of Falk Subdivision and continuing northerly on the northerly prolongation of said Byers Drive to the northerly line of O'Connor Street as shown on the hereinbefore referred to map of CHARLES WEEKS POULTRY COLONY; thence easterly along the northerly line of said O'Connor Street to the intersection thereof with the westerly line of said Woodland Place Subdivision; thence northerly along the westerly line of said Woodland Place Subdivision and continuing northerly along the westerly line of Ravenswood Villas and continuing northerly along the northerly prolongation of the westerly line of Ravenswood Villas to the center line of Bay Road as said Ravenswood Villas and Bay Road are shown on that certain map entitled "RAVENSWOOD VILLAS SAN MATEO COUNTY, CALIF." filed for record February 5th, 1927, in Volume 15 of Maps at Pages 21 and 22, Records of San Mateo County; thence westerly along the center line of said Bay Road to the intersection thereof with the southerly prolongation of the easterly line of that certain tract of land shown on the map entitled "BAY SHORE PARK SAN MATEO COUNTY, CALIFORNIA", filed for record December 22nd, 1926, in Volume 14 of Maps, at Pages 60, 61 and 62, Records of San Mateo County; thence southerly along the southerly prolongation of the easterly line of said Bay Shore Park to the southerly line of said Bay Road; thence westerly long the southerly line of said Bay Road to the easterly line of Menalto Avenue, as said Menalto Avenue is shown on that certain map entitled "MENALTO PARK MAP NO. 3 SAN MATEO COUNTY, CALIF." filed for record December 1st, 1927, in Volume 16 of Maps at Page 52, Records of San Mateo County; thence southerly along the easterly line of said Menalto Avenue to the intersection thereof with northeasterly line of Bayshore Highway as shown on last said map; thence northwesterly 1,929.33 feet, more or less, along the northeasterly line of said Bayshore Highway to the easterly line of Willow Road as shown on said map of Menalto Park No. 3; thence northerly along the easterly line of said Willow Road as shown on the hereinbefore referred to map of Bayshore Park and continuing northerly along the easterly line of Willow Road to the southerly line of the right-of-way of the Southern Pacific Company's Dumbarton cut-off; thence easterly along said southerly right-of-way line to the intersection thereof with the northerly boundary line of the Rancho de las Pulgas; thence along said boundary of the Rancho de las Pulgas, South 70ÿ East and North 35ÿ East to the westerly line of that certain 50 foot strip of land described in Deed to the Spring Valley Water Company, recorded May 4th, 1912, in Book 210 of Deeds at Page 202, San Mateo County Records; thence along the northwesterly boundary of said 50-foot strip as described in Book 153 of Deeds at page 576 North 35ÿ East 170 feet, more or less, to the intersection thereof with the westerly prolongation of the northerly line of Tulane Avenue, as said Avenue is shown on map entitled "Tract No. 654 University Village Subdivision No. 4" filed in Volume 35, Subdivision Maps of San Mateo County, pages 19 and 20; THENCE easterly along said prolongation 90 feet, more or less, to a point in the southeasterly line of said 50-foot strip; thence northeasterly along said southeasterly line to the southerly right-of-way line of the Southern Pacific Company; thence easterly along said right-of-way on a curve to the left, tangent to a line which bears North 74ÿ 52' 45.5" East, said curve having a radius of 11,559.19 feet, a central angle of 6ÿ 22' 42.2" and an arc length of 1,286.81 feet to a point in the northerly line of "TRACT NO. 649 UNIVERSITY VILLAGE SUBDIVISION NO. 3 SAN MATEO COUNTY, CALIF." filed for record February 21, 1952, in Volume 34 of Maps at Pages 27 to 30 inclusive, Records of San Mateo County; thence easterly and southerly along the northerly and easterly line of said TRACT NO. 649 to the intersection thereof with the westerly prolongation of the northerly line of that certain tract of land shown on

the "MAP OF GARDEN ACRES SITUATE IN RANCHO DE LAS PULGAS SAN MATEO COUNTY, CALIF." filed for record May 7th, 1931, in Book 19 of Maps at Pages 53 and 54, Records of San Mateo County; thence easterly along said westerly prolongation, continuing easterly along the northerly line of said GARDEN ACRES to the northeasterly corner thereof, and continuing easterly along the easterly prolongation of the northerly line of said Subdivision to its intersection with the boundary of the Rancho de las Pulgas; thence southerly along the easterly line of said Rancho de las Pulgas to the most easterly corner of Lot 2, Block 21, as said lot and block are shown on that certain map entitled "TRACT NO. 634, PALO ALTO GARDENS MAP NO. 2 SAN MATEO COUNTY, CALIFORNIA", filed for record February 9th, 1951, in Volume 32 of Maps at Page 50, Records of San Mateo County; thence continuing southerly, along the easterly line of said Rancho de las Pulgas and the southerly prolongation thereof, South 13ÿ 15" East 1,383.25 feet to the most easterly corner of Lot 1, Block 30, as said lot and block are shown on that certain map entitled "TRACT NO. 636 PALO ALTO GARDENS MAP NO. 3 SAN MATEO COUNTY, CALIFORNIA" filed for record June 22, 1951, in Volume 33 of Maps at Page 33, Records of San Mateo County; thence along the southerly line of said Block 30, South 72ÿ 54' West 18.67 feet, South 66ÿ 27' West 471.00 feet, South 12ÿ 09' East 200.96 feet, North 69ÿ 35' West 119.60 feet and North 53ÿ 35' West 726.00 feet to the most westerly corner of Lot 22 in said Block 30; thence leaving the southerly line of said Block 30, South 56ÿ 55' West 462.00 feet and South 10ÿ 00' West 136.00 feet to a point in the centerline of San Francisquito Creek, said centerline being the dividing line between San Mateo and Santa Clara counties, where said centerline is intersected by the centerline of the Bayshore Highway, as said Highway existed in April, 1951; Thence southerly and westerly along said Creek centerline to the Point of Beginning.

Exhibit B—Water System

East Palo Alto County Waterworks District

EXHIBIT B

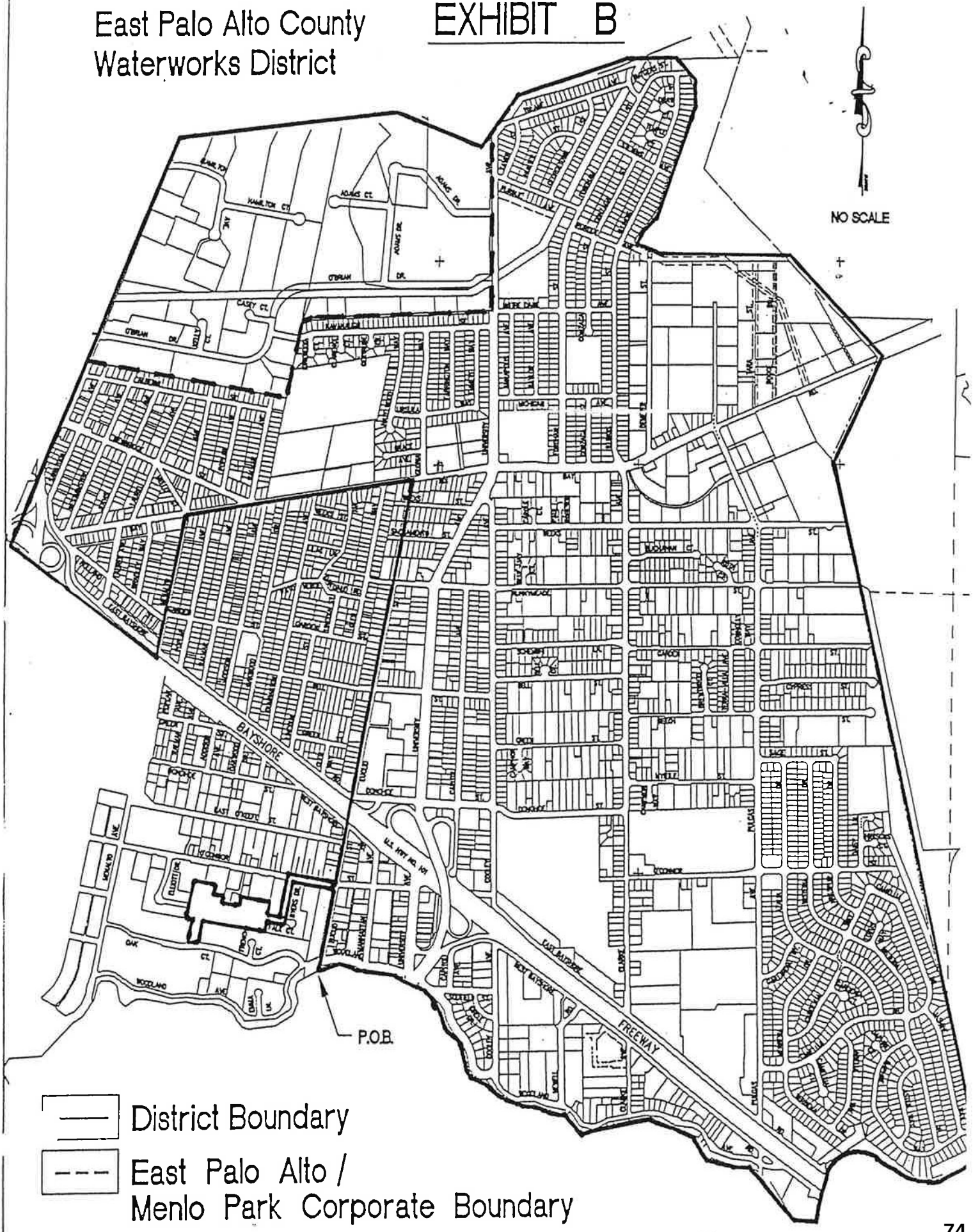


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Exhibit C—Request for Rate Relief Format

REQUEST FOR RATE RELIEF
WATER SERVICE

	Prior 12 Months Recorded At Present Rates	Next 12 Months Estimated At Present Rates	**Next 12 Months Estimated At Proposed Rates**
<u>Operating Revenues</u>			
Water Sales			
Service Charges			
Other			
Total			
Required Rate Increase			
% Increase			
<u>Operating Expenses</u>			
Labor			
Purchased Water			
Purchased Power			
Operations			
Maintenance			
Total			
Franchise Fee			
Lease Payment			
Payroll Taxes			
Iincome Taxes			
Total			
Net Income			
After Tax Rate or Return			

Exhibit D --- Section 17 - Outstanding Citations, Order, Etc.

The Water System is under an order issued by the California Department of Health Services to construct 3.7 million gallons of storage facilities.

Exhibit E --- Section 17 - List of Environmental Problems

AMENDED AND RESTATED
AGREEMENT FOR LEASE OF REAL PROPERTY (WATER SYSTEM)

THIS AMENDED AND RESTATED AGREEMENT FOR LEASE OF REAL PROPERTY (WATER SYSTEM) (this "Lease") is entered into as of June 28, 2026 (the "Agreement Date"), between the City of East Palo Alto, a municipal corporation of the State of California ("City"), and Veolia Water North America-West, LLC, a Delaware limited liability company (the "Company"). City and Veolia are each a "Party" and, together, the Parties.

WITNESSETH:

WHEREAS, through the Water System, City provides water service to approximately 4,030 domestic and industrial customers in the Service Area;

WHEREAS, City and American Water Services, Inc. ("American Water") entered into that certain Agreement for Lease of Real Property (Water System), dated April 9, 2001, pursuant to which City leased the Water System to American Water (as amended, the "Original Lease");

WHEREAS, American Water (then known as American Water Enterprises, LLC) assigned the Original Lease to the Company, effective June 1, 2020, which assignment was consented to by the City, and, pursuant to such assignment, the Company assumed the duties and responsibilities of American Water under the Original Lease;

WHEREAS, the Company possesses the resources, capacity and expertise to operate, maintain and manage the Water System; and

WHEREAS, the Parties wish to amend and restate the Original Lease with this Lease;

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein and for good and valuable consideration, the receipt and adequacy of which the parties hereby acknowledge, City and the Company hereby agree to amend and restate the Original Lease as follows:

AGREEMENT

Section l. Defined Terms.

For purposes of this Lease, the following terms shall have the meanings set forth below

"Capital Charge" means an amount charged to the customers of the Water System to recover the Capital Costs and other costs related to System Improvements.

"Capital Costs" means the cost of financing, designing, permitting and constructing recommended System Improvements and other costs associated therewith.

"Commencement Date" means the effective date upon which City assumed ownership of the East Palo Alto County Waterworks District, which the Parties agree to be June 28, 2001.

"Contractual Gross Revenues" means the calculation of Gross Revenues that would have been collected by Company if the wholesale rate of water purchased by Company from SFPUC was the same as the rate charged in Fiscal Year 2026-2027 ("Water Rate Differential" or the "Base SFPUC Rate"). Beginning in Fiscal Year 2027-2028, the Base SFPUC Rate shall be increased on the first day of each Fiscal Year by the percentage of positive change in the Contractual Gross Revenues Inflation Rate for purposes of calculating the Contractual Gross Revenues. The determination of Contractual Gross Revenues also includes deductions for the Franchise Fee Differential and the Lease Payment Differential. In no event shall the calculated Base SFPUC Rate exceed the actual SFPUC rate per ccf.

"*Contractual Gross Revenues Inflation Rate*" means the annual percentage change in the Consumer Price Index for All Urban Consumers, All Item, for San Francisco-Oakland-Hayward, CA Combined Statistical Area, as published by the Bureau of Labor Statistics (BLS), measured using the most recently published annual CPI-U percentage change available as of the calculation date, provided that if BLS ceases to publish either index, then the parties will, acting reasonably, replace such index with a comparable successor index.

"CPUC" means the California Public Utilities Commission.

"Environment" means soil, land, surface or sub-surface strata, surface waters (including navigable waters, oceans, streams, ponds, drainage basins and wetlands), groundwater, drinking water supply, stream sediments, ambient air, plant and animal life, and any other environmental medium or natural resource.

"Environmental Law" means any Legal Requirements designed to minimize, prevent, punish or remedy the consequence of actions or omissions that damage or threaten the Environment or public health and safety.

"Environmental Liabilities" means any costs, expenses or liabilities relating to or arising from any violation of any Environmental Law, including, without limitation, any potential or actual environmental clean-up or remediation of any Hazardous Substances that may be located on any property that constitutes part of the Water System, or that enter the water delivered to customers by the Water System, or any investigation of or environmental reports prepared with respect thereto.

"Financial Report" means that report required pursuant to Section 6E.

"*Fiscal Year*" means the fiscal year of the City, which runs from July 1 to June 30 annually.

"Franchise Fee" means the franchise fee required pursuant to Paragraph 6B.

"Franchise Fee Differential" means 5% of the calculated "Water Rate Differential" to be deducted from Gross Revenues in determining Contractual Gross Revenues.

"Governmental Body" means any governmental officer, agency, authority or entity.

"Government Charges" means any new City, State or federally imposed charges, taxes, license or permit fees, including, without limitation, the imposition of a possessory interest tax on the Company's interest in the Water System.

"Gross Revenues" means the service charges, water charges and miscellaneous charges generated by the Water System and described in the City's Schedule of Rates for Water Service actually collected by the Company in a particular period. The term Gross Revenues specifically excludes the utility tax collections, service connection charges, water impact and/or related development fees, facility buy-in charges, capital surcharges, and meter replacement surcharges as described in the City's Schedule of Rates for Water Service and Surcharges.

"Hazardous Substance" means any waste, substance, object, or material deemed hazardous under applicable law, including (a) "hazardous substances" as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended; (b) "hazardous waste" as defined in the "hazardous waste" under the Resource, Conservation and Recovery Act; and (c) "emerging contaminants" as identified by the U.S. Environmental Protection Agency or other governmental authorities due to their potential for adverse impacts to human health or the environment, specifically including, without limitation, perfluoroalkyl and polyfluoroalkyl substances ("PFAS") such as perfluorooctanoic acid ("PFOA") and perfluoro octane sulfonate ("PFOS"). As used herein, "Hazardous Substances" also means materials, equipment, physical property, soil, groundwater or stormwater that are contaminated with Hazardous Substances.

"Lease Payment Differential" means 6% of the calculated "Water Rate Differential" to be deducted from Gross Revenues in determining Contractual Gross Revenues.

"Legal Requirement" means any federal, State, local, municipal or other administrative order, constitution, law, ordinance, principle of common law, regulation, statute, order or other legal requirement.

"Lease Payment" means the lease payment required pursuant to Paragraph 6A.

"Operations Report" means that report required pursuant to Section 7F.

"Prudent Industry Practices" means those methods, techniques, standards and practices that, at the time they are employed and in light of the circumstances known or believed to exist at the time, are generally accepted as reasonably prudent in the municipal water distribution industry as practiced in the United States, including without limitation NIST Cybersecurity

Framework 2.0 and applicable guidance in NIST SP 800-82 with respect to data related to the Water System.

"Request for Rate Relief" means a written request for rate relief provided by the Company to City pursuant to which the Company shall request that the City provide reasonable water rates and charges.

"Service Area" means that certain real property described on Exhibit A attached hereto and in which the Water System is located (as such service area may change from time to time during the term of this Lease).

"Surcharges" means amounts charged to the customers of the Water System other than Capital Charges.

"System Improvements" means necessary capital improvements, replacements, or repairs to the Water System.

"System Improvement Report" means that report required pursuant to Section 9.

"Term" means that period commencing on the Agreement Date and ending three (3) years thereafter, unless terminated earlier or extended longer as provided in this Lease.

"Water System" means that certain real property, easements and rights of way and those certain pipes, mains, pumps and appurtenant facilities (including, without limitation, buildings, pump houses, sheds and other structures) constituting all of City's water system within the Service Area as more specifically described in Exhibit B attached hereto.

"*Water Service Rates"* means those rates for water service charged to customers of the Water System.

Section 2. Lease of Water System.

City hereby leases to the Company, and the Company hereby leases from City, the Water System described in Exhibit B with such additions or improvements to the Water System that may occur from time to time while this Lease is in effect. City agrees to provide the Company with copies of maps, drawings, plans and specifications of the Water System, along with customer service and account records in a form reasonably acceptable to both parties. The Company agrees to use Prudent Industry Practices (including those related to cybersecurity) to keep all customer information confidential, whether received from City or developed during the Term of the Lease.

Section 3. Revenues and Expenses.

Except as set forth hereafter, City shall be obligated to pay all expenses that relate to the operation of the Water System that are incurred or accrue prior to or after the Term. Such expenses shall be direct and/or allocable to the Water System in conformance with accounting principles generally accepted in the United States. The Company shall be obligated to pay all

expenses that relate to the operation of the Water System that are incurred or accrue during the Term. In no event, however, shall the Company be liable or responsible for any Environmental Liabilities unless the Company has caused the violation of the Environmental Laws that created the Environmental Liabilities. City shall be liable and responsible for all such Environmental Liabilities not caused by the Company and shall indemnify and hold harmless the Company from all costs and expenses arising therefrom.

Section 4. Use of Water System.

Subject to the provisions of this Lease, the Company agrees to use the Water System to furnish potable water service and water service for fire protection to all customers in the Service Area in accordance with all applicable Legal Requirements that are in effect during the Term.

The Company may not retire, sell, transfer, convey, or encumber any real property or personal property of the Water System without the prior written consent of City, which consent may not be unreasonably withheld.

The Company is granted the exclusive right to provide water service to the Water System, including within the City corporate limits. The City agrees not to allow the creation of additional investor-owned or mutual water companies within the City's corporate limits.

Section 5. Title.

All System Improvements to the Water System during the Term shall become part of the Water System and title to such System Improvements shall immediately vest in City. Any other property added to or incorporated into the Water System either by the Company or, by the City (including by new developments) shall be deemed part of the Water System for purposes of this Lease and title to such property shall immediately vest in City, provided (a) the City shall give Veolia reasonable written notice in advance of adding or incorporating any such assets and (b) the California State Water Resources Control Board and any other Governmental Body with jurisdiction approves the addition or incorporation of such assets, if such approval is required. The Company shall not own the Water System or any part thereof.

Section 6. Payments and Transfers of Other Funds to the City.

A. Lease Payment. As consideration of the Lease of the Water System, the Company shall pay the City an annual Lease Payment in an amount equal to six percent (6%) of the annual Gross Revenues generated by the Water System. The Company shall make Lease Payments to the City on the fifteenth (15^{th}) business day of each month equal to six percent (6%) of the prior month's Gross Revenues.

B. Franchise Fee. In addition, the Company shall pay the City an annual Franchise Fee equal to five percent (5%) of the annual Gross Revenues generated by the Water System. The Company shall pay Franchise Fees to the City on the fifteenth (15^{th}) business day of each month equal to five percent (5%) of the prior month's Gross Revenues.

C. Utility Tax. The Company shall collect the City's utility tax and transfer all such collections to the City on the fifteenth (15^{th}) business day of each month.

D. Capital Charges and Surcharges. The Company shall collect Capital Charges and Surcharges and transfer all such collections to the City on the fifteenth (15^{th}) business day of each month.

E. Financial Report. The Company shall on annual basis provide City a reasonably detailed Financial Report on the Water System that presents in all material respects the financial position of the Water System. The Financial Report shall contain a balance sheet and related statements of income, cash flow and capital investment by the Company that conform to accounting principles generally accepted in the United States of America. The Financial Report shall also provide a monthly analysis of all Water System revenues billed and collected. The Company shall deliver the Financial Report to City sixty (60) days after the close of the Fiscal Year.

F. Financial Audit. City shall have the right to conduct at any time, at City's expense, an audit of the financial statements of the Water System. The Company shall provide any accounting, financial, or other report or information related to the Company's operation and maintenance of the Water System reasonably requested by City.

G. Annual True-Up. Beginning with Fiscal Year 2026-27 and within 60 days of the end of each Fiscal Year thereafter, the Company shall complete an Annual True-Up process report in the format attached hereto as Exhibit F. Amounts accumulated through the Annual True-Up process for periods beginning on or after July 1, 2026, are defined as the "Annual True-Up Differential" and consist of the difference between the Company's actual after-tax return and the contractually-agreed after-tax return of 8% of Contractual Gross Revenues. To the extent the Annual True-Up Differential consists of Company after-tax returns greater than 8%, the Company shall pay such Annual True-Up Differential to City within thirty (30) days of completion of the Annual True-Up process, and, to the extent the Annual True-Up Differential consists of Company after-tax returns of less than 8% of Contractual Gross Revenues, City shall pay such Annual True-Up Differential to the Company within thirty (30) days of completion of the Annual True-Up process. Notwithstanding the foregoing, if the Parties mutually agree to address all or a portion of an Annual True-Up Differential through future water rate adjustments pursuant to Section 8A, the applicable payment obligation under this Section 6G may be deferred or reduced to the extent provided in such mutual agreement. If City desires to conduct a financial review or audit with respect to an Annual True-Up, City shall have thirty (30) days from the delivery of the Annual True-Up process report to notify the Company in writing of such audit or financial review, and such audit or financial review shall be completed within one hundred twenty (120) days following such written notice, unless extended by mutual written agreement of the Parties. If these timing milestones are not achieved, the Annual True-Up Differential report submitted by the Company shall be deemed correct. Payment obligations under this Section 6G shall be tolled during the pendency of any audit or financial review.

H. Final True-Up. At least sixty (60) days prior to the end of the Term (or, within a reasonable time of one Party delivering to the other Party a notice of termination of the Lease), the

Company shall complete and submit to City a final true-up using the Annual True-Up process as a template (prorated to the expected termination date of the Lease), which amount shall include a valuation of the then-outstanding accounts receivable from the Water System based on the table set forth in Exhibit G (which shall be included as a credit to the Company), and which amount shall include any unpaid Accrued True-Up Differential (the "Draft Final True-Up"). City shall retain the right, at its sole discretion and expense, to conduct a financial review or audit of the Draft Final True-Up, including the valuation of accounts receivable and all supporting costs, records, and calculations related thereto. If City desires to conduct such financial review or audit, City shall notify the Company in writing within thirty (30) days following delivery of the Draft Final True-Up, and such financial review or audit shall be completed within one hundred twenty (120) days following such written notice, unless extended by mutual written agreement of the Parties. Payment obligations under this Section 6H shall be tolled during the pendency of any such financial review or audit. To the extent the Final True-Up as finally determined following completion of any financial review or audit, shows the Company owing money to City, the Company shall pay such Final True-Up differential to City within thirty (30) days of completion of the Final True-Up process, and, to the extent the Final True-Up shows City owing money to the Company, City shall pay such Final True-Up differential to the Company within thirty (30) days of completion of the Final True-Up process. In no event shall the Company withhold, offset, or retain Lease Payments or Franchise Fees payable to City under this Section 6 on account of any amounts claimed under this Section 6H or any other provision of this Lease.

I. Accrued True-Up Differential. The Parties acknowledge and agree that under the Original Lease, the accumulated Annual True-Up Differential through June 30, 2026 (such amount, as may be revised pursuant to any financial review or audit permitted under this Section, the "Accumulated True-Up Differential") shall be calculated using the Annual True-Up calculation methodology attached hereto as Exhibit F. The Parties agree that the Accumulated True-Up Differential is an amount due and owing between the Parties that is not affected by the amendment and restatement of the Original Lease. City shall retain the right, at its sole discretion and expense, to conduct a financial review or audit of the Annual True-Up calculations and supporting costs and records related thereto. Any such financial review or audit shall be completed within one hundred twenty (120) days following submission of the final Annual True-Up calculation through Fiscal Year 2025-26, unless extended by mutual written agreement of the Parties. The results of such financial review or audit shall result in an adjustment to the Accumulated True-Up Differential, and such adjustment shall be final, subject to arbitration conducted under Section 30 of the Original Lease. City shall pay such amount to the Company within sixty (60) days of the completion of the financial review or audit. If, following the financial review of audit, the Accumulated True-Up Differential reflects an amount owed by the Company to City, then the Company shall pay such Accumulated True-Up Differential to City within sixty (60) days of the completion of the financial review or audit. In no event shall the Company withhold, offset, or retain Lease Payments or Franchise Fees payable to City under this Section 6 on account of any Accumulated True-Up Differential.

Section 7. Operation of Water System.

A. Repair, Maintenance and Operation: The Company shall operate the Water System and pay all costs and expenses relating to its operations provided, however, that if the

total annual maintenance and repair costs exceed $110,000, the excess costs shall be considered System Improvements and shall be paid by City or included in Capital Charges (at the City's election) charged to the customers in the year following the year incurred pursuant to Section 9 of this Lease, as determined by City. City shall not be obligated to pay any cost or expense in connection with or related to the management, operation, improvement, repair or maintenance of the Water System during the Term of this Lease except for any Environmental Liabilities as defined in Section 3 and System Improvements as set forth in Section 9. The Company shall undertake any System Improvements and repairs and perform routine and emergency maintenance of the Water System in accordance with Prudent Industry Practices. All System Improvements to the Water System shall be subject, however, to the procedures set forth in Section 9 hereof.

B. Customer Service Obligations: The Company shall have the following customer service obligations: sending monthly or bimonthly bills, at the Company's election, to all customers receiving water service in the Service Area; payment processing; responding to customer inquiries on water service, bills, leaks or other concerns; collecting bills; processing applications for new or transfers of service; collecting customer deposits for new service; collecting construction meter deposits; investigating customer complaints.

C. Emergency Service Obligations: The Company shall have the following emergency service obligations while the Lease is in effect: maintaining 24 hour on-call response to emergency calls or customer inquiries; providing an emergency or natural disaster operations plan, including an emergency notification plan; maintaining an emergency communications system; providing or having access to equipment required to perform emergency repair work to vital system equipment and water mains.

D. Water Quality Testing Obligations: The Company shall have the following water quality testing obligations while the Lease is in effect: performing, or causing to be performed, by a State of California certified laboratory and all water sampling, analysis, testing and reporting required for water sources, distribution mains or customer premises by the U.S. Environmental Protection Agency, State of California Department of Health Services and Office of Drinking Water and the County Environmental Health Department, or acts of the U.S. Congress or California Legislature; scheduling and collecting water samples to test for microbiological, inorganic and organic constituents; transportation to a certified lab; preparing monitoring plans; sample collection training; reporting to appropriate regulators; record keeping; analysis interpretation; special or emergency sample collection and analysis, and emergency notification to affected customers, if required; preparing and distributing all published and distributed customer reports on water quality; new well or water source sampling and analysis; response to customer inquiries on water quality; coordination of cross-connection control and potential contamination issues; conducting an annual system survey with the California State Department of Health Services; obtaining any necessary permits and compliance with appropriate air district regulations; providing hazardous materials control program, and ensuring all operator certification compliance with State and Federal requirements.

E. Other Service Obligations: The Company shall have the following additional service obligations while the Lease is in effect: implement a water conservation program;

maintain distribution system maps and plat maps; assist City in any required reporting in connection with the preparation of any required urban water management plans, asset management plans, and water management plans; assist the City with investigations related to harm to third parties; and in general operate the Water System in accordance with Prudent Industry Practices. City shall be responsible for all line locating and participation in the 811 program, and Veolia shall have no responsibility or liability with respect to line locating.

F. Operations Report: The Company shall on annual basis provide City a reasonably detailed Operations Report on the Company's operation and maintenance of the Water System. The Operations Report shall include but not limited to reports on customer inquiries, bad debt, conservation activities, meter replacements, water testing results, system leaks and other pertinent operations and maintenance activities and data related to the Water System. The Company shall deliver the Operations Report to City sixty (60) days after the close of the Fiscal Year. The Company shall periodically provide City any other report or information related to the Company's operations and maintenance of the Water System that is reasonably requested by City.

G. General Operation: Unless inconsistent with the specific terms of this Lease, the Company shall operate the Water System in accordance with Prudent Industry Practices and in compliance with all Legal Requirements.

Section 8. Rates and Charges.

A. Rate Relief. If the Company reasonably believes that current water rates will lead to a deficit in the Annual True-Up Differential or Final True-Up, the Company may submit a Request for Rate Relief. The Request for Rate Relief shall: (i) be submitted in writing and in the format set forth in Exhibit C; (ii) include pertinent work papers and supporting financial data used to develop the Request for Rate Relief; and (iii) set forth the reasons that support the Company's Request for Rate Relief. The Company shall be entitled to recover in its Water Rates all necessary and reasonable costs related to performing the services set forth in this Lease and a fair and reasonable rate of return. The Company shall be entitled to earn an after-tax rate of return of eight percent (8%) on Contractual Gross Revenues. Each year the final after-tax return to the Company shall be calculated under the "Annual True-up" established in Section 6.F whereby such amounts as may be accumulated are utilized in determining funding requirements related to future rate relief requests. If in any year the Company's after-tax return is below 8% of Contractual Gross Revenues ("Shortfall Year"), and accumulated Annual True-up differential amounts (defined in Section 6.F) do not exist to fund the "Shortfall Year", the City agrees to put forth to rate-payers recommended water rate increases that would enable the Company to earn a cumulative after-tax return of 8% of Contractual Gross Revenues for all applicable previous Shortfall Years and subsequent years. All Requests for Rate Relief by the Company shall require approval by City, which approval shall not be unreasonably withheld. Any disapproval shall state detailed reasons therefor. In determining reasonable rates and charges for water service, City shall consider all relevant information necessary to implement water rates in compliance with the legal requirements of Article 13D, Section 6 of the California Constitution as established by Proposition 218.

B. Extraordinary Rate Relief. City shall act on all Requests for Rate Relief by initiating a Proposition 218 study (meaning obtaining a consultant) within 60 days of receipt of the request. In cases of natural disaster, other emergencies, acts of God or other extraordinary events (including, without limitation, new governmental rules, regulations or permit requirements), City recognizes that extraordinary rate relief on an expedited basis may be necessary and City agrees to expeditiously consider any such reasonable extraordinary Request for Relief. If City does not act on any Request for Rate Relief, and such Rate Relief eventually is approved or ordered, the water rates and charges shall be adjusted to recover from customers over a reasonable period of time such amounts as are necessary to restore the Company to the same financial position it would have been in had the rate increase been effective at the beginning of such period.

C. Automatic and Other Rate Adjustments. Notwithstanding the foregoing, the City may adopt a schedule of water rate charges authorizing automatic adjustments to pass through to customers increases in wholesale water charges or other charges in a manner consistent with applicable law. The frequency and amount of automatic adjustments will be considered in relation to any existing Accumulated True-Up Differential. The City may also implement conservation or rationing water rates and rules if drought circumstances or State mandates reasonably require such rates to be implemented.

Section 9. System Improvements.

The City shall be responsible for financing all System Improvements. The Company shall assist the City in obtaining government grants and low-interest loans for System Improvements to the extent such are available. The Company shall provide City with a reasonably detailed System Improvement Report recommending, on a priority basis, System Improvements to be undertaken in the following year to preserve or upgrade the Water System. The Company shall deliver the System Improvement Report to City prior to the commencement of the Fiscal Year to which it relates so that City may incorporate it into its budget for the applicable year. Except as set forth in Section 7A, all System Improvements must be reviewed and approved by City in writing prior to any implementation thereof. The Company shall include in the annual Operations Report the actual cost of System Improvements.

City shall institute a Capital Charge to recover all financing and other costs related to System Improvements for the Water System.

City may request that the Company manage or undertake System Improvements through a separate agreement between City and the Company, and the City shall pay the Company's actual, documented costs for such System Improvements, plus fifteen percent (15%).

Section 10. Evaluation of System.

The Company, upon reasonable advance written request of City or its agent, shall permit City or City's agent to conduct a comprehensive inspection of the Water System, including but not limited to, field inspections, maintenance records and reports, customer complaints and

System Improvement installations schedule and plans, in order to assess the condition of the Water System.

If City determines that all or part of the Water System is not being operated or maintained in accordance with customary industry standards, City shall provide written notice to the Company describing the deficiencies which City wishes to be corrected. The Company shall, within 75 days thereafter, file with City its written response describing which deficiencies the Company agrees need to be corrected together with a plan to correct those deficiencies.

If the Company, in its written response to City, disagrees with any or all of the deficiencies described in City's notice or if the Company does not agree to the plan for deficiency corrections proposed by City, the parties shall negotiate in good faith in an attempt to resolve all disputed issues. If agreement cannot be reached between the parties on any or all disputed issues, then the parties agree to submit the unsolved issues to arbitration in accordance with the provisions set forth in Section 30 below.

Section 11. Water Supply.

During the Term, the City shall assign to the Company and the Company shall accept, the rights and duties of all water supply contracts with respect to the Water System as of the Agreement Date, including the Master Water Sales Contract with the San Francisco Public Utilities Commission. Any bills or invoices received by the City pursuant to such contracts for water delivered after the Agreement Date shall be promptly forwarded to the Company for payment. If assignment or transfer of any other supply or operating contracts is deemed necessary by either the Company or City, City shall cooperate with the Company in completing such assignment or transfer for the duration of this Lease. The City also acknowledges that the Company will receive and deliver water in the Water System from Hetch Hetchy reservoir that will be treated by the City and County of San Francisco, and the Company shall not be liable or otherwise responsible for the quality of any such water as delivered to it by the City and County of San Francisco.

Section 12. Customer Billing and Collections.

A. The Company shall bill and collect the charges to customers receiving water through the Water System in accordance with the City's Schedule of Rates for Water Service and administrative rules and all other legal requirements that govern Water Service Rates, billing and collection of water service charges, which Water Service Rates may be adjusted from time-to-time pursuant to Sections 8 and 9. The Company may propose, however, revisions to City's administrative rules governing billing, collection, payment and credit and City shall approve such revisions if they are reasonable and comply with laws applicable to municipality-owned water systems. The Company shall submit any proposed revisions of such rules to City for prior approval.

B. To the extent required by law, the Company shall bill and collect on behalf of City from Water System customers any additional amounts which City may assess as a City user's tax on such customers and shall promptly pay all such amounts to City.

C. City agrees to cooperate with the Company in collecting unpaid/delinquent accounts and, when necessary and legally appropriate, impose property tax liens against customers whose accounts have been unpaid for an unreasonable period of time. In doing so, City shall not be obligated, however, to pursue collection proceedings on behalf of the Company. The City authorizes the Company to act on its behalf in exercising all powers and remedies available to the City in collecting unpaid/delinquent accounts.

D. All monies received by either City or the Company pertaining to water service furnished prior to the Agreement Date shall be the property of the Company. Payments of Gross Revenues received by either City or the Company for water service furnished during the Term shall be the property of the Company. If City receives any such payments it shall tum them over to the Company. Upon expiration or earlier termination of the Term, the amounts due through such expiration or termination date from all customers shall be calculated by the Company (and Company shall make a reasonable effort to read customer meters in connection with such calculation) and, in lieu of collection and retention of such amounts by the Company, the Company shall be paid such amount by City less an amount for bad debts based on the collection history of the customers in the Service Area, as set forth in Exhibit G, as part of the Final True-Up.

Section 13. Insurance.

A Obligations of the Company. During the Term, the Company at its own cost and expense shall maintain insurance, issued by a carrier or carriers as follows:

(1) Commercial General Liability: Company shall maintain commercial general liability insurance with coverage at least as broad as Insurance Services Office form CG 00 01, in an amount of twelve million dollars ($12,000,000) per occurrence, twelve million dollars ($12,000,000) general aggregate, and twelve million dollars ($12,000,000) products and completed operations aggregate for bodily injury, personal injury, and property damage, including without limitation, contractual liability, which can be met using primary and umbrella policies. The general aggregate limit shall apply separately to the project or location or the general aggregate limit shall be doubled. Company's general liability policies shall allow and be primary and shall not seek contribution from the City's coverage and be endorsed using Insurance Services Office form CG 20 10 (or equivalent) to provide that City and its officers, officials, employees, and agents shall be additional insured under such policies. An endorsement providing completed operations coverage for the additional insured, ISO form CG 20 37 (or equivalent), is also required.

(2) Workers' Compensation and Employers' Liability: Company shall maintain Workers' Compensation Insurance and Employers' Liability Insurance with limits of one million dollars ($1,000,000) each accident or disease. Company shall submit to City, along with the certificate of insurance, a waiver of subrogation endorsement in favor of City, its officers, agents, employees, and volunteers.

(3) Business Automobile Liability: Company shall provide auto liability coverage for owned, non-owned, and hired autos using ISO Business Auto Coverage form CA 00 01 (or equivalent) with a limit of five million dollars ($5,000,000) per accident.

(4) Cyber Liability Insurance: Company shall maintain Cyber Liability Insurance with a limit of one million dollars ($1,000,000) per claim. Coverage shall be sufficiently broad to respond to the duties and obligations as is undertaken by Company in this agreement and shall include, but not be limited to, invasion of privacy violations, information theft, damage to or destruction of electronic information, release of private information or personally identifiable information (PII), alteration of electronic information, extortion, and network security. The policy shall provide coverage for breach response costs as well as regulatory fines and penalties, and credit monitoring expenses with limits sufficient to respond to these obligations.

B. All policies of insurance required by this Lease except Workers' Compensation and Employer's Liability and Cyber Liability shall contain an endorsement including the City as an additional insured, and such policies shall provide and be endorsed that the coverage shall be primary and non-contributory.

C. All insurance shall be written under policies issued by insurers of recognized responsibility, licensed or permitted to do business in the State of California and with A.M. Best rating of A-VII or better.

D. All policies of insurance shall provide that such policies may not be canceled without at least 30 days' prior written notice to the Company and to City. For a material change, or if a carrier will not provide the required notice of cancellation, the Company shall provide written notice to the City of a cancellation or material change to the policy no later than five (5) business days before the effective date of the cancellation or material change.

E. A certificate of insurance and required policy endorsements shall be delivered to City, prior to the Agreement Date and the expiration dates of expiring or non-renewed policies.

F. The limits of insurance required by this Lease or as carried by the Company shall not limit the liability of the Company nor relieve the Company of any obligation hereunder.

G. The Company shall cause each required insurance policy obtained by it to provide and endorsement that the insurance company waives all rights of recovery by way of subrogation against City in connection with any damage covered by any policy.

H. Obligations of the City. During the Term, the City at its own cost and expense shall maintain "all risk," or its equivalent, property insurance, covering the City's owned, leased or rented, buildings, premises, equipment, data, tools or other personal property, including, but not limited to, the Water System, at full replacement cost. The City shall maintain business interruption coverage of City's business for the term of this Agreement.

Section 14. [Reserved]

Section 15. Liens and Encumbrances.

City shall keep the Water System and all revenues arising from its operation free and clear of all liens, security interests and encumbrances except for those consented to by the Company. The Company shall keep its leasehold interest in the Water System created pursuant to this Lease free and clear of all liens, security interests and encumbrances, except for those consented to by the City.

Section 16. Surrender Upon Expiration or Termination.

Upon expiration or termination of this Lease and all renewals and extensions of it, the Company will return the Water System to the City in the same condition as it was upon American Water's assignment of the Original Lease on June 1, 2020, ordinary wear and tear excepted. Equipment and other personal property purchased by the Company for use in the operation or maintenance of the Water System shall remain the property of the Company upon expiration or termination of this Lease unless the property was directly paid for by the City or the City specifically reimbursed the Company for the cost incurred to purchase the property or this Lease provides to the contrary. The Company will provide all Water System customer records, system maps, plats, shapefiles, maintenance records, and other records at least one hundred eighty (180) days prior to the end of the Term, all in a format reasonably acceptable to City. At least 180 days prior to the end of the Term, the Company will also provide City with such records and reports in order to facilitate an orderly transition of the Water System. The obligation to facilitate an orderly transition of the Water System shall not be conditioned upon or related to the City's purchase customer receivables described in Section 12.D above, which shall be a separate transaction addressed in the Final True-Up

Section 17. Representations and Warranties.

A. Representations and Warranties of City. City hereby represents and warrants to the Company that:

(1) City is duly organized and an existing municipal corporation under the laws of the State of California and is duly authorized to execute and deliver this Lease.

(2) City has the power, authority and legal right to enter into and perform this Lease and the execution, delivery and performance hereof by the City (i) have been duly authorized by City, acting by and through its City Council and Mayor, (ii) do not require any other approvals by any Governmental Body, (iii) will not violate any Legal Requirement applicable to City, and (iv) do not constitute a default under, or result in the creation of, any lien, charge, encumbrance or security interest upon the Water System or any agreement or instrument to which City is a party that relates to the Water System or by which the Water System may be bound or affected.

(3) City owns the Water System free and clear of all liens, security interests and encumbrances.

(4) This Lease has been duly entered into by City and constitutes a legal, valid and binding obligation of City, enforceable against City in accordance with its terms.

(5) There is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or threatened against City, or otherwise affecting the Water System, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by City of its obligations hereunder, or which, in any way, would adversely affect the validity or enforceability of this Lease, the operation of the Water System by the Company or any other agreement or instrument entered into by City in connection with the transactions contemplated hereby.

(6) To the City's knowledge, the Water System is being operated in compliance, in all material respects, with all Legal Requirements. Except as described in Exhibit D, there are no outstanding complaints, orders, citations, notices or orders of violation or non-compliance issued with respect thereto under any Legal Requirements, nor does City know or have reasonable grounds to know of any facts which could give rise to a notice of non-compliance under any Legal Requirements.

(7) The Water System is being operated in accordance with all Legal Requirements and all applicable permits have been obtained with respect thereto. City has no knowledge of any proceeding or application which has been instituted or which is pending to amend the terms of any permit issued in connection with or with respect to the operation and maintenance of the Water System. All permit applications required to be filed and all permit fees required to be paid in connection with the Water System ·have been filed and paid, as applicable.

(8) City has no knowledge of any claim, proceeding, suit or demand alleging responsibility for damage to or destruction of tangible property, including the loss of use resulting therefrom or bodily injury, sickness, disease or death, in any way related to the operation and maintenance of the Water System.

(9) The Water System has been operated and it is in compliance with all material terms of the agreements and contracts relating to its operation and no party thereto is in material violation of or in default thereunder.

(10) The City represents and warrants that the Water System is in compliance with all applicable Legal Requirements and has been designed, installed and maintained to allow continued operation to meet all applicable Legal Requirements currently in existence or known to become effective during the term of this Lease and the Water System does not pose a known undue risk of liability to the Company as its operator. The City further represents and warrants that it is unaware of any soil or groundwater contamination or any other condition, defect, occurrence, threatened occurrence or event that could produce soil or groundwater contamination associated with the Water System or that could violate any Environmental Laws except as specifically identified and described on Exhibit E attached hereto.

B. Representations and Warranties of the Company. The Company hereby represents and warrants to City that:

(1) The Company is a limited liability company duly organized and existing under the laws of the State of Delaware and is qualified to do business in the State of California.

(2) The Company has the power, authority and legal right to enter into and perform its obligations set forth in this Lease, and the execution, delivery and performance hereof (i) have been duly authorized, (ii) do not require the approval of any Governmental Body, (iii) will not violate any Legal Requirements applicable to the Company or any provisions of the organizational documents of the Company, and (iv) do not constitute a default under or result in the creation of, any lien, charge, encumbrance or security interest upon any assets of the Company under any agreement or instrument to which the Company is a party or by which the Company or its assets may be bound or affected.

(3) This Lease has been duly entered into and constitutes a legal, valid and binding obligation of the Company, fully enforceable against the Company in accordance with its terms.

(4) There is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or, to the best of the Company's knowledge, threatened against the Company, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by the Company of its obligations hereunder, or which, in any way, would adversely affect the validity or enforceability of this Lease, the operation of the Water System by the Company or any other agreement or instrument entered into by the Company in connection with the transactions contemplated hereby.

Section 18. Default and Remedies.

A. The occurrence of any of the following shall constitute a default by the Company:

(1) If the Company fails to make any payment to City or to any third party required by this Lease as and when due, or to obtain and maintain any insurance required by this Lease, where such failure continues for 30 days following receipt of written notice from City specifying the failure;

(2) If the Company fails to perform any of its other covenants or agreements contained in this Lease, where such failure continues for 60 days following receipt of written notice from City specifying the failure;

(3) Notwithstanding subsection (2) above, in the case of a failure to perform which cannot feasibly be cured within 60 days (for example, a major repair to the Water System), a default shall only occur if the Company fails to commence and diligently proceed toward full performance of the cure within 60 days following receipt of written notice from City specifying the failure, or if the Company fails to complete such performance within a reasonable time thereafter; or

(4) If (a) the Company becomes bankrupt or insolvent or makes any general arrangement or assignment for the benefit of creditors; (b) if the Company becomes a "debtor" as defined in 11 U.S.C. Section 141 or any successor statute thereto (unless, in the case of a petition filed against the Company, the same is dismissed within 90 days); (c) if a trustee or receiver is appointed to take possession of substantially all of the Company's assets or of the Company's interest in this Lease and possession is not restored to the Company within 60 days; or (d) if a writ of attachment or execution is levied on, or there is a judicial seizure of, substantially all of the Company's assets or of the Company's interest in this Lease and such seizure is not discharged within 60 days.

B. If City shall default in performing any of its covenants or agreements contained herein, including the unreasonable withholding of approval of Requests for Rate Relief, and such default shall continue for a period of 60 days after receipt by City from the Company of written notice specifying the nature of the default, then the Company may at its option, upon 60 days written notice, cancel and terminate this Lease. In the case of a default which cannot feasibly be cured within 60 days, if City fails to commence performance and diligently proceed toward full performance within 60 days after receipt of notice by the Company of City's failure to perform or fails to complete performance within a reasonable time thereafter, the Company may, upon 60 days prior written notice, terminate this Lease. The Company shall be entitled to all legal and equitable remedies provided by law if it terminates this Lease in accordance with this Paragraph 18B.

C. In the event of a default by the Company, the City may terminate this Lease on 60 days prior written notice. Alternatively, the City may elect to not terminate the Lease during the duration of the default and shall have the right to continue receiving payments hereunder and other required performances by the Company when due hereunder.

D. Notwithstanding any provision of this Section 18 to the contrary, if a default or failure to perform by the Company reasonably poses a threat to public health or safety, City shall so notify the Company, and if the Company fails to take corrective action within a reasonable time that shall be specified in such notice, City may enter the Water System and take all reasonably necessary action. The Company shall promptly reimburse City for all reasonable, documented costs incurred by City in connection with such action.

E. Each party's performance under this Lease shall be excused if the party is unable to perform because of causes beyond its reasonable control; including but not limited to Acts of God, the acts of civil or military authority, floods, earthquakes, riots, strikes, interruption of water deliveries from the San Francisco Public Utilities Commission and commercial impossibility. In the event of any such force majeure, the Company will notify the other party within 24 hours of the existence of such force majeure event and shall be required to resume performance of its obligations under this Lease upon the termination of the force majeure event.

F. Any disputes regarding the occurrence of a default hereunder, or the consequences thereof, shall be subject to the provisions of Section 30 below regarding arbitration.

Section 19. Discharge of Liens.

The Company shall pay and discharge all claims for materials, parts, labor, water, power and other consumables and supplies furnished at the Company's request upon or to the Water System and to keep the Water System free and clear of all liens resulting from such claims. City agrees to pay and discharge all claims and obligations for materials, parts, labor, water, power and other consumables and supplies furnished ·at City's request upon or to the Water System prior to the commencement of the Term of this Lease.

Section 20. Taxes and Assessments: Possessory Interest.

The Company shall pay all taxes, assessments, fees, levies, charges, license or permit fees and other government charges of any kind or nature while this Lease is in effect levied, charged, assessed or imposed upon or against the Water System. Without limiting the generality of the foregoing, the Company acknowledges that this Lease may create a possessory interest which may be subject to property taxation and that the Company may be subject to the payment of property taxes levied on such interest. Any such tax shall be the sole responsibility of the Company; provided, however, the Company may include any such property tax as a surcharge to be billed to customers pursuant to Paragraph 8C.

Section 21. Compliance with Law.

Except as otherwise provided in this Lease, the Company shall, at the Company's sole cost and expense, diligently and in a timely manner, comply in all material respects with all applicable laws, which term is used in this Lease to include all Legal Requirements. The Company shall notify City in writing (with copies of any documents involved) of any threatened or actual claim, notice, inquiry, citation, warning, complaint or report pertaining to or involving failure by the Company or the Water System to comply with any Legal Requirements.

Section 22. Hazardous Substances.

A. The Company shall not cause any release, generation, manufacture, storage, treatment, transportation, or disposal of Hazardous Substance on, in, under, or from the Water System in violation of any Legal Requirement. If the Company does cause any release or disposal of any Hazardous Substance on, in, or under the Water System, the Company, at its own cost and expense, will immediately take such action as is necessary to detain the spread of and remove the Hazardous Substance to the complete satisfaction of City and other appropriate Governmental Bodies. The Company shall promptly notify City of any release or disposal (of which the Company has knowledge or becomes aware) of any Hazardous Substance on, in, under or from the Water System.

B. The Company shall indemnify, defend (with counsel reasonably acceptable to City) and hold City and City's officers, agents and employees, free and harmless from and against, all losses, liabilities, obligations, penalties, claims, litigation, demands, defenses, costs, judgments, suits, proceedings, damages , disbursements or expenses of any kind (including attorneys' and experts' fees and expenses and fees and expenses incurred in investigating,

defending, or prosecuting any litigation, claims, or proceeding) that may at any time be imposed upon, incurred by, asserted, or awarded against City in connection with or arising from or out of:

(1) any breach of any covenant or agreement of the Company contained or referred to in this Section 22;

(2) any violation or claim of violation by the Company of any Legal Requirement that is finally adjudicated to be a violation of a Legal Requirement, except a claim that this Lease or any City ordinance violates a Legal Requirement; or

(3) the imposition of any lien on the Water System for the recovery of any Clean Up Costs relating.to the release or threatened release of any Hazardous Substance by the Company.

The expiration or termination of this Lease and/or the termination of the Company's right to possession shall not relieve the Company from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the Term hereof by reason of the Company's operation and management of the Water System.

C. City shall indemnify, defend (with counsel reasonably acceptable to the Company) and hold the Company and its officers, agents, employees, shareholders and affiliates free and harmless from and against, all losses, liabilities, obligations, penalties, claims, litigation, demands, defenses, costs, judgments, suits, proceedings, damages, disbursements or expenses of any kind (including attorneys' and experts' fees and expenses, fees and expenses incurred in investigating, defending, or prosecuting any litigation, claims, or proceeding, and the cost of site investigation, testing and Clean Up Costs) that may at any time be imposed upon, incurred by, asserted, or awarded against the Company in connection with or arising from or out of:

(1) any Hazardous Substance on, in, under, or affecting all, or any portion of the Water System (including, without limitation, the imposition of any lien for the recovery of any Clean Up Costs), excluding any Hazardous Substance released, generated, manufactured, stored, treated, transported or disposed of by the Company or its affiliates;

(2) any breach of any covenant or agreement of City contained or referred to in this Section 22;

(3) any violation or claim of violation by City or any other entity or person, other than the Company or its affiliates of any Legal Requirement; or

(4) the imposition of any lien on the Water System for the recovery of any Clean Up Costs relating to the release or threatened release of any Hazardous Substance other than by the Company.

The expiration or termination of this Lease shall not relieve City from liability under any indemnity provisions of this Lease.

D. The notice and other procedures set forth in Section 23 below shall govern all indemnification claims and rights under this Section 22.

Section 23. Indemnity; Limitation of Liability.

A. The Company shall hold City, and its officers, agents and employees, free and harmless of and from, and to defend, indemnify, and protect City, and its officers, agents and employees, against all liability, loss, claims, actions, demands, damage, expense, costs (including, without limitation, reasonable attorneys' fees and all costs and fees of litigation and its threat) asserted against City of any kind or nature arising out of or in any way connected with any material misrepresentation, breach or inaccuracy of any representation or warranty or material nonfulfillment of or material failure to comply with any agreement, condition or covenant on part of the Company under this Lease, to the maximum extent permitted by law ("Indemnified Losses"); provided, however, that the Company shall be liable only for that percentage of total damages that corresponds to its percentage of total negligence or fault. The expiration or termination of this Lease shall not relieve the Company from liability under any indemnity provisions of this Lease. ·

B. City shall hold the Company, and its officers, agents, employees, shareholders and affiliates, free and harmless of and from, and to defend and indemnify the Company, and its officers, agents and employees, against all liability, loss, claims, actions, demands, damage, expense, costs (including, without limitation, all costs and fees of litigation and its threat) asserted against the Company of any kind or nature arising out of or any way connected to the ownership or operation of the Water System occurring or accruing prior to or after the Term, including the condition (known or unknown) of the Water System facilities, or any material misrepresentation, breach or inaccuracy of any representation or warranty, or material nonfulfillment or material failure to comply with any agreement, condition or covenant on the part of City under this Lease or any actions or omissions of the City or its employees, agents or officials, to the maximum extent permitted by law ("Indemnified Losses"). The expiration or termination of this Lease shall not relieve the City from liability under any indemnity provisions of this Lease.

C. If there is asserted any claim, liability or obligation that in the judgment of a party indemnified above (an "Indemnified Party") may give rise to any Indemnified Losses, such Indemnified party shall give the party from whom indemnity is sought (the "Indemnitor") notice within 30 days of the assertion of any claim, liability or obligation, or within 30 days of receipt of notice of the filing of any lawsuit, arbitration action or other proceeding based upon such assertion, or, with respect to a claim not yet asserted against the Indemnified party, promptly upon the determination by the Indemnified Party of the existence of the same, and shall give Indemnitor a reasonable opportunity of assuming the defense of such claim, liability or obligation, using counsel acceptable to the Indemnified Party; provided, however, that the Indemnified Party shall have the right to participate in such defense. Failure by the Indemnified Party to give timely notice pursuant to this Section shall not relieve the Indemnitor of its obligations, except to the extent that the Indemnitor is actually prejudiced by such failure to give timely notice. No settlement or adjustment shall be made without the Indemnified Party's prior written consent, which consent shall not be unreasonably withheld. If Indemnitor fails to contest

in good faith any such claim, liability or obligation, the Indemnified Party shall have the right to defend, settle or pay the same and pursue its remedies for indemnities against Indemnitor hereunder. The Indemnified Party shall cooperate with Indemnitor in any such defense which Indemnitor elects to assume in the event Indemnitor makes such request to the Indemnified party and such request is reasonable, provided Indemnitor will hold the Indemnified Party harmless from all of its reasonable out-of-pocket expenses, including reasonable attorneys' fees, incurred in connection with Indemnified Party's cooperation. In the event of a disagreement among the parties as to whether any claim, liability or obligation may give rise to an Indemnified Loss, then the Indemnified Party shall have the right to defend, settle or pay the same, and/or to pursue its remedies against Indemnitor hereunder; provided, however, that Indemnitor shall have the right to participate in such defense, and no settlement or adjustment shall be made without Indemnitor's prior written consent, which consent shall not be unreasonably withheld.

D. In no event shall either party be liable to the other party for indirect, consequential, exemplary, special, incidental, reliance or punitive damages, or for lost profits, even if advised of the possibility of such damages.

E. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW AND NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, THE COMPANY'S LIABILITY FOR PERFORMANCE OR NON-PERFORMANCE OF ANY OBLIGATION ARISING UNDER THIS AGREEMENT (WHETHER ARISING UNDER BREACH OF CONTRACT, TORT, OR ANY OTHER THEORY OF LAW OR EQUITY), INLUDING, BUT NOT LIMITED TO, INDEMNITY OBLIGATIONS, SHALL NOT EXCEED TWELVE MILLION DOLLARS ($12,000,000) CUMULATIVELY FOR THE DURATION OF THIS AGREEMENT, PROVIDED THAT THE FOREGOING LIMITATION WILL NOT APPLY TO ANY LOSSES RESULTING FROM THE (A) GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE COMPANY OR THE COMPANY'S SUBCONTRACTORS, EMPLOYEES, OR AGENTS; (B) THE COMPANY'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 22 RELATING TO HAZARDOUS SUBSTANCES; AND (C) VIOLATIONS THE COMPANY'S OBLIGATIONS UNDER THIS AGREEMENT SECTION 13 RELATING TO INSURANCE; FURTHER, NOTHING CONTAINED IN THIS SECTION 23E SHALL REDUCE OR LIMIT ANY PARTY'S ABILITY TO PURSUE OR COLLECT PROCEEDS AVAILABLE FROM THE INSURANCE COVERAGES REQUIRED UNDER THIS AGREEMENT UP TO THE COVERAGE AMOUNTS SPECIFIED.

Section 24. City's Access.

City and City's agents shall have the right to enter the Water System at any time in the case of an emergency, and otherwise at reasonable times and on reasonable prior notice for the following purposes (i) to determine whether the Water System is in good condition as required by this Lease and whether the Company is complying with its obligations under this lease,(ii) to serve, post or keep posted any notices required or allowed by law or under this Lease, and (iii) as City may otherwise reasonably deem necessary.

Section 25. California Law.

This Lease shall be governed by the laws of the State of California without regard to conflict of laws principles.

Section 26. Notices.

Any notice or communication required or permitted hereunder, shall be deemed to have been given if in writing and (a) delivered in person, (b) delivered by confirmed electronic transmission (including by email), (c) sent by overnight carrier, postage prepaid with return receipt requested, or (d) mailed by certified or registered mail, postage prepaid with return receipt requested, addressed as follows:

City: City of East Palo Alto
2415 University Avenue
East Palo Alto, California 94303
Attn: City Manager
Email: citymanager@cityofepa.org

With a copy to:
East Palo Alto City Attorney's Office
2415 University Avenue
East Palo Alto, California 94303
Attn: City Attorney
Email: cityattorney@cityofepa.org

The Company: Veolia Water North America-West, LLC
461 From Road, Suite 400
Paramus, NJ 07652
Attention: President, West Region
Email: aaditya.raman@veolia.com

With a copy to: Veolia Water North America-West, LLC
100 Federal Street, Floor 3
Boston, MA 02110
Attn: General Counsel
E-mail: general.counselNA@veolia.com

or such other address and to the attention of such other person as a party may notice to the others in accordance with this Section 26. Any such notice or communication shall be deemed received on the date delivered personally or delivered by electronic transmission, on the first Business Day after it was sent by overnight carrier, postage prepaid with return receipt requested; or on the third Business Day after it was sent by overnight carrier, postage prepaid with return receipt requested.

Section 27. Waiver.

The waiver by City of any breach by the Company of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term, covenant or condition hereof. The waiver by the Company of any breach by City of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term covenant or condition hereof.

Section 28. Merger and Modification.

This Lease sets forth the entire agreement between the parties with respect to the subject matter hereof and supersedes all other oral or written provisions. This Lease may be modified or terminated only in a writing signed by all parties.

Section 29. Assignment.

The Company shall not assign this Lease or sublet the Water System or any portion thereof without the consent of City, which consent shall not be unreasonably withheld; provided, however, that City's consent shall not be required in connection with any assignment by the Company of any of its rights or obligations hereunder to, or otherwise utilize, any affiliate of Company that is controlled by, controls, or under common control with the Company.

Section 30. Arbitration.

All controversies, claims, disputes or counter-claims arising under or relating to this Lease or any resulting transaction, whether it involves a disagreement about its meeting, interpretation, application, performance, breach, termination, enforceability or validity and whether based on statute, tort, contract, common law or otherwise ("Dispute") shall be determined exclusively by binding arbitration in San Mateo County, California, before one arbitrator. The arbitration shall determine all questions of arbitrability, including, without limitation, the scope of this agreement to arbitrate, the subject matter of the Dispute, whether an agreement to arbitrate exists and, if so, whether it covers the Dispute in question, and any other form of disagreement or conflict among the parties to this Lease, whether such Dispute existed prior to, or arises after the date of this Lease.

The arbitration shall be governed by the American Arbitration· Association ("AAA") under its commercial arbitration rules, provided that the person eligible to be selected as the arbitrator shall be limited to an attorney-at-law who has practiced law for at least 15 years as an attorney in California specializing in either general commercial litigation or general corporate and commercial or utility matters. Any party may commence arbitration at any time, subject to the obligations to negotiate disagreements contained in this Lease, by giving written notice to the other party that such dispute has been referred to arbitration under this Lease. The arbitrator shall be selected by the joint agreement of the parties, subject to the standards set forth above, but if they do not so agree, within 20 days following the notice referred to above, then the selection shall be made pursuant to the AAA Rules from the panel of arbitrators that meet the qualifications set forth above maintained by such association. The parties shall be entitled to

conduct discovery in connection with the Dispute in accordance with the Federal Rules of Civil Procedure. Within 10 days following the appointment of the arbitrator, each party shall furnish the arbitrator with a statement of the matters in dispute. The arbitrator shall commence the hearing within 20 days of receiving such statement and shall complete the arbitration and file his/her decision within 60 days following his/her appointment. The cost of arbitration, including the arbitrator's fees and the fees and costs of counsel, shall be allocated by the arbitrator in his/her decision. If the arbitrator determines that the dispute and arbitration, or either, is not the result of good faith on the party of any party, then the arbitrator may make an additional award to the other party for such sums as the arbitrator may in his/her discretion determine as a reasonable damage figure.

The award of the arbitrator shall be binding and conclusive upon the parties and may be entered in any State or federal court within San Mateo County, California. There shall be no right of appeal from the award of the arbitrator.

The party and the arbitrator may not disclose the existence, content or results of any arbitration without the prior consent of all of the parties, except as required by any Legal Requirement.

Section 31. Attorneys' Fees.

If any party to this Lease commences legal proceedings or arbitration to interpret this Lease, to enforce any of its terms or for damages for its breach, the prevailing party shall be entitled to recover actual reasonable attorneys' fees.

Section 32. Execution.

This Lease is effective as of the Agreement Date and upon full execution. It is the product of negotiation and therefore shall not be construed against any party.

Section 33. Counterparts.

This Lease may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, but all together shall constitute but one and the same Lease.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed and attested by their proper officers thereunto duly authorized, and their official seals to affixed, as of the day and year first above written.

CITY OF EAST PALO ALTO

By: _____
Name: Melvin E. Gaines
Title: City Manager

Approved as to Form:

By: _____
Name: John D. Lê
Title: City Attorney

THE COMPANY:

VEOLIA WATER NORTH AMERICA-WEST, LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

Exhibit A - Service Area

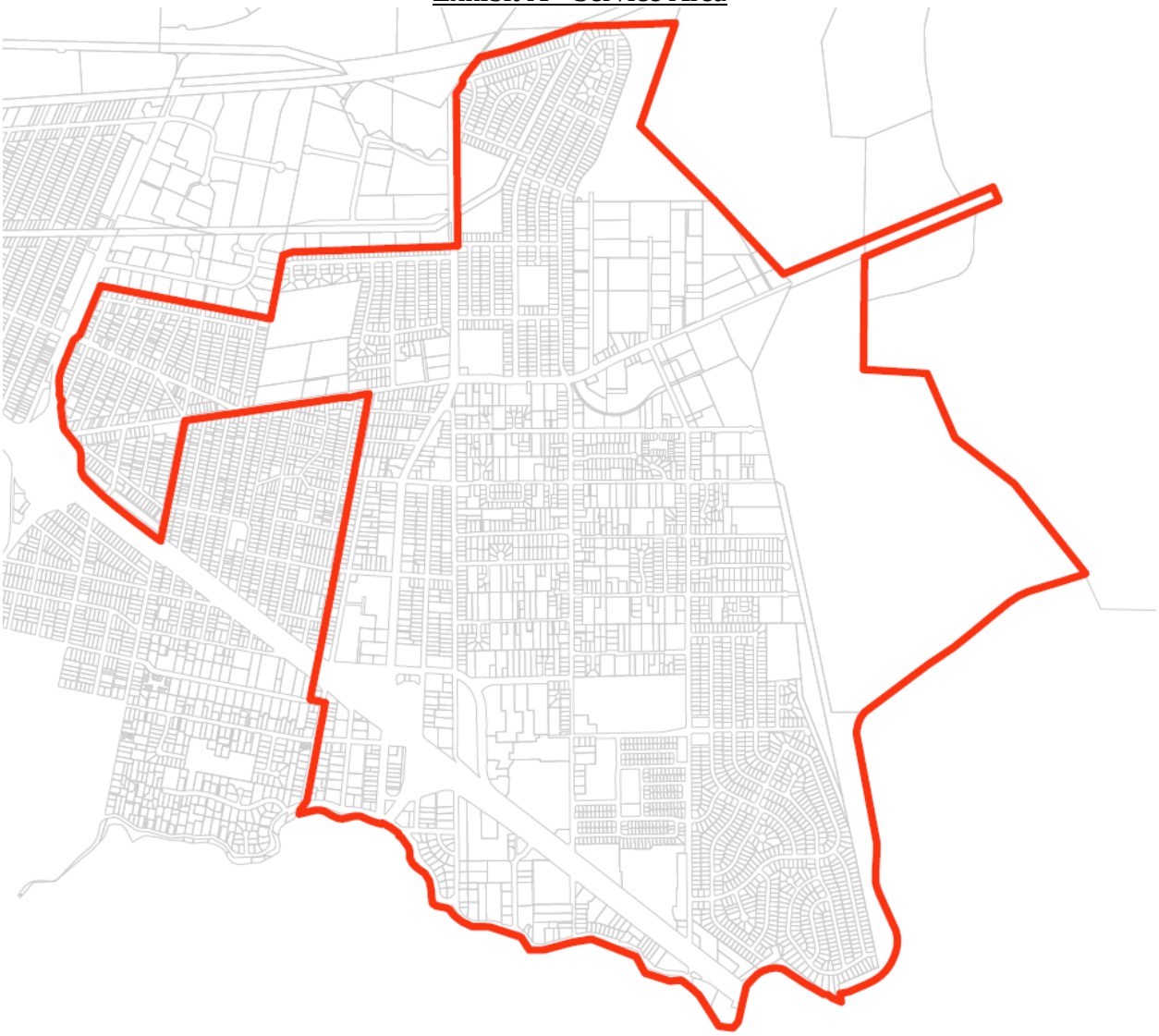

Exhibit B - Water System

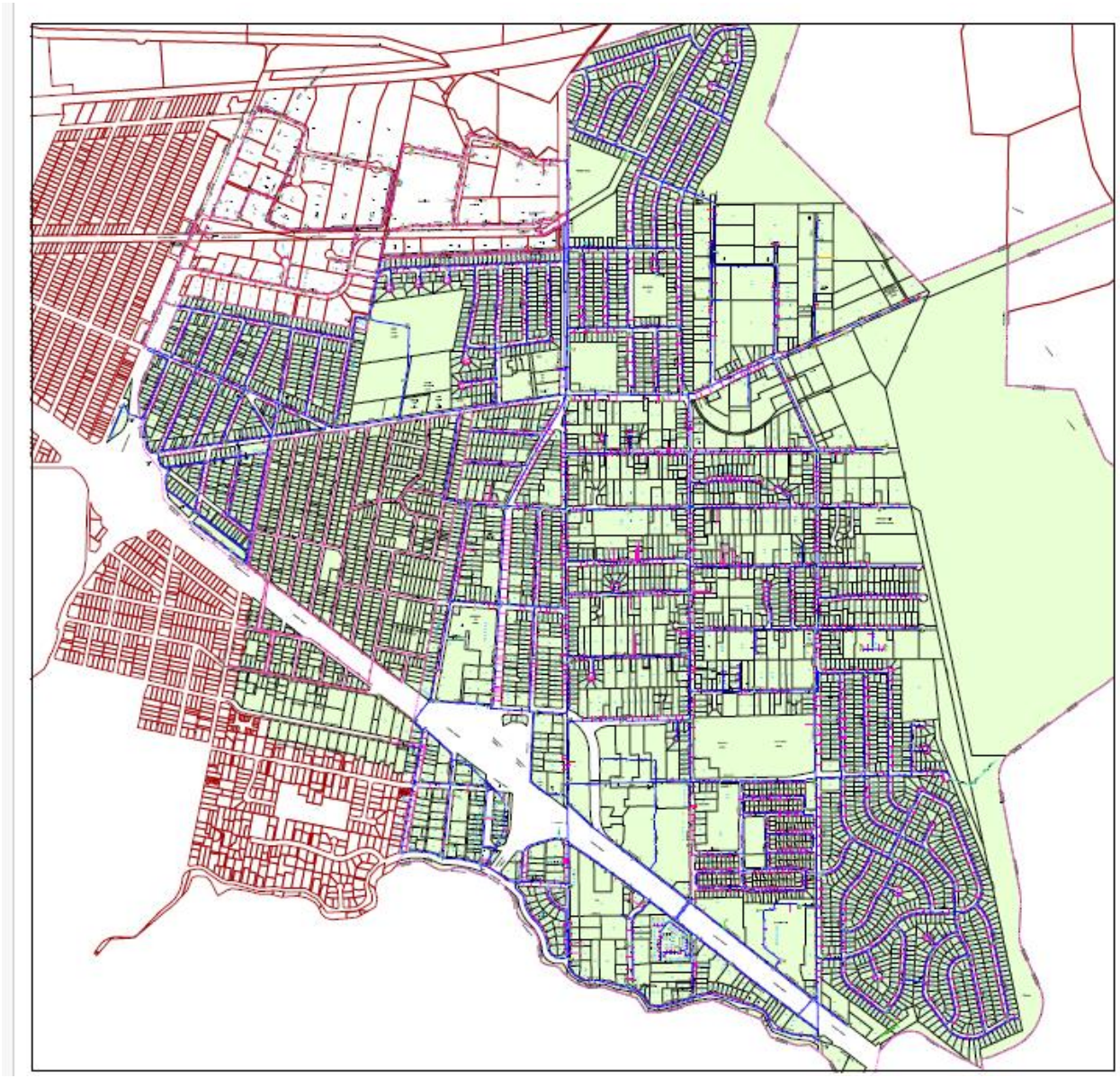

Exhibit C - Request for Rate Relief Format

REQUEST FOR RATE RELIEF WATER SERVICE

REQUEST FOR RATE RELIEF
WATER SERVICE

	Prior 12 Months Recorded At Present Rates	Next 12 Months Estimated At Present Rates	**Next 12 Months Estimated At Proposed Rates**
Operating Revenues			
Water Sales			
Service Charges			
Other			
Total			
Required Rate Increase			
% Increase			
Operating Expenses			
Labor			
Purchased Water			
Purchased Power			
Operations			
Maintenance			
Total			
Franchise Fee			
Lease Payment			
Payroll Taxes			
Iincome Taxes			
Total			
Net Income			
After Tax Rate or Return			

Exhibit D - Section 17 - Outstanding Citations, Order, Etc.

The Water System is under an order issued by the California State Water Resources Control Board, Division of Drinking Water to construct 3.7 million gallons of water storage facilities.

EPA Notice of Violation to update the Emergency Response Plan and Risk and Resiliency Assessment by July 2026

Exhibit E - Section 17 - List of Environmental Problems

None

Exhibit F

Annual True-Up Process Template

		Total FY25	Total FY26	Total FY27	Total FY28
Total System Collected and Paid					
	Veolia	(9,171,654.82)	(7,505,519.71)	-	-
	Sub-total	(9,171,654.82)	(7,505,519.71)	-	-
	Voided Payments	(10,784.85)	149,531.23	-	-
	Total Receipts	**(9,182,439.67)**	**(7,355,988.48)**	**-**	**-**
	Capital/Meter Collected	1,305,656.06	964,980.30	-	-
	UUT Collected	363,905.14	284,718.42	-	-
	Lease Fee	450,772.71	366,377.39	-	-
	Franchise Fee	375,643.92	305,314.49	-	-
	Wire Payment Due - Collected Payments per Operator	2,495,977.83	1,921,390.59	-	-
Estimate Net True Up of Collected Revenues					
**Calculates actuals earnings*	Subject Revenue Collected	7,512,878.47	6,106,289.76	-	-
	Operating Expenses	7,814,681.51	6,289,009.17	-	-
	Bad Debt Adj	-	-	-	-
	Net Cash Flow	**(301,803.04)**	**(182,719.41)**	**-**	**-**
	Veolia Income	492,138.12	400,259.88	-	-
	Net Collected True Up *(-) Underage (+) Overage*	**(793,941.16)**	**(582,979.29)**	**-**	**-**
	Payments from City to Veolia		-	-	-
	Running Balance	**(448,038.28)**			

			(1,031,017.57)	(1,031,017.57)	(1,031,017.57)
Exhibit Net True Up **Calculates guaranteed earnings*	**Collected Subject to Fees**	**7,512,878.47**	**6,106,289.76**	-	-
	Less SFPUC Differential	(2,438,041.69)	(1,979,280.13)	-	-
	Less Lease Differential	(146,282.50)	(118,756.81)	-	-
	Less Franchise Differential	(121,902.08)	(98,964.01)	-	-
	Contractual Gross Revenue	4,806,652.19	3,909,288.82	-	-
	Operator Return B4 Tax	384,532.18	312,743.11	-	-
	Taxes:				
	State	33,992.64	27,646.49	-	-
	Federal	73,613.30	59,870.29	-	-
	Caclulated Operator Return	**492,138.12**	**400,259.88**	-	-
	Escalation Factor	3.83	3.92	5.80	5.80
	SFPUC Rate	5.67	5.80	5.80	5.80

Note:

Operating Expense excl.SFPUC and Contractual	2,645,469	1,119,796	(5,169,213)	(5,169,213)
	15%	-58%	-562%	0%
SFPUC water purchase	5,169,213	5,169,213	5,169,213	5,169,213
	18%	0%	0%	0%

Exhibit G

End of Term Accounts Receivable Calculation

For purposes of the Final True-Up, the following percentages shall be applied to accounts receivable at the end of the Term or termination date of the Lease:

Current to 60 days overdue = 100%
61-90 days overdue = 85%
90-120 days overdue = 50%

121 - 365 days overdue = 25%
365 - 730 days overdue = 10%
Over 730 days = 0%

AMENDED AND RESTATED
AGREEMENT FOR LEASE OF REAL PROPERTY (WATER SYSTEM)

THIS AMENDED AND RESTATED AGREEMENT FOR LEASE OF REAL PROPERTY (WATER SYSTEM) (this "Lease") is entered into as of June 28, 2026 (the "Agreement Date"), between the City of East Palo Alto, a municipal corporation of the State of California ("City"), and Veolia Water North America-West, LLC, a Delaware limited liability company (the "Company"). City and Veolia are each a "Party" and, together, the Parties.

WITNESSETH:

WHEREAS, through the Water System, City provides water service to approximately 4,030 domestic and industrial customers in the Service Area;

WHEREAS, City and American Water Services, Inc. ("American Water") entered into that certain Agreement for Lease of Real Property (Water System), dated April 9, 2001, pursuant to which City leased the Water System to American Water (as amended, the "Original Lease");

WHEREAS, American Water (then known as American Water Enterprises, LLC) assigned the Original Lease to the Company, effective June 1, 2020, which assignment was consented to by the City, and, pursuant to such assignment, the Company assumed the duties and responsibilities of American Water under the Original Lease;

WHEREAS, the Company possesses the resources, capacity and expertise to operate, maintain and manage the Water System; and

WHEREAS, the Parties wish to amend and restate the Original Lease with this Lease;

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein and for good and valuable consideration, the receipt and adequacy of which the parties hereby acknowledge, City and the Company hereby agree to amend and restate the Original Lease as follows:

AGREEMENT

Section l. Defined Terms.

For purposes of this Lease, the following terms shall have the meanings set forth below

"Capital Charge" means an amount charged to the customers of the Water System to recover the Capital Costs and other costs related to System Improvements.

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Style Definition: Comment Text

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Deleted: THE CITY OF EAST PALO ALTO

Deleted: AMERICAN WATER SERVICES, INC., aDelaware corporation

Deleted: "), a wholly-owned non-regulated subsidiary of American Water Works Company, Inc.""

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Deleted: desires to lease the Water System from City, for the period and upon the other terms

Deleted: conditions set forth herein;

Deleted: intends to utilize its local affiliate, Cal-Am, to operate, maintain and manage the Water System; and¶ ¶ WHEREAS, the Company and Cal-Am possess

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Deleted: *"Cal-Am"* means California-American Water Company, an investor-owned water utility regulated by the CPUC that provides water service to approximately 105,000 domestic and industrial customers in· six separate water systems located in Monterey County, Los Angeles County, Ventura County and San Diego County that also is a wholly-owned subsidiary of American Water Works Company, Inc.¶ ¶

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"Capital Costs" means the cost of financing, designing, permitting and constructing recommended System Improvements and other costs associated therewith.

"Commencement Date" means the effective date upon which City assumed ownership of the East Palo Alto County Waterworks District, which the Parties agree to be June 28, 2001.

"Contractual Gross Revenues" means the calculation of Gross Revenues that would have been collected by Company if the wholesale rate of water purchased by Company from SFPUC was the same as the rate charged in Fiscal Year 2026-2027 ("Water Rate Differential" or the "Base SFPUC Rate"). Beginning in Fiscal Year 2027-2028, the Base SFPUC Rate shall be increased on the first day of each Fiscal Year by the percentage of positive change in the Contractual Gross Revenues Inflation Rate for purposes of calculating the Contractual Gross Revenues. The determination of Contractual Gross Revenues also includes deductions for the Franchise Fee Differential and the Lease Payment Differential. In no event shall the calculated Base SFPUC Rate exceed the actual SFPUC rate per ccf.

"*Contractual Gross Revenues Inflation Rate*" means the annual percentage change in the Consumer Price Index for All Urban Consumers, All Item, for San Francisco-Oakland-Hayward, CA Combined Statistical Area, as published by the Bureau of Labor Statistics (BLS), measured using the most recently published annual CPI-U percentage change available as of the calculation date, provided that if BLS ceases to publish either index, then the parties will, acting reasonably, replace such index with a comparable successor index.

"CPUC" means the California Public Utilities Commission.

"Environment" means soil, land, surface or sub-surface strata, surface waters (including navigable waters, oceans, streams, ponds, drainage basins and wetlands), groundwater, drinking water supply, stream sediments, ambient air, plant and animal life, and any other environmental medium or natural resource.

"Environmental Law" means any Legal Requirements designed to minimize, prevent, punish or remedy the consequence of actions or omissions that damage or threaten the Environment or public health and safety.

"Environmental Liabilities" means any costs, expenses or liabilities relating to or arising from any violation of any Environmental Law, including, without limitation, any potential or actual environmental clean-up or remediation of any Hazardous Substances that may be located on any property that constitutes part of the Water System, or that enter the water delivered to customers by the Water System, or any investigation of or environmental reports prepared with respect thereto.

"Financial Report" means that report required pursuant to Section 6E.

"*Fiscal Year*" means the fiscal year of the City, which runs from July 1 to June 30 annually.

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"Franchise Fee" means the franchise fee required pursuant to Paragraph 6B.

"Franchise Fee Differential" means 5% of the calculated "Water Rate Differential" to be deducted from Gross Revenues in determining Contractual Gross Revenues.

"Governmental Body" means any governmental officer, agency, authority or entity.

"Government Charges" means any new City, State or federally imposed charges, taxes, license or permit fees, including, without limitation, the imposition of a possessory interest tax on the Company's interest in the Water System.

"Gross Revenues" means the service charges, water charges and miscellaneous charges generated by the Water System and described in the City's Schedule of Rates for Water Service actually collected by the Company in a particular period. The term Gross Revenues specifically excludes the utility tax collections, service connection charges, water impact and/or related development fees, facility buy-in charges, capital surcharges, and meter replacement surcharges as described in the City's Schedule of Rates for Water Service and Surcharges.

"Hazardous Substance" means any waste, substance, object, or material deemed hazardous under applicable law, including (a) "hazardous substances" as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended; (b) "hazardous waste" as defined in the "hazardous waste" under the Resource, Conservation and Recovery Act; and (c) "emerging contaminants" as identified by the U.S. Environmental Protection Agency or other governmental authorities due to their potential for adverse impacts to human health or the environment, specifically including, without limitation, perfluoroalkyl and polyfluoroalkyl substances ("PFAS") such as perfluorooctanoic acid ("PFOA") and perfluoro octane sulfonate ("PFOS"). As used herein, "Hazardous Substances" also means materials, equipment, physical property, soil, groundwater or stormwater that are contaminated with Hazardous Substances.

"Lease Payment Differential" means 6% of the calculated "Water Rate Differential" to be deducted from Gross Revenues in determining Contractual Gross Revenues.

"Legal Requirement" means any federal, State, local, municipal or other administrative order, constitution, law, ordinance, principle of common law, regulation, statute, order or other legal requirement.

"Lease Payment" means the lease payment required pursuant to Paragraph 6A.

"Operations Report" means that report required pursuant to Section 7F.

"Prudent Industry Practices" means those methods, techniques, standards and practices that, at the time they are employed and in light of the circumstances known or believed to exist at the time, are generally accepted as reasonably prudent in the municipal water distribution industry as practiced in the United States, including without limitation NIST Cybersecurity

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¶
"Initial Rates" means the Water Service Rates to customers in effect immediately prior to the Commencement Date.¶
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Framework 2.0 and applicable guidance in NIST SP 800-82 with respect to data related to the Water System.

"Request for Rate Relief" means a written request for rate relief provided by the Company to City pursuant to which the Company shall request that the City provide reasonable water rates and charges.

"Service Area" means that certain real property described on Exhibit A attached hereto and in which the Water System is located (as such service area may change from time to time during the term of this Lease).

"Surcharges" means amounts charged to the customers of the Water System other than Capital Charges.

"System Improvements" means necessary capital improvements, replacements, or repairs to the Water System.

"System Improvement Report" means that report required pursuant to Section 9.

"Term" means that period commencing on the Agreement Date and ending three (3) years thereafter, unless terminated earlier or extended longer as provided in this Lease.

"Water System" means that certain real property, easements and rights of way and those certain pipes, mains, pumps and appurtenant facilities (including, without limitation, buildings, pump houses, sheds and other structures) constituting all of City's water system within the Service Area as more specifically described in Exhibit B attached hereto.

"*Water Service Rates"* means those rates for water service charged to customers of the Water System.

Section 2. Lease of Water System.

City hereby leases to the Company, and the Company hereby leases from City, the Water System described in Exhibit B with such additions or improvements to the Water System that may occur from time to time while this Lease is in effect. City agrees to provide the Company with copies of maps, drawings, plans and specifications of the Water System, along with customer service and account records in a form reasonably acceptable to both parties. The Company agrees to use Prudent Industry Practices (including those related to cybersecurity) to keep all customer information confidential, whether received from City or developed during the Term of the Lease.

Section 3. Revenues and Expenses.

Except as set forth hereafter, City shall be obligated to pay all expenses that relate to the operation of the Water System that are incurred or accrue prior to or after the Term. Such expenses shall be direct and/or allocable to the Water System in conformance with accounting principles generally accepted in the United States. The Company shall be obligated to pay all

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expenses that relate to the operation of the Water System that are incurred or accrue during the Term. In no event, however, shall the Company be liable or responsible for any Environmental Liabilities unless the Company has caused the violation of the Environmental Laws that created the Environmental Liabilities. City shall be liable and responsible for all such Environmental Liabilities not caused by the Company and shall indemnify and hold harmless the Company from all costs and expenses arising therefrom.

Section 4. Use of Water System.

Subject to the provisions of this Lease, the Company agrees to use the Water System to furnish potable water service and water service for fire protection to all customers in the Service Area in accordance with all applicable Legal Requirements that are in effect during the Term.

The Company may not retire, sell, transfer, convey, or encumber any real property or personal property of the Water System without the prior written consent of City, which consent may not be unreasonably withheld.

The Company is granted the exclusive right to provide water service to the Water System, including within the City corporate limits. The City agrees not to allow the creation of additional investor-owned or mutual water companies within the City's corporate limits.

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Section 5. Title.

All System Improvements to the Water System during the Term shall become part of the Water System and title to such System Improvements shall immediately vest in City. Any other property added to or incorporated into the Water System either by the Company or, by the City (including by new developments) shall be deemed part of the Water System for purposes of this Lease and title to such property shall immediately vest in City, provided (a) the City shall give Veolia reasonable written notice in advance of adding or incorporating any such assets and (b) the California State Water Resources Control Board and any other Governmental Body with jurisdiction approves the addition or incorporation of such assets, if such approval is required. The Company shall not own the Water System or any part thereof.

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Section 6. Payments and Transfers of Other Funds to the City.

A. Lease Payment. As consideration of the Lease of the Water System, the Company shall pay the City an annual Lease Payment in an amount equal to six percent (6%) of the annual Gross Revenues generated by the Water System. The Company shall make Lease Payments to the City on the fifteenth (15th) business day of each month equal to six percent (6%) of the prior month's Gross Revenues.

B. Franchise Fee. In addition, the Company shall pay the City an annual Franchise Fee equal to five percent (5%) of the annual Gross Revenues generated by the Water System. The Company shall pay Franchise Fees to the City on the fifteenth (15th) business day of each month equal to five percent (5%) of the prior month's Gross Revenues.

C. Utility Tax. The Company shall collect the City's utility tax and transfer all such collections to the City on the fifteenth (15th) business day of each month.

D. Capital Charges and Surcharges. The Company shall collect Capital Charges and Surcharges and transfer all such collections to the City on the fifteenth (15th) business day of each month.

E. Financial Report. The Company shall on annual basis provide City a reasonably detailed Financial Report on the Water System that presents in all material respects the financial position of the Water System. The Financial Report shall contain a balance sheet and related statements of income, cash flow and capital investment by the Company that conform to accounting principles generally accepted in the United States of America. The Financial Report shall also provide a monthly analysis of all Water System revenues billed and collected. The Company shall deliver the Financial Report to City sixty (60) days after the close of the Fiscal Year.

F. Financial Audit. City shall have the right to conduct at any time, at City's expense, an audit of the financial statements of the Water System. The Company shall provide any accounting, financial, or other report or information related to the Company's operation and maintenance of the Water System reasonably requested by City.

G. Annual True-Up. Beginning with Fiscal Year 2026-27 and within 60 days of the end of each Fiscal Year thereafter, the Company shall complete an Annual True-Up process report in the format attached hereto as Exhibit F. Amounts accumulated through the Annual True-Up process for periods beginning on or after July 1, 2026, are defined as the "Annual True-Up Differential" and consist of the difference between the Company's actual after-tax return and the contractually-agreed after-tax return of 8% of Contractual Gross Revenues. To the extent the Annual True-Up Differential consists of Company after-tax returns greater than 8%, the Company shall pay such Annual True-Up Differential to City within thirty (30) days of completion of the Annual True-Up process, and, to the extent the Annual True-Up Differential consists of Company after-tax returns of less than 8% of Contractual Gross Revenues, City shall pay such Annual True-Up Differential to the Company within thirty (30) days of completion of the Annual True-Up process. Notwithstanding the foregoing, if the Parties mutually agree to address all or a portion of an Annual True-Up Differential through future water rate adjustments pursuant to Section 8A, the applicable payment obligation under this Section 6G may be deferred or reduced to the extent provided in such mutual agreement. If City desires to conduct a financial review or audit with respect to an Annual True-Up, City shall have thirty (30) days from the delivery of the Annual True-Up process report to notify the Company in writing of such audit or financial review, and such audit or financial review shall be completed within one hundred twenty (120) days following such written notice, unless extended by mutual written agreement of the Parties. If these timing milestones are not achieved, the Annual True-Up Differential report submitted by the Company shall be deemed correct. Payment obligations under this Section 6G shall be tolled during the pendency of any audit or financial review.

H. Final True-Up. At least sixty (60) days prior to the end of the Term (or, within a reasonable time of one Party delivering to the other Party a notice of termination of the Lease), the

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Company shall complete and submit to City a final true-up using the Annual True-Up process as a template (prorated to the expected termination date of the Lease), which amount shall include a valuation of the then-outstanding accounts receivable from the Water System based on the table set forth in Exhibit G (which shall be included as a credit to the Company), and which amount shall include any unpaid Accrued True-Up Differential (the "Draft Final True-Up"). City shall retain the right, at its sole discretion and expense, to conduct a financial review or audit of the Draft Final True-Up, including the valuation of accounts receivable and all supporting costs, records, and calculations related thereto. If City desires to conduct such financial review or audit, City shall notify the Company in writing within thirty (30) days following delivery of the Draft Final True-Up, and such financial review or audit shall be completed within one hundred twenty (120) days following such written notice, unless extended by mutual written agreement of the Parties. Payment obligations under this Section 6H shall be tolled during the pendency of any such financial review or audit. To the extent the Final True-Up as finally determined following completion of any financial review or audit, shows the Company owing money to City, the Company shall pay such Final True-Up differential to City within thirty (30) days of completion of the Final True-Up process, and, to the extent the Final True-Up shows City owing money to the Company, City shall pay such Final True-Up differential to the Company within thirty (30) days of completion of the Final True-Up process. In no event shall the Company withhold, offset, or retain Lease Payments or Franchise Fees payable to City under this Section 6 on account of any amounts claimed under this Section 6H or any other provision of this Lease.

I. Accrued True-Up Differential. The Parties acknowledge and agree that under the Original Lease, the accumulated Annual True-Up Differential through June 30, 2026 (such amount, as may be revised pursuant to any financial review or audit permitted under this Section, the "Accumulated True-Up Differential") shall be calculated using the Annual True-Up calculation methodology attached hereto as Exhibit F. The Parties agree that the Accumulated True-Up Differential is an amount due and owing between the Parties that is not affected by the amendment and restatement of the Original Lease. City shall retain the right, at its sole discretion and expense, to conduct a financial review or audit of the Annual True-Up calculations and supporting costs and records related thereto. Any such financial review or audit shall be completed within one hundred twenty (120) days following submission of the final Annual True-Up calculation through Fiscal Year 2025-26, unless extended by mutual written agreement of the Parties. The results of such financial review or audit shall result in an adjustment to the Accumulated True-Up Differential, and such adjustment shall be final, subject to arbitration conducted under Section 30 of the Original Lease. City shall pay such amount to the Company within sixty (60) days of the completion of the financial review or audit. If, following the financial review of audit, the Accumulated True-Up Differential reflects an amount owed by the Company to City, then the Company shall pay such Accumulated True-Up Differential to City within sixty (60) days of the completion of the financial review or audit. In no event shall the Company withhold, offset, or retain Lease Payments or Franchise Fees payable to City under this Section 6 on account of any Accumulated True-Up Differential.

Section 7. Operation of Water System.

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A. Repair, Maintenance and Operation: The Company shall operate the Water System and pay all costs and expenses relating to its operations provided, however, that if the

total annual maintenance and repair costs exceed $110,000, the excess costs shall be considered System Improvements and shall be paid by City or included in Capital Charges (at the City's election) charged to the customers in the year following the year incurred pursuant to Section 9 of this Lease, as determined by City. City shall not be obligated to pay any cost or expense in connection with or related to the management, operation, improvement, repair or maintenance of the Water System during the Term of this Lease except for any Environmental Liabilities as defined in Section 3, and System Improvements as set forth in Section 9. The Company shall undertake any System Improvements and repairs and perform routine and emergency maintenance of the Water System in accordance with Prudent Industry Practices. All System Improvements to the Water System shall be subject, however, to the procedures set forth in Section 9 hereof.

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B. Customer Service Obligations: The Company shall have the following customer service obligations: sending monthly or bimonthly bills, at the Company's election, to all customers receiving water service in the Service Area; payment processing; responding to customer inquiries on water service, bills, leaks or other concerns; collecting bills; processing applications for new or transfers of service; collecting customer deposits for new service; collecting construction meter deposits; investigating customer complaints.

C. Emergency Service Obligations: The Company shall have the following emergency service obligations while the Lease is in effect: maintaining 24 hour on-call response to emergency calls or customer inquiries; providing an emergency or natural disaster operations plan, including an emergency notification plan; maintaining an emergency communications system; providing or having access to equipment required to perform emergency repair work to vital system equipment and water mains.

D. Water Quality Testing Obligations: The Company shall have the following water quality testing obligations while the Lease is in effect: performing, or causing to be performed, by a State of California certified laboratory and all water sampling, analysis, testing and reporting required for water sources, distribution mains or customer premises by the U.S. Environmental Protection Agency, State of California Department of Health Services and Office of Drinking Water and the County Environmental Health Department, or acts of the U.S. Congress or California Legislature; scheduling and collecting water samples to test for microbiological, inorganic and organic constituents; transportation to a certified lab; preparing monitoring plans; sample collection training; reporting to appropriate regulators; record keeping; analysis interpretation; special or emergency sample collection and analysis, and emergency notification to affected customers, if required; preparing and distributing all published and distributed customer reports on water quality; new well or water source sampling and analysis; response to customer inquiries on water quality; coordination of cross-connection control and potential contamination issues; conducting an annual system survey with the California State Department of Health Services; obtaining any necessary permits and compliance with appropriate air district regulations; providing hazardous materials control program, and ensuring all operator certification compliance with State and Federal requirements.

E. Other Service Obligations: The Company shall have the following additional service obligations while the Lease is in effect: implement a water conservation program;

maintain distribution system maps and plat maps; assist City in any required reporting in connection with the preparation of any required urban water management plans, asset management plans, and water management plans; assist the City with investigations related to harm to third parties; and in general operate the Water System in accordance with Prudent Industry Practices. City shall be responsible for all line locating and participation in the 811 program, and Veolia shall have no responsibility or liability with respect to line locating.

F. Operations Report: The Company shall on annual basis provide City a reasonably detailed Operations Report on the Company's operation and maintenance of the Water System. The Operations Report shall include but not limited to reports on customer inquiries, bad debt, conservation activities, meter replacements, water testing results, system leaks and other pertinent operations and maintenance activities and data related to the Water System. The Company shall deliver the Operations Report to City sixty (60) days after the close of the Fiscal Year. The Company shall periodically provide City any other report or information related to the Company's operations and maintenance of the Water System that is reasonably requested by City.

G. General Operation: Unless inconsistent with the specific terms of this Lease, the Company shall operate the Water System in accordance with Prudent Industry Practices and in compliance with all Legal Requirements.

Section 8. Rates and Charges.

A. Rate Relief. If the Company reasonably believes that current water rates will lead to a deficit in the Annual True-Up Differential or Final True-Up, the Company may submit a Request for Rate Relief. The Request for Rate Relief shall: (i) be submitted in writing and in the format set forth in Exhibit C; (ii) include pertinent work papers and supporting financial data used to develop the Request for Rate Relief; and (iii) set forth the reasons that support the Company's Request for Rate Relief. The Company shall be entitled to recover in its Water Rates all necessary and reasonable costs related to performing the services set forth in this Lease and a fair and reasonable rate of return. The Company shall be entitled to earn an after-tax rate of return of eight percent (8%) on Contractual Gross Revenues. Each year the final after-tax return to the Company shall be calculated under the "Annual True-up" established in Section 6.F whereby such amounts as may be accumulated are utilized in determining funding requirements related to future rate relief requests. If in any year the Company's after-tax return is below 8% of Contractual Gross Revenues ("Shortfall Year"), and accumulated Annual True-up differential amounts (defined in Section 6.F) do not exist to fund the "Shortfall Year", the City agrees to put forth to rate-payers recommended water rate increases that would enable the Company to earn a cumulative after-tax return of 8% of Contractual Gross Revenues for all applicable previous Shortfall Years and subsequent years. All Requests for Rate Relief by the Company shall require approval by City, which approval shall not be unreasonably withheld. Any disapproval shall state detailed reasons therefor. In determining reasonable rates and charges for water service, City shall consider all relevant information necessary to implement water rates in compliance with the legal requirements of Article 13D, Section 6 of the California Constitution as established by Proposition 218.

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B. Extraordinary Rate Relief. City shall act on all Requests for Rate Relief by initiating a Proposition 218 study (meaning obtaining a consultant) within 60 days of receipt of the request. In cases of natural disaster, other emergencies, acts of God or other extraordinary events (including, without limitation, new governmental rules, regulations or permit requirements), City recognizes that extraordinary rate relief on an expedited basis may be necessary and City agrees to expeditiously consider any such reasonable extraordinary Request for Relief. If City does not act on any Request for Rate Relief, and such Rate Relief eventually is approved or ordered, the water rates and charges shall be adjusted to recover from customers over a reasonable period of time such amounts as are necessary to restore the Company to the same financial position it would have been in had the rate increase been effective at the beginning of such period.

C. Automatic and Other Rate Adjustments. Notwithstanding the foregoing, the City may adopt a schedule of water rate charges authorizing automatic adjustments to pass through to customers increases in wholesale water charges or other charges in a manner consistent with applicable law. The frequency and amount of automatic adjustments will be considered in relation to any existing Accumulated True-Up Differential. The City may also implement conservation or rationing water rates and rules if drought circumstances or State mandates reasonably require such rates to be implemented.

Section 9. System Improvements.

The City shall be responsible for financing all System Improvements. The Company shall assist the City in obtaining government grants and low-interest loans for System Improvements to the extent such are available. The Company shall provide City with a reasonably detailed System Improvement Report recommending, on a priority basis, System Improvements to be undertaken in the following year to preserve or upgrade the Water System. The Company shall deliver the System Improvement Report to City prior to the commencement of the Fiscal Year to which it relates so that City may incorporate it into its budget for the applicable year. Except as set forth in Section 7A, all System Improvements must be reviewed and approved by City in writing prior to any implementation thereof. The Company shall include in the annual Operations Report the actual cost of System Improvements.

City shall institute a Capital Charge to recover all financing and other costs related to System Improvements for the Water System.

City may request that the Company manage or undertake System Improvements through a separate agreement between City and the Company, and the City shall pay the Company's actual, documented costs for such System Improvements, plus fifteen percent (15%).

Section 10. Evaluation of System.

The Company, upon reasonable advance written request of City or its agent, shall permit City or City's agent to conduct a comprehensive inspection of the Water System, including but not limited to, field inspections, maintenance records and reports, customer complaints and

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System Improvement installations schedule and plans, in order to assess the condition of the Water System.

If City determines that all or part of the Water System is not being operated or maintained in accordance with customary industry standards, City shall provide written notice to the Company describing the deficiencies which City wishes to be corrected. The Company shall, within 75 days thereafter, file with City its written response describing which deficiencies the Company agrees need to be corrected together with a plan to correct those deficiencies.

If the Company, in its written response to City, disagrees with any or all of the deficiencies described in City's notice or if the Company does not agree to the plan for deficiency corrections proposed by City, the parties shall negotiate in good faith in an attempt to resolve all disputed issues. If agreement cannot be reached between the parties on any or all disputed issues, then the parties agree to submit the unsolved issues to arbitration in accordance with the provisions set forth in Section 30 below.

Section 11. Water Supply.

During the Term, the City shall assign to the Company and the Company shall accept, the rights and duties of all water supply contracts with respect to the Water System as of the Agreement Date, including the Master Water Sales Contract with the San Francisco Public Utilities Commission. Any bills or invoices received by the City pursuant to such contracts for water delivered after the Agreement Date shall be promptly forwarded to the Company for payment. If assignment or transfer of any other supply or operating contracts is deemed necessary by either the Company or City, City shall cooperate with the Company in completing such assignment or transfer for the duration of this Lease. The City also acknowledges that the Company will receive and deliver water in the Water System from Hetch Hetchy reservoir that will be treated by the City and County of San Francisco, and the Company shall not be liable or otherwise responsible for the quality of any such water as delivered to it by the City and County of San Francisco.

Section 12. Customer Billing and Collections.

A. The Company shall bill and collect the charges to customers receiving water through the Water System in accordance with the City's Schedule of Rates for Water Service and administrative rules and all other legal requirements that govern Water Service Rates, billing and collection of water service charges, which Water Service Rates may be adjusted from time-to-time pursuant to Sections 8 and 9. The Company may propose, however, revisions to City's administrative rules governing billing, collection, payment and credit and City shall approve such revisions if they are reasonable and comply with laws applicable to municipality-owned water systems. The Company shall submit any proposed revisions of such rules to City for prior approval.

B. To the extent required by law, the Company shall bill and collect on behalf of City from Water System customers any additional amounts which City may assess as a City user's tax on such customers and shall promptly pay all such amounts to City.

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C. City agrees to cooperate with the Company in collecting unpaid/delinquent accounts and, when necessary and legally appropriate, impose property tax liens against customers whose accounts have been unpaid for an unreasonable period of time. In doing so, City shall not be obligated, however, to pursue collection proceedings on behalf of the Company. The City authorizes the Company to act on its behalf in exercising all powers and remedies available to the City in collecting unpaid/delinquent accounts.

D. All monies received by either City or the Company pertaining to water service furnished prior to the Agreement Date shall be the property of the Company. Payments of Gross Revenues received by either City or the Company for water service furnished during the Term shall be the property of the Company. If City receives any such payments it shall tum them over to the Company. Upon expiration or earlier termination of the Term, the amounts due through such expiration or termination date from all customers shall be calculated by the Company (and Company shall make a reasonable effort to read customer meters in connection with such calculation) and, in lieu of collection and retention of such amounts by the Company, the Company shall be paid such amount by City less an amount for bad debts based on the collection history of the customers in the Service Area, as set forth in Exhibit G, as part of the Final True-Up.

Section 13. Insurance.

A Obligations of the Company. During the Term, the Company at its own cost and expense shall maintain insurance, issued by a carrier or carriers as follows:

(1) Commercial General Liability: Company shall maintain commercial general liability insurance with coverage at least as broad as Insurance Services Office form CG 00 01, in an amount of twelve million dollars ($12,000,000) per occurrence, twelve million dollars ($12,000,000) general aggregate, and twelve million dollars ($12,000,000) products and completed operations aggregate for bodily injury, personal injury, and property damage, including without limitation, contractual liability, which can be met using primary and umbrella policies. The general aggregate limit shall apply separately to the project or location or the general aggregate limit shall be doubled. Company's general liability policies shall allow and be primary and shall not seek contribution from the City's coverage and be endorsed using Insurance Services Office form CG 20 10 (or equivalent) to provide that City and its officers, officials, employees, and agents shall be additional insured under such policies. An endorsement providing completed operations coverage for the additional insured, ISO form CG 20 37 (or equivalent), is also required.

(2) Workers' Compensation and Employers' Liability: Company shall maintain Workers' Compensation Insurance and Employers' Liability Insurance with limits of one million dollars ($1,000,000) each accident or disease. Company shall submit to City, along with the certificate of insurance, a waiver of subrogation endorsement in favor of City, its officers, agents, employees, and volunteers.

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Deleted: <#>Commercial general liability insurance in the single limit amount of not less than $5,000,000, written on an occurrence basis. This insurance shall include coverage for injury (including death) or damage to persons and/or property arising out of the operations of the Company pursuant to this Lease. The policy shall include coverage for liability assumed under his Lease for personal injury, property damage and all other insurable claims as an "insured contract" for the performance of the Company's obligations under this Lease.¶
¶
(2) Workers' compensation insurance, or a certificate of self-insurance, insuring against liability under the Workers' Compensation Insurance and Safety Act now in force in California, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof This insurance shall fully cover all persons employed by the Company in connection with its operations under this Lease for claims of injury (including death) arising in connection with their employment by the Company pursuant to its operation and management of the Water System.¶
¶
(3) Automobile (vehicle) liability insurance on an occurrence basis for bodily injury and/or property damage in a single limit amount of not less than one million dollars ($1,000,000).¶
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(3) Business Automobile Liability: Company shall provide auto liability coverage for owned, non-owned, and hired autos using ISO Business Auto Coverage form CA 00 01 (or equivalent) with a limit of five million dollars ($5,000,000) per accident.

(4) Cyber Liability Insurance: Company shall maintain Cyber Liability Insurance with a limit of one million dollars ($1,000,000) per claim. Coverage shall be sufficiently broad to respond to the duties and obligations as is undertaken by Company in this agreement and shall include, but not be limited to, invasion of privacy violations, information theft, damage to or destruction of electronic information, release of private information or personally identifiable information (PII), alteration of electronic information, extortion, and network security. The policy shall provide coverage for breach response costs as well as regulatory fines and penalties, and credit monitoring expenses with limits sufficient to respond to these obligations.

B. All policies of insurance required by this Lease except Workers' Compensation and Employer's Liability and Cyber Liability shall contain an endorsement including the City as an additional insured, and such policies shall provide and be endorsed that the coverage shall be primary and non-contributory.

C. All insurance shall be written under policies issued by insurers of recognized responsibility, licensed or permitted to do business in the State of California and with A.M. Best rating of A-VII or better.

D. All policies of insurance shall provide that such policies may not be canceled without at least 30 days' prior written notice to the Company and to City. For a material change, or if a carrier will not provide the required notice of cancellation, the Company shall provide written notice to the City of a cancellation or material change to the policy no later than five (5) business days before the effective date of the cancellation or material change.

E. A certificate of insurance and required policy endorsements shall be delivered to City, prior to the Agreement Date and the expiration dates of expiring or non-renewed policies.

F. The limits of insurance required by this Lease or as carried by the Company shall not limit the liability of the Company nor relieve the Company of any obligation hereunder.

G. The Company shall cause each required insurance policy obtained by it to provide and endorsement that the insurance company waives all rights of recovery by way of subrogation against City in connection with any damage covered by any policy.

H. Obligations of the City. During the Term, the City at its own cost and expense shall maintain "all risk," or its equivalent, property insurance, covering the City's owned, leased or rented, buildings, premises, equipment, data, tools or other personal property, including, but not limited to, the Water System, at full replacement cost. The City shall maintain business interruption coverage of City's business for the term of this Agreement.

Section 14. [Reserved]

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Either party shall have the option to request a meeting at least 180 days prior to the expiration of each five year period of the Term to evaluate the performance of the Company under the Lease and the financial feasibility for the Company to continue the Lease under its existing terms in light of past events and anticipated future events. If either party requests such a meeting, the parties shall negotiate in good faith on all issues relating to the terms of the Lease or performance under the lease, as to which they may disagree. After the conclusion of these good faith negotiations, either party shall be entitled to terminate the Lease by providing the other party with written notice of termination at least 60 days prior to the 5th, 10th, 15th or 20th anniversary of the Commencement Date, as the case may be, if such party reasonably concludes that it is not in its best interest to continue the Lease.¶

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Section 15. Liens and Encumbrances.

City shall keep the Water System and all revenues arising from its operation free and clear of all liens, security interests and encumbrances except for those consented to by the Company. The Company shall keep its leasehold interest in the Water System created pursuant to this Lease free and clear of all liens, security interests and encumbrances, except for those consented to by the City.

Section 16. Surrender Upon Expiration or Termination.

Upon expiration or termination of this Lease and all renewals and extensions of it, the Company will return the Water System to the City in the same condition as it was upon American Water's assignment of the Original Lease on June 1, 2020, ordinary wear and tear excepted. Equipment and other personal property purchased by the Company for use in the operation or maintenance of the Water System shall remain the property of the Company upon expiration or termination of this Lease unless the property was directly paid for by the City or the City specifically reimbursed the Company for the cost incurred to purchase the property or this Lease provides to the contrary. The Company will provide all Water System customer records, system maps, plats, shapefiles, maintenance records, and other records at least one hundred eighty (180) days prior to the end of the Term, all in a format reasonably acceptable to City. At least 180 days prior to the end of the Term, the Company will also provide City with such records and reports in order to facilitate an orderly transition of the Water System. The obligation to facilitate an orderly transition of the Water System shall not be conditioned upon or related to the City's purchase customer receivables described in Section 12.D above, which shall be a separate transaction addressed in the Final True-Up

Deleted: Upon expiration or termination of this Lease, the Company agrees that it shall surrender to City the Water System in good order and condition and in a state of repair that is consistent with prudent use and maintenance, subject to the City having approved the System Improvements and related Capital Charges proposed from time-to-time by the Company.¶

Section 17. Representations and Warranties.

A. Representations and Warranties of City. City hereby represents and warrants to the Company that:

(1) City is duly organized and an existing municipal corporation under the laws of the State of California and is duly authorized to execute and deliver this Lease.

(2) City has the power, authority and legal right to enter into and perform this Lease and the execution, delivery and performance hereof by the City (i) have been duly authorized by City, acting by and through its City Council and Mayor, (ii) do not require any other approvals by any Governmental Body, (iii) will not violate any Legal Requirement applicable to City, and (iv) do not constitute a default under, or result in the creation of, any lien, charge, encumbrance or security interest upon the Water System or any agreement or instrument to which City is a party that relates to the Water System or by which the Water System may be bound or affected.

(3) City owns the Water System free and clear of all liens, security interests and encumbrances.

(4) This Lease has been duly entered into by City and constitutes a legal, valid and binding obligation of City, enforceable against City in accordance with its terms.

(5) There is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or threatened against City, or otherwise affecting the Water System, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by City of its obligations hereunder, or which, in any way, would adversely affect the validity or enforceability of this Lease, the operation of the Water System by the Company or any other agreement or instrument entered into by City in connection with the transactions contemplated hereby.

(6) To the City's knowledge, the Water System is being operated in compliance, in all material respects, with all Legal Requirements. Except as described in Exhibit D, there are no outstanding complaints, orders, citations, notices or orders of violation or non-compliance issued with respect thereto under any Legal Requirements, nor does City know or have reasonable grounds to know of any facts which could give rise to a notice of non-compliance under any Legal Requirements.

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(7) The Water System is being operated in accordance with all Legal Requirements and all applicable permits have been obtained with respect thereto. City has no knowledge of any proceeding or application which has been instituted or which is pending to amend the terms of any permit issued in connection with or with respect to the operation and maintenance of the Water System. All permit applications required to be filed and all permit fees required to be paid in connection with the Water System ·have been filed and paid, as applicable.

(8) City has no knowledge of any claim, proceeding, suit or demand alleging responsibility for damage to or destruction of tangible property, including the loss of use resulting therefrom or bodily injury, sickness, disease or death, in any way related to the operation and maintenance of the Water System.

(9) The Water System has been operated and it is in compliance with all material terms of the agreements and contracts relating to its operation and no party thereto is in material violation of or in default thereunder.

(10) The City represents and warrants that the Water System is in compliance with all applicable Legal Requirements and has been designed, installed and maintained to allow continued operation to meet all applicable Legal Requirements currently in existence or known to become effective during the term of this Lease and the Water System does not pose a known undue risk of liability to the Company as its operator. The City further represents and warrants that it is unaware of any soil or groundwater contamination or any other condition, defect, occurrence, threatened occurrence or event that could produce soil or groundwater contamination associated with the Water System or that could violate any Environmental Laws except as specifically identified and described on Exhibit E attached hereto.

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B. Representations and Warranties of the Company. The Company hereby represents and warrants to City that:

(1) The Company is a limited liability company duly organized and existing under the laws of the State of Delaware and is qualified to do business in the State of California.

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(2) The Company has the power, authority and legal right to enter into and perform its obligations set forth in this Lease, and the execution, delivery and performance hereof (i) have been duly authorized, (ii) do not require the approval of any Governmental Body, (iii) will not violate any Legal Requirements applicable to the Company or any provisions of the organizational documents of the Company, and (iv) do not constitute a default under or result in the creation of, any lien, charge, encumbrance or security interest upon any assets of the Company under any agreement or instrument to which the Company is a party or by which the Company or its assets may be bound or affected.

(3) This Lease has been duly entered into and constitutes a legal, valid and binding obligation of the Company, fully enforceable against the Company in accordance with its terms.

(4) There is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or, to the best of the Company's knowledge, threatened against the Company, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by the Company of its obligations hereunder, or which, in any way, would adversely affect the validity or enforceability of this Lease, the operation of the Water System by the Company or any other agreement or instrument entered into by the Company in connection with the transactions contemplated hereby.

Section 18. Default and Remedies.

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A. The occurrence of any of the following shall constitute a default by the Company:

(1) If the Company fails to make any payment to City or to any third party required by this Lease as and when due, or to obtain and maintain any insurance required by this Lease, where such failure continues for 30 days following receipt of written notice from City specifying the failure;

(2) If the Company fails to perform any of its other covenants or agreements contained in this Lease, where such failure continues for 60 days following receipt of written notice from City specifying the failure;

(3) Notwithstanding subsection (2) above, in the case of a failure to perform which cannot feasibly be cured within 60 days (for example, a major repair to the Water System), a default shall only occur if the Company fails to commence and diligently proceed toward full performance of the cure within 60 days following receipt of written notice from City specifying the failure, or if the Company fails to complete such performance within a reasonable time thereafter; or

(4) If (a) the Company becomes bankrupt or insolvent or makes any general arrangement or assignment for the benefit of creditors; (b) if the Company becomes a "debtor" as defined in 11 U.S.C. Section 141 or any successor statute thereto (unless, in the case of a petition filed against the Company, the same is dismissed within 90 days); (c) if a trustee or receiver is appointed to take possession of substantially all of the Company's assets or of the Company's interest in this Lease and possession is not restored to the Company within 60 days; or (d) if a writ of attachment or execution is levied on, or there is a judicial seizure of, substantially all of the Company's assets or of the Company's interest in this Lease and such seizure is not discharged within 60 days.

B. If City shall default in performing any of its covenants or agreements contained herein, including the unreasonable withholding of approval of Requests for Rate Relief, and such default shall continue for a period of 60 days after receipt by City from the Company of written notice specifying the nature of the default, then the Company may at its option, upon 60 days written notice, cancel and terminate this Lease. In the case of a default which cannot feasibly be cured within 60 days, if City fails to commence performance and diligently proceed toward full performance within 60 days after receipt of notice by the Company of City's failure to perform or fails to complete performance within a reasonable time thereafter, the Company may, upon 60 days prior written notice, terminate this Lease. The Company shall be entitled to all legal and equitable remedies provided by law if it terminates this Lease in accordance with this Paragraph 18B.

C. In the event of a default by the Company, the City may terminate this Lease on 60 days prior written notice. Alternatively, the City may elect to not terminate the Lease during the duration of the default and shall have the right to continue receiving payments hereunder and other required performances by the Company when due hereunder.

D. Notwithstanding any provision of this Section 18 to the contrary, if a default or failure to perform by the Company reasonably poses a threat to public health or safety, City shall so notify the Company, and if the Company fails to take corrective action within a reasonable time that shall be specified in such notice, City may enter the Water System and take all reasonably necessary action. The Company shall promptly reimburse City for all reasonable, documented costs incurred by City in connection with such action.

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E. Each party's performance under this Lease shall be excused if the party is unable to perform because of causes beyond its reasonable control; including but not limited to Acts of God, the acts of civil or military authority, floods, earthquakes, riots, strikes, interruption of water deliveries from the San Francisco Public Utilities Commission and commercial impossibility. In the event of any such force majeure, the Company will notify the other party within 24 hours of the existence of such force majeure event and shall be required to resume performance of its obligations under this Lease upon the termination of the force majeure event.

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F. Any disputes regarding the occurrence of a default hereunder, or the consequences thereof, shall be subject to the provisions of Section 30 below regarding arbitration.

Section 19. Discharge of Liens.

The Company shall pay and discharge all claims for materials, parts, labor, water, power and other consumables and supplies furnished at the Company's request upon or to the Water System and to keep the Water System free and clear of all liens resulting from such claims. City agrees to pay and discharge all claims and obligations for materials, parts, labor, water, power and other consumables and supplies furnished ·at City's request upon or to the Water System prior to the commencement of the Term of this Lease.

Section 20. Taxes and Assessments: Possessory Interest.

The Company shall pay all taxes, assessments, fees, levies, charges, license or permit fees and other government charges of any kind or nature while this Lease is in effect levied, charged, assessed or imposed upon or against the Water System. Without limiting the generality of the foregoing, the Company acknowledges that this Lease may create a possessory interest which may be subject to property taxation and that the Company may be subject to the payment of property taxes levied on such interest. Any such tax shall be the sole responsibility of the Company; provided, however, the Company may include any such property tax as a surcharge to be billed to customers pursuant to Paragraph 8C.

Deleted: The City shall pay all taxes, assessments, fees, levies, charges, license or permit fees and other government charges of any kind or nature levied, charged or imposed upon or against the Water System prior to the Commencement Date of the Lease.

Section 21. Compliance with Law.

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Except as otherwise provided in this Lease, the Company shall, at the Company's sole cost and expense, diligently and in a timely manner, comply in all material respects with all applicable laws, which term is used in this Lease to include all Legal Requirements. The Company shall notify City in writing (with copies of any documents involved) of any threatened or actual claim, notice, inquiry, citation, warning, complaint or report pertaining to or involving failure by the Company or the Water System to comply with any Legal Requirements.

Section 22. Hazardous Substances.

A. The Company shall not cause any release, generation, manufacture, storage, treatment, transportation, or disposal of Hazardous Substance on, in, under, or from the Water System in violation of any Legal Requirement. If the Company does cause any release or disposal of any Hazardous Substance on, in, or under the Water System, the Company, at its own cost and expense, will immediately take such action as is necessary to detain the spread of and remove the Hazardous Substance to the complete satisfaction of City and other appropriate Governmental Bodies. The Company shall promptly notify City of any release or disposal (of which the Company has knowledge or becomes aware) of any Hazardous Substance on, in, under or from the Water System.

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B. The Company shall indemnify, defend (with counsel reasonably acceptable to City) and hold City and City's officers, agents and employees, free and harmless from and against, all losses, liabilities, obligations, penalties, claims, litigation, demands, defenses, costs, judgments, suits, proceedings, damages , disbursements or expenses of any kind (including attorneys' and experts' fees and expenses and fees and expenses incurred in investigating,

defending, or prosecuting any litigation, claims, or proceeding) that may at any time be imposed upon, incurred by, asserted, or awarded against City in connection with or arising from or out of:

(1) any breach of any covenant or agreement of the Company contained or referred to in this Section 22;

(2) any violation or claim of violation by the Company of any Legal Requirement that is finally adjudicated to be a violation of a Legal Requirement, except a claim that this Lease or any City ordinance violates a Legal Requirement; or

(3) the imposition of any lien on the Water System for the recovery of any Clean Up Costs relating.to the release or threatened release of any Hazardous Substance by the Company.

The expiration or termination of this Lease and/or the termination of the Company's right to possession shall not relieve the Company from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the Term hereof by reason of the Company's operation and management of the Water System.

C. City shall indemnify, defend (with counsel reasonably acceptable to the Company) and hold the Company and its officers, agents, employees, shareholders and affiliates free and harmless from and against, all losses, liabilities, obligations, penalties, claims, litigation, demands, defenses, costs, judgments, suits, proceedings, damages, disbursements or expenses of any kind (including attorneys' and experts' fees and expenses, fees and expenses incurred in investigating, defending, or prosecuting any litigation, claims, or proceeding, and the cost of site investigation, testing and Clean Up Costs) that may at any time be imposed upon, incurred by, asserted, or awarded against the Company in connection with or arising from or out of:

(1) any Hazardous Substance on, in, under, or affecting all, or any portion of the Water System (including, without limitation, the imposition of any lien for the recovery of any Clean Up Costs), excluding any Hazardous Substance released, generated, manufactured, stored, treated, transported or disposed of by the Company or its affiliates;

(2) any breach of any covenant or agreement of City contained or referred to in this Section 22;

(3) any violation or claim of violation by City or any other entity or person, other than the Company or its affiliates of any Legal Requirement; or

(4) the imposition of any lien on the Water System for the recovery of any Clean Up Costs relating to the release or threatened release of any Hazardous Substance other than by the Company.

The expiration or termination of this Lease shall not relieve City from liability under any indemnity provisions of this Lease.

Deleted: <#>City shall, at its sole expense, conduct a Phase I environmental assessment on the Water System prior to or within 14 days of the Commencement Date. If the environmental assessment concludes that there is a reasonable chance that soil or groundwater contamination in violation of applicable legal standards or other violation of a Legal Requirement exists on or below property included in the Water System, the City shall, at its sole expense, conduct a Phase II environmental assessment within 60 days of receipt of the Phase I assessment report in order to confirm the existence of and characterize the problem. The City shall be solely responsible for any future investigation, testing or remediation required as a result of conditions discovered in the Phase I or Phase II environmental assessments and shall conduct any such remediations in coordination with the Company's operation of the Water System.¶
¶

D. The notice and other procedures set forth in Section 23 below shall govern all indemnification claims and rights under this Section 22.

Section 23. Indemnity; Limitation of Liability.

A. The Company shall hold City, and its officers, agents and employees, free and harmless of and from, and to defend, indemnify, and protect City, and its officers, agents and employees, against all liability, loss, claims, actions, demands, damage, expense, costs (including, without limitation, reasonable attorneys' fees and all costs and fees of litigation and its threat) asserted against City of any kind or nature arising out of or in any way connected with any material misrepresentation, breach or inaccuracy of any representation or warranty or material nonfulfillment of or material failure to comply with any agreement, condition or covenant on part of the Company under this Lease, to the maximum extent permitted by law ("Indemnified Losses"); provided, however, that the Company shall be liable only for that percentage of total damages that corresponds to its percentage of total negligence or fault. The expiration or termination of this Lease shall not relieve the Company from liability under any indemnity provisions of this Lease. ·

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B. City shall hold the Company, and its officers, agents, employees, shareholders and affiliates, free and harmless of and from, and to defend and indemnify the Company, and its officers, agents and employees, against all liability, loss, claims, actions, demands, damage, expense, costs (including, without limitation, all costs and fees of litigation and its threat) asserted against the Company of any kind or nature arising out of or any way connected to the ownership or operation of the Water System occurring or accruing prior to or after the Term, including the condition (known or unknown) of the Water System facilities, or any material misrepresentation, breach or inaccuracy of any representation or warranty, or material nonfulfillment or material failure to comply with any agreement, condition or covenant on the part of City under this Lease or any actions or omissions of the City or its employees, agents or officials, to the maximum extent permitted by law ("Indemnified Losses"). The expiration or termination of this Lease shall not relieve the City from liability under any indemnity provisions of this Lease.

C. If there is asserted any claim, liability or obligation that in the judgment of a party indemnified above (an "Indemnified Party") may give rise to any Indemnified Losses, such Indemnified party shall give the party from whom indemnity is sought (the "Indemnitor") notice within 30 days of the assertion of any claim, liability or obligation, or within 30 days of receipt of notice of the filing of any lawsuit, arbitration action or other proceeding based upon such assertion, or, with respect to a claim not yet asserted against the Indemnified party, promptly upon the determination by the Indemnified Party of the existence of the same, and shall give Indemnitor a reasonable opportunity of assuming the defense of such claim, liability or obligation, using counsel acceptable to the Indemnified Party; provided, however, that the Indemnified Party shall have the right to participate in such defense. Failure by the Indemnified Party to give timely notice pursuant to this Section shall not relieve the Indemnitor of its obligations, except to the extent that the Indemnitor is actually prejudiced by such failure to give timely notice. No settlement or adjustment shall be made without the Indemnified Party's prior written consent, which consent shall not be unreasonably withheld. If Indemnitor fails to contest

in good faith any such claim, liability or obligation, the Indemnified Party shall have the right to defend, settle or pay the same and pursue its remedies for indemnities against Indemnitor hereunder. The Indemnified Party shall cooperate with Indemnitor in any such defense which Indemnitor elects to assume in the event Indemnitor makes such request to the Indemnified party and such request is reasonable, provided Indemnitor will hold the Indemnified Party harmless from all of its reasonable out-of-pocket expenses, including reasonable attorneys' fees, incurred in connection with Indemnified Party's cooperation. In the event of a disagreement among the parties as to whether any claim, liability or obligation may give rise to an Indemnified Loss, then the Indemnified Party shall have the right to defend, settle or pay the same, and/or to pursue its remedies against Indemnitor hereunder; provided, however, that Indemnitor shall have the right to participate in such defense, and no settlement or adjustment shall be made without Indemnitor's prior written consent, which consent shall not be unreasonably withheld.

D. In no event shall either party be liable to the other party for indirect, consequential, exemplary, special, incidental, reliance or punitive damages, or for lost profits, even if advised of the possibility of such damages.

E. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW AND NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, THE COMPANY'S LIABILITY FOR PERFORMANCE OR NON-PERFORMANCE OF ANY OBLIGATION ARISING UNDER THIS AGREEMENT (WHETHER ARISING UNDER BREACH OF CONTRACT, TORT, OR ANY OTHER THEORY OF LAW OR EQUITY), INLUDING, BUT NOT LIMITED TO, INDEMNITY OBLIGATIONS, SHALL NOT EXCEED TWELVE MILLION DOLLARS ($12,000,000) CUMULATIVELY FOR THE DURATION OF THIS AGREEMENT, PROVIDED THAT THE FOREGOING LIMITATION WILL NOT APPLY TO ANY LOSSES RESULTING FROM THE (A) GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE COMPANY OR THE COMPANY'S SUBCONTRACTORS, EMPLOYEES, OR AGENTS; (B) THE COMPANY'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 22 RELATING TO HAZARDOUS SUBSTANCES; AND (C) VIOLATIONS THE COMPANY'S OBLIGATIONS UNDER THIS AGREEMENT SECTION 13 RELATING TO INSURANCE; FURTHER, NOTHING CONTAINED IN THIS SECTION 23E SHALL REDUCE OR LIMIT ANY PARTY'S ABILITY TO PURSUE OR COLLECT PROCEEDS AVAILABLE FROM THE INSURANCE COVERAGES REQUIRED UNDER THIS AGREEMENT UP TO THE COVERAGE AMOUNTS SPECIFIED.

Section 24. City's Access.

City and City's agents shall have the right to enter the Water System at any time in the case of an emergency, and otherwise at reasonable times and on reasonable prior notice for the following purposes (i) to determine whether the Water System is in good condition as required by this Lease and whether the Company is complying with its obligations under this lease,(ii) to serve, post or keep posted any notices required or allowed by law or under this Lease, and (iii) as City may otherwise reasonably deem necessary.

Section 25. California Law.

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This Lease shall be governed by the laws of the State of California without regard to conflict of laws principles.

Section 26. Notices.

Any notice or communication required or permitted hereunder, shall be deemed to have been given if in writing and (a) delivered in person, (b) delivered by confirmed electronic transmission (including by email), (c) sent by overnight carrier, postage prepaid with return receipt requested, or (d) mailed by certified or registered mail, postage prepaid with return receipt requested, addressed as follows:

City: City of East Palo Alto
2415 University Avenue
East Palo Alto, California 94303
Attn: City Manager
Email: citymanager@cityofepa.org

With a copy to:
East Palo Alto City Attorney's Office
2415 University Avenue
East Palo Alto, California 94303
Attn: City Attorney
Email: cityattorney@cityofepa.org

The Company: Veolia Water North America-West, LLC
461 From Road, Suite 400
Paramus, NJ 07652
Attention: President, West Region
Email: aaditya.raman@veolia.com

With a copy to: Veolia Water North America-West, LLC
100 Federal Street, Floor 3
Boston, MA 02110
Attn: General Counsel
E-mail: general.counselNA@veolia.com

or such other address and to the attention of such other person as a party may notice to the others in accordance with this Section 26. Any such notice or communication shall be deemed received on the date delivered personally or delivered by electronic transmission, on the first Business Day after it was sent by overnight carrier, postage prepaid with return receipt requested; or on the third Business Day after it was sent by overnight carrier, postage prepaid with return receipt requested.

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Section 27. Waiver.

The waiver by City of any breach by the Company of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term, covenant or condition hereof. The waiver by the Company of any breach by City of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term covenant or condition hereof.

Section 28. Merger and Modification.

This Lease sets forth the entire agreement between the parties with respect to the subject matter hereof and supersedes all other oral or written provisions. This Lease may be modified or terminated only in a writing signed by all parties.

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Section 29. Assignment.

The Company shall not assign this Lease or sublet the Water System or any portion thereof without the consent of City, which consent shall not be unreasonably withheld; provided, however, that City's consent shall not be required in connection with any assignment by the Company of any of its rights or obligations hereunder to, or otherwise utilize, any affiliate of Company that is controlled by, controls, or under common control with the Company.

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Section 30. Arbitration.

All controversies, claims, disputes or counter-claims arising under or relating to this Lease or any resulting transaction, whether it involves a disagreement about its meeting, interpretation, application, performance, breach, termination, enforceability or validity and whether based on statute, tort, contract, common law or otherwise ("Dispute") shall be determined exclusively by binding arbitration in San Mateo County, California, before one arbitrator. The arbitration shall determine all questions of arbitrability, including, without limitation, the scope of this agreement to arbitrate, the subject matter of the Dispute, whether an agreement to arbitrate exists and, if so, whether it covers the Dispute in question, and any other form of disagreement or conflict among the parties to this Lease, whether such Dispute existed prior to, or arises after the date of this Lease.

The arbitration shall be governed by the American Arbitration· Association ("AAA") under its commercial arbitration rules, provided that the person eligible to be selected as the arbitrator shall be limited to an attorney-at-law who has practiced law for at least 15 years as an attorney in California specializing in either general commercial litigation or general corporate and commercial or utility matters. Any party may commence arbitration at any time, subject to the obligations to negotiate disagreements contained in this Lease, by giving written notice to the other party that such dispute has been referred to arbitration under this Lease. The arbitrator shall be selected by the joint agreement of the parties, subject to the standards set forth above, but if they do not so agree, within 20 days following the notice referred to above, then the selection shall be made pursuant to the AAA Rules from the panel of arbitrators that meet the qualifications set forth above maintained by such association. The parties shall be entitled to

conduct discovery in connection with the Dispute in accordance with the Federal Rules of Civil Procedure. Within 10 days following the appointment of the arbitrator, each party shall furnish the arbitrator with a statement of the matters in dispute. The arbitrator shall commence the hearing within 20 days of receiving such statement and shall complete the arbitration and file his/her decision within 60 days following his/her appointment. The cost of arbitration, including the arbitrator's fees and the fees and costs of counsel, shall be allocated by the arbitrator in his/her decision. If the arbitrator determines that the dispute and arbitration, or either, is not the result of good faith on the party of any party, then the arbitrator may make an additional award to the other party for such sums as the arbitrator may in his/her discretion determine as a reasonable damage figure.

The award of the arbitrator shall be binding and conclusive upon the parties and may be entered in any State or federal court within San Mateo County, California. There shall be no right of appeal from the award of the arbitrator.

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The party and the arbitrator may not disclose the existence, content or results of any arbitration without the prior consent of all of the parties, except as required by any Legal Requirement.

Section 31. Attorneys' Fees.

If any party to this Lease commences legal proceedings or arbitration to interpret this Lease, to enforce any of its terms or for damages for its breach, the prevailing party shall be entitled to recover actual reasonable attorneys' fees.

Section 32. Execution.

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This Lease is effective as of the Agreement Date and upon full execution. It is the product of negotiation and therefore shall not be construed against any party.

Section 33. Counterparts.

This Lease may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, but all together shall constitute but one and the same Lease.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed and attested by their proper officers thereunto duly authorized, and their official seals to affixed, as of the day and year first above written.

CITY OF EAST PALO ALTO

By: _____
Name: Melvin E. Gaines
Title: City Manager

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Approved as to Form;

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By: _____
Name: John D. Lê
Title: City Attorney

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THE COMPANY:

VEOLIA WATER NORTH AMERICA-WEST, LLC

By: _____
Name:
Title:

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By: _____
Name:
Title:

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Exhibit A - Service Area

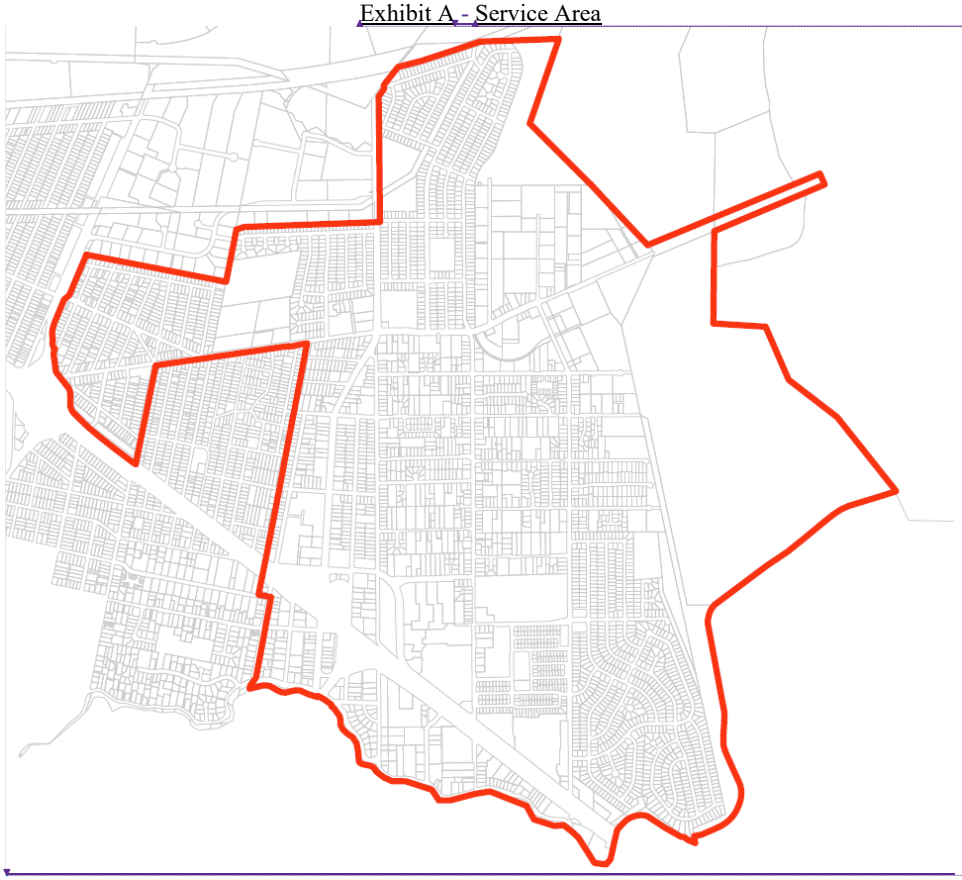

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Exhibit B - Water System

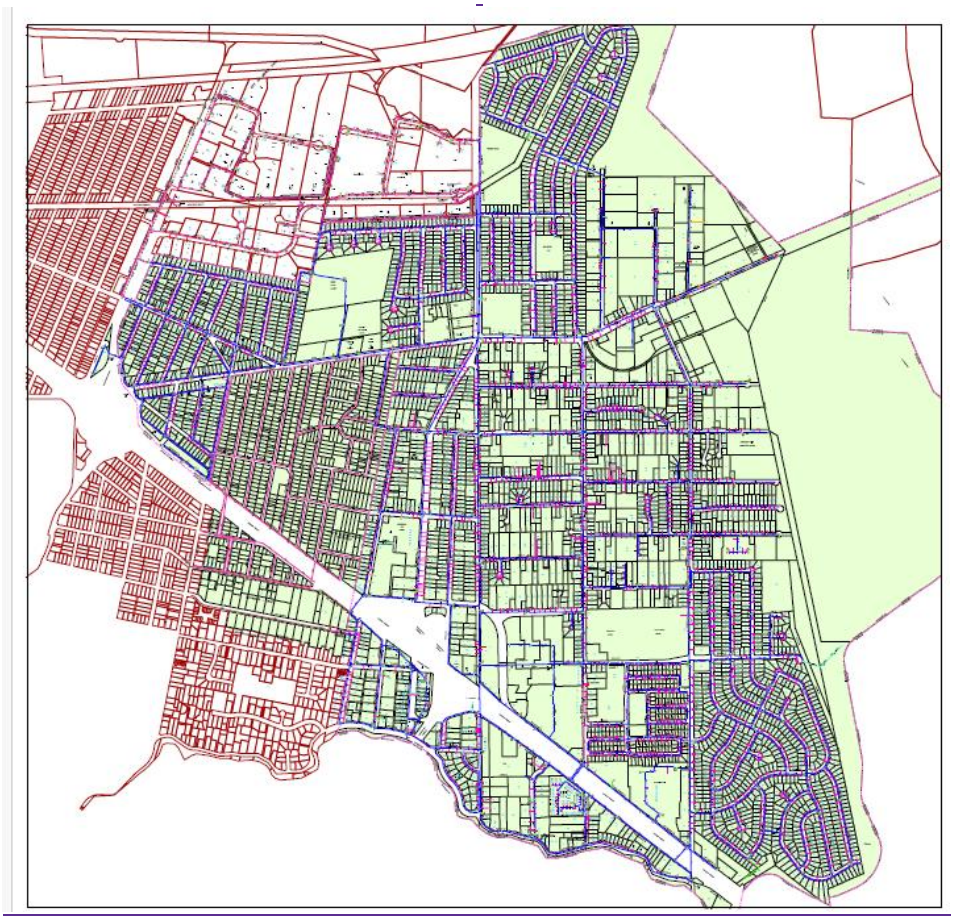

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Exhibit C - Request for Rate Relief Format

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REQUEST FOR RATE RELIEF WATER SERVICE

REQUEST FOR RATE RELIEF
WATER SERVICE

	Prior 12 Months Recorded At Present Rates	Next 12 Months Estimated At Present Rates	**Next 12 Months Estimated At Proposed Rates**
Operating Revenues			
Water Sales			
Service Charges			
Other			
Total			
Required Rate Increase			
% Increase			
Operating Expenses			
Labor			
Purchased Water			
Purchased Power			
Operations			
Maintenance			
Total			
Franchise Fee			
Lease Payment			
Payroll Taxes			
Iincome Taxes			
Total			
Net Income			
After Tax Rate or Return			

Exhibit D - Section 17 - Outstanding Citations, Order, Etc.

The Water System is under an order issued by the California State Water Resources Control Board, Division of Drinking Water to construct 3.7 million gallons of water storage facilities.

EPA Notice of Violation to update the Emergency Response Plan and Risk and Resiliency Assessment by July 2026

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Exhibit E - Section 17 - List of Environmental Problems

None

Exhibit F

Annual True-Up Process Template

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		Total FY25	Total FY26	Total FY27	Total FY28
Total System Collected and Paid					
	Veolia	(9,171,654.82)	(7,505,519.71)	-	-
	Sub-total	(9,171,654.82)	(7,505,519.71)	-	-
	Voided Payments	(10,784.85)	149,531.23	-	-
	Total Receipts	**(9,182,439.67)**	**(7,355,988.48)**	-	-
	Capital/Meter Collected	1,305,656.06	964,980.30	-	-
	UUT Collected	363,905.14	284,718.42	-	-
	Lease Fee	450,772.71	366,377.39	-	-
	Franchise Fee	375,643.92	305,314.49	-	-
	Wire Payment Due - Collected Payments per Operator	2,495,977.83	1,921,390.59	-	-
Estimate Net True Up of Collected Revenues **Calculates actuals earnings*	Subject Revenue Collected	7,512,878.47	6,106,289.76	-	-
	Operating Expenses	7,814,681.51	6,289,009.17	-	-
	Bad Debt Adj	-	-	-	-
	Net Cash Flow	**(301,803.04)**	**(182,719.41)**	-	-
	Veolia Income	492,138.12	400,259.88	-	-
	Net Collected True Up *(-) Underage (+) Overage*	**(793,941.16)**	**(582,979.29)**	-	-
	Payments from City to Veolia		-	-	-
	Running Balance	**(448,038.28)**			

			(1,031,017.57)	**(1,031,017.57)**	**(1,031,017.57)**
Exhibit Net True Up					
**Calculates guaranteed earnings*	**Collected Subject to Fees**	**7,512,878.47**	**6,106,289.76**	-	-
	Less SFPUC Differential	(2,438,041.69)	(1,979,280.13)	-	-
	Less Lease Differential	(146,282.50)	(118,756.81)	-	-
	Less Franchise Differential	(121,902.08)	(98,964.01)	-	-
	Contractual Gross Revenue	4,806,652.19	3,909,288.82	-	-
	Operator Return B4 Tax	384,532.18	312,743.11	-	-
	Taxes:				
	State	33,992.64	27,646.49	-	-
	Federal	73,613.30	59,870.29	-	-
	Caclulated Operator Return	**492,138.12**	**400,259.88**	-	-
	Escalation Factor	3.83	3.92	5.80	5.80
	SFPUC Rate	5.67	5.80	5.80	5.80

Note:					
	Operating Expense excl.SFPUC and Contractual	2,645,469	1,119,796	(5,169,213)	(5,169,213)
		15%	-58%	-562%	0%
	SFPUC water purchase	5,169,213	5,169,213	5,169,213	5,169,213
		18%	0%	0%	0%

Exhibit G

End of Term Accounts Receivable Calculation

For purposes of the Final True-Up, the following percentages shall be applied to accounts receivable at the end of the Term or termination date of the Lease:

Current to 60 days overdue = 100%
61-90 days overdue = 85%
90-120 days overdue = 50%

121 - 365 days overdue = 25%
365 - 730 days overdue = 10%
Over 730 days = 0%