

EXHIBIT “E”

TERMS AND CONDITIONS OF APPROVAL LAFCO NO. 928 AND 929

Condition 1-

A. The City of Santa Cruz will implement and maintain a UCSC water-neutral program whereby all future increases in water demand on the UCSC North Campus will be offset by new water conservation reductions realized by the entire campus. This condition shall only remain in effect until water use on the entire UCSC campus exceeds 206 million gallons per year, and at such time this condition is repealed. The required water-neutral program will conform to the following requirements:

i. Any use of water resulting from North Campus development, minus any water conservation offset allowed under (ii), shall be subject to the fee imposed by subsection (iii).

ii. Any reduction in water use as a result of water conservation efforts by the main UCSC Campus as a whole shall be credited to offset water use by the North Campus. The baseline for crediting water conservation is 176 million gallons of water per year, which LAFCO finds is the average annual water demand on the entire UCSC campus over the last five calendar years (2007-2011).

iii. UCSC shall pay a fee equivalent to the City’s System Development Charge (“SDC’s”) for Equivalent Residential Units (“ERU”) in its service area at the rate in effect on the date of payment (currently \$6,530 per ERU (85,000 gallon increment)). The SDC rate shall be adjusted by the City from time to time in accordance with the procedural and substantive requirements of the Mitigation Fee Act, California Government Code §66000 et seq. All funds contributed pursuant to this provision shall be maintained by the City in a separate water neutrality account and applied to water conservation programs operated by the City to reduce water use within the service area. The City may waive this charge if they determine that other conservation measures undertaken by the university can offset the additional usage.

B. The City of Santa Cruz shall file annual reports with LAFCO no later than December 15th of each year that include:

i. The amount of annual water use on the entire the main campus compared to such usage for the prior year, so as to enable calculation of the amount of any reduction in water use which has occurred on the entire main campus and the resulting amount of main campus water conservation to be credited (if any).

ii. The amount of annual water use on the North Campus.

iii. The amount the University has paid into the UCSC water neutrality account.

iv. The amount that the City has spent from the UCSC water neutrality account.

v. The amount of water conservation that the City calculates has resulted from the City's spending from the UCSC water neutrality account.

vi. Whether the amount of water saved equals or exceeds the increased demand over the water used by the UCSC North Campus.

vii. If the amount of water saved by main campus water conservation, and by spending from the UCSC water neutrality account, is less than UCSC North Campus water use, what steps the City and University are taking to get into full compliance with LAFCO Condition No. 1 of Resolution No. 928/929 (UCSC growth is water demand neutral for City water system).

C. LAFCO will use the City's annual UCSC water neutrality reports when preparing subsequent Municipal Service Reviews, Sphere of Influence Updates that concern the City of Santa Cruz, and requests for extraterritorial water service.

D. In addition to the requirement that a conservation offset fee be imposed on UCSC as required by condition (A) (iii) above, the City of Santa Cruz shall take any and all other feasible actions to ensure that UCSC complies with the water neutrality program requirements imposed by this condition.