

RECORDED AT REQUEST OF AND
WHEN RECORDED RETURN TO:

Arden Wallum, General Manager
MISSION SPRINGS WATER DISTRICT
66575 Second Street
Desert Hot Springs, CA 92240



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MISSION SPRINGS WATER DISTRICT
PUBLIC WATER SYSTEM IMPROVEMENT AND WATER
SERVICE CONNECTION FEE CREDIT/REIMBURSEMENT AGREEMENT

THIS PUBLIC WATER SYSTEM IMPROVEMENT AND WATER SERVICE CONNECTION FEE CREDIT/REIMBURSEMENT AGREEMENT (this "Agreement") is made and entered into on the 30th day of AUGUST, 2006, by and between the MISSION SPRINGS WATER DISTRICT, a county water district and public agency of the State of California, hereinafter referred to as DISTRICT, and WESTERN PACIFIC HOUSING, INC., a Delaware corporation, hereinafter referred to as DEVELOPER. DISTRICT and DEVELOPER are hereinafter sometimes referred to individually as "Party" and collectively as the "Parties."

RECITALS

A. DEVELOPER is the owner of certain property, consisting of approximately 604 acres of undeveloped land in the City of Desert Hot Springs, Riverside County, California, as more particularly described in Exhibit "A" hereto and incorporated herein (the "Property"); and

B. DEVELOPER has presented to DISTRICT a final subdivision map for the Property, approved by the City of Desert Hot Springs (the "City") pursuant to provisions of the Subdivision Map Act of the State of California (the "Subdivision Laws"), commonly known as "Skyborne," and Tract Map No. 32030, consisting of approximately 2,041 residential units, with a density of 3.5 dwelling units per acre, together with related amenities including neighborhood parks, a public park, a school site and recreational facilities (the "Project"); and

C. Pursuant to the City approval of the Project, the DEVELOPER has obtained certain entitlements to develop the Property and the Project in the order and manner set forth therein, subject to certain conditions and environmental mitigation measures, which include DEVELOPER's obligation to ensure timely extension of public water service to the Project, including, but not limited to the construction of off-site water transmission lines, wells and reservoirs to meet the daily water service demand for the Project; and

COPY

D. The DISTRICT is a responsible agency pursuant to the California Environmental Quality Act ("CEQA") (Public Resources Code Sections 21000 et seq.) with respect to the environmental impact report certified by the City on or about November 2004 (SCH 2004051026) (the "EIR"), which analyzed various environmental issues specific to the Project. In approving this Agreement, the DISTRICT has (a) reviewed the land use entitlements approved by the City and the EIR, and (b) considered the information contained therein; and

E. The Subdivision Laws establish as a condition precedent to the approval of a final map that DEVELOPER must have either (a) completed, in compliance with City and local public agency standards, all the improvements and land development work required by the Subdivision Laws and the conditions of Project approval or, (b) have entered into a secured Improvement Agreement with City or other local agency to complete the improvements necessary for the Project within a period of time specified by the City or other local agency; and

F. DEVELOPER desires to design, install and complete the construction of the Improvements (the "Work," defined in Paragraph 2 below) in order to facilitate the timely development of the Project, and to ensure that adequate public water service is available to the Project when needed; and

G. DEVELOPER desires to enter into this Agreement, whereby DEVELOPER promises to design, install and complete, at DEVELOPER's own expense, certain off-site public water facilities (the "Improvements") required by the DISTRICT in connection with the Project, which are more fully described on Exhibit "B" hereto and incorporated herein. DEVELOPER further agrees to secure this Agreement by improvement security required by the Subdivision Laws and DISTRICT Rules and Regulations, and approved by the DISTRICT. In consideration of DEVELOPER's performance hereunder, DEVELOPER desires to receive credit for certain costs incurred in connection with the Work, in the form of a credit against the DISTRICT's water service connection fees ("Connection Fee Credit") or reimbursement; and

H. DISTRICT desires to be reimbursed for any costs and expenses incurred by DISTRICT for design, plan check, inspection and construction of the Improvements required to provide public water service to the Project; and

I. The Improvements include public water service facilities which have been master planned by the DISTRICT, and which are financed in whole or in part through the collection by the DISTRICT of Connection Fees; and

J. DEVELOPER and the DISTRICT wish to enter into this Agreement, pursuant to which DEVELOPER will prepare engineering plans for the construction of the Improvements (the "Improvement Plans," further defined in Paragraph 2 below) in conformance with DISTRICT standards, and obtain approval of the DISTRICT of the Improvement Plans prior to commencement of construction; and

K. DEVELOPER will prepare engineering plans for construction, and then construct, install and complete the Improvements at DEVELOPER's full cost and expense, in accordance with the Improvement Plans approved by the DISTRICT, subject to inspection, approval and acceptance by the DISTRICT.

L. DISTRICT has adopted a Connection Fee Study (the "Fee Study", as defined in Paragraph 2 below), which provides for the construction and financing of certain water service facilities ("Covered Improvements") necessitated by new development within the District, through the collection of Water Service Connection Fees ("Connection Fees"). The cost estimates set forth in the Fee Study will form the basis for the preliminary estimate of Connection Fee Credits or reimbursement to be provided DEVELOPER for construction of Covered Improvements pursuant to this Agreement; and

M. DEVELOPER recognizes that DISTRICT has relied on DEVELOPER's representations that it is ready, willing and able to commence and complete the construction of the Improvements in a timely and professional manner, and that DISTRICT will be damaged to the extent of the cost of installation of the Improvements by DEVELOPER's failure to perform its obligations under this Agreement, including, but not limited to, DEVELOPER's obligation to complete construction of the Improvements by the time established in this Agreement, such that DISTRICT shall be entitled to all remedies available to it pursuant to this Agreement in the event of a default by DEVELOPER; and

N. The purpose of this Agreement is to set forth the obligations of the Parties with respect to the financing and timing of design and construction of the Improvements necessary to provide public water service to the Project, and to provide a mechanism by which certain of DEVELOPER's construction costs may be credited against Connection Fees or reimbursed.

NOW, THEREFORE, in consideration of the approval of this Agreement, DEVELOPER and DISTRICT agree as follows:

1. Incorporation of Recitals. Each of the above Recitals is incorporated herein and agreed upon by the Parties.

2. Definitions. In addition to the capitalized terms defined in the Recitals, the following terms shall have the following meanings:

"Actual Cost" means the substantiated actual costs of installation and construction of the Covered Improvements, which costs shall include, and be limited to those costs actually incurred by DEVELOPER and contemplated by the Fee Study, and to the amounts set forth in the Fee Study for the Work completed by DEVELOPER pursuant to this Agreement ("Eligible Costs"), set forth in Exhibit "B" hereto. Actual Cost shall not include those costs incurred by Developer for design, plan check, inspection or construction performed by the District pursuant to this Agreement, or any additional costs incurred as a result of special arrangements or phasing of construction, including, but not limited to, mobilization, storage of materials, and the like.

"Connection Fee" means the water service connection fee established by the DISTRICT and charged to each dwelling unit or other applicable unit of development, and in effect at the time each water service connection is made to the DISTRICT's water system, in accordance with the DISTRICT's adopted rules and regulations.

"Covered Improvements" means and shall be limited to those water service (production, storage and transmission) improvements and projects described in the DISTRICT's 2005/09 5-year Capital Improvement Program Water Projects list set forth in the Appendix to the

Fee Study, which will provide Expansion Related water service to the Project, and for which Connection Fees are collected by the DISTRICT. The Covered Improvements are listed in Exhibit "B" hereto.

"Days" means calendar days, unless otherwise specified herein.

"Deposit" means a cash deposit posted by the DEVELOPER and received by the DISTRICT as a condition of this Agreement, in an amount estimated to cover the DISTRICT's costs of administering this Agreement, including, but not limited to, costs of engineering review, construction inspection, legal fees and other costs related to DISTRICT's acquisition of public right of way necessary for construction of the Improvements, and DISTRICT administration of this Agreement.

"Dispute" means a claim, dispute or controversy, of whatever nature, arising out of, in connection with, or in relation to the interpretation, performance or breach of this Agreement.

"District Engineer" means the designated District Engineer of the DISTRICT, or his or her authorized representative, as designated by the District Engineer.

"Fee Study" means the Water and Sewer Rate and Connection Fee Study prepared by R.W. Beck, dated April 2004, and Water Connection Fee update, dated July 18, 2006, and adopted by the Board of Directors of the District on August __, 2006.

"Improvement" means any one particular work of improvement included within the Improvements set forth in Exhibit "B," including Covered Improvements, and other improvements which are required for the Project but not covered under the Fee Credit and reimbursement provisions of this Agreement.

"Improvements" are defined in Recital "G" above.

"Improvement Plans" means the final versions, as approved by the DISTRICT, of each plan, legal description, plat, specification and cost estimate prepared as part of the Improvements which are the subject of this Agreement.

"MSWD" means the Mission Springs Water District, the DISTRICT herein.

"Security" means performance, labor and materials and maintenance (warranty) bonds or other security posted prior to commencement of construction and guaranteeing completion of the Improvements and warranting the Improvements in accordance with the DISTRICT's rules and regulations.

"Work" means construction of the Improvements as defined in Recital G hereinabove.

3. Description of the Improvements. The Parties agree that the description of the "Improvements" as set forth in Exhibit "B" to this Agreement is based upon preliminary engineering plans and studies. This description is intended to roughly outline the scope of the

works and improvements to be installed and constructed in connection with this Agreement. The exact works and improvements comprising the Improvements shall be generally consistent with the District's adopted Capital Improvement Program, but may change as a result of site requirements, changes in construction standards, geologic conditions, engineering constraints, amendments to the Capital Improvement Program or DISTRICT Master Plan, or other factors. The District Engineer, in his or her reasonable discretion, may approve substitute Improvement(s) to replace some or all of the Improvement(s) set forth in Exhibit "B" to this Agreement, if such substitute Improvement(s) would provide the Project services of a similar nature to those provided by the Improvement(s) set forth in Exhibit "B" to this Agreement. The Improvement Plans, as approved by the District Engineer and DEVELOPER, shall govern the composition of the off-site Improvements to the extent they conflict with the descriptions set forth in Exhibit "B" to this Agreement.

4. Schedule of Performance. Each Party shall perform and facilitate performance of the Work in accordance with the schedule of performance attached as Exhibit "C" hereto and incorporated herein ("Schedule of Performance"). The District Engineer, in his or her sole discretion, may authorize acceptance of individual Improvements to accommodate phasing of Project development; provided, however, that production, storage and transmission needs must be complete and adequate for each phase of Project development before they are considered for acceptance. In no instance will water service be provided by the DISTRICT to the Project, or any part or phase thereof, without corresponding sewer service; nor will sewer service be provided by the DISTRICT to the Project, or any part or phase thereof, prior to the completion and acceptance of the Improvements. In no instance will completion of the 1530 transmission line be segregated from completion of any part or portion of the Project construction. The DISTRICT will not approve or accept any on-site water improvements until all related Improvements have been completed and accepted by the DISTRICT.

5. DEVELOPER's Obligations. DEVELOPER shall:

a. Upon execution of this Agreement, post with the DISTRICT the Deposit in the initial amount of Twenty Five Thousand Dollars (\$25,000.00), plus one hundred percent (100%) of the contract obligation of the DISTRICT for construction management and inspection services for the work. DEVELOPER shall post additional Deposit funds as requested by the DISTRICT from time to time, to cover additional DISTRICT expenses incurred or anticipated by the DISTRICT to be incurred to administer this Agreement. DEVELOPER shall post additional Deposit funds with the DISTRICT within ten (10) days following DEVELOPER's receipt of such request.

b. Complete and submit to the DISTRICT for review, by the time established in the Schedule of Performance, the Improvement Plans in accordance with the DISTRICT's standards and requirements, and a registered engineer's updated estimate of cost for constructing the Improvements ("Updated Cost Estimate"). The Improvement Plans and Updated Cost Estimate shall be subject to approval by the DISTRICT, which approval shall not be unreasonably withheld or delayed. DEVELOPER shall submit adequate plans for the Improvements, and make appropriate corrections as indicated by the District Engineer, subject to DISTRICT review and approval. If the DISTRICT disapproves the Improvement Plans, or any part thereof, the DEVELOPER shall re-submit the corrected plans with all required

modifications, prior to approval. The Improvement Plans and Updated Cost Estimate must be approved by the DISTRICT, all required certificates of insurance and insurance endorsements, Security, permits and environmental clearances must be on file with the DISTRICT, and the Deposit required hereinabove must be posted by Developer prior to commencement of any construction by the DEVELOPER, in order to qualify those costs for Connection Fee Credits or reimbursement as set forth in Paragraph 28 of this Agreement.

c. For any work not initiated as of the date of this Agreement, DEVELOPER shall prepare bid and contract documents and submit these documents to the DISTRICT for approval prior to bid or award of any construction contract for the Improvements. ~~DEVELOPER shall competitively bid the construction contracts and award the contract(s) for construction of~~ the Improvements to the lowest responsible bidder in accordance with Public Contract Code requirements. DEVELOPER shall submit all supporting contractor invoices and payment requests to the DISTRICT for review, prior to making any payments to contractors. DEVELOPER or its contractor will be required to certify, under penalty of perjury that the bid, contract award and wage requirements of this Agreement have been strictly met, and to certify the Actual Costs, as a condition of receiving Connection Fee Credit pursuant to this Agreement.

d. To the extent required by Labor Code Section 1720, DEVELOPER and its contractors shall pay prevailing wages for all work performed in connection with the Work, including for the construction, alteration, demolition, installation, or repair for construction of the Improvements required by this Agreement. In accordance with the provisions of Section 1773 of the Labor Code of the State of California, the DISTRICT has obtained the general prevailing rate of per diem wages and the general rate for holiday and overtime work in this locality for each craft, classification, or type of workman needed to perform the work required by this Agreement from the Director of the Department of Industrial Relations. These rates are on file with the District Engineer and copies may be obtained at cost at the DISTRICT's Offices. DEVELOPER shall post a copy of such wage rates at the job site and shall pay the adopted prevailing wage rate as a minimum. DEVELOPER shall comply with the provisions of Sections 1773.8, 1775, 1776, 1777.5, 1777.6 and 1813 of the Labor Code and other applicable laws and regulations with respect to the payment of prevailing wages. Pursuant to the provisions of 1775 of the Labor Code, DEVELOPER shall forfeit to the DISTRICT, as a penalty, the sum of Fifty Dollars (\$50.00) for each calendar day, or portion thereof, for each laborer, worker, or mechanic employed, paid less than the stipulated prevailing rates for any work done under this Agreement, by it or by any subcontractor under it, in violation of the provisions of the Agreement or in violation of any applicable laws or regulations pertaining to the payment of prevailing wages.

e. Post insurance, insurance endorsements and certificates of insurance with the DISTRICT in the form and amounts as required by the DISTRICT, prior to commencement of construction.

f. Obtain and file all required permits, approvals and environmental clearances required for construction of the Improvements with the DISTRICT prior to commencement of construction.

g. Post all required Securities with the DISTRICT prior to commencement of construction of the Improvements.

h. Furnish the necessary materials for completion of the Improvements in conformity with the Improvement Plans and DISTRICT standards.

i. Acquire and dedicate, or pay the cost of acquisition by DISTRICT, of all right-of-way, easements and other interests in real property for construction or installation of the Improvements, free and clear of all conflicting liens and encumbrances, as set forth in Paragraph 7 hereof. The DEVELOPER's obligations with regard to acquisition by DISTRICT of off-site right-of-way, easements and other interests in real property shall be subject to a separate Agreement between DEVELOPER and DISTRICT.

j. Construct the Improvements in accordance with the approved Improvement Plans and the requirements of this Agreement, and in accordance with any other applicable DISTRICT requirements and conditions, subject to inspection and approval by the DISTRICT.

k. Submit engineering as-built drawings for all Improvements, prior to acceptance by the DISTRICT.

l. Each of the requirements of this Paragraph 5 is considered a condition precedent to the DISTRICT's obligation to provide, or DEVELOPER's right to receive, Connection Fee Credit or reimbursement pursuant to Paragraph 28 of this Agreement.

6. DISTRICT's Obligations. DISTRICT shall:

a. Review and approve, or disapprove the Improvement Plans and the Updated Cost Estimate within twenty (20) working days of receiving the same. If DISTRICT disapproves the Improvement Plans, for any reason, or the Updated Cost Estimate, it shall state the reasons for such disapproval and modifications required to secure DISTRICT's approval. Thereafter, DEVELOPER shall submit revised Improvement Plans for DISTRICT review in accordance with the provisions of this Paragraph.

b. Review and approve, or disapprove and provide the written response described below, the bid and contract documents submitted in accordance with Paragraph 5.c. above within twenty (20) working days of receiving the same. If DISTRICT disapproves the bid and contract documents, it shall state the reasons for such disapproval and modifications required to secure DISTRICT's approval. Thereafter, DEVELOPER shall submit revised bid and contract documents for DISTRICT review in accordance with the provisions of this Paragraph.

c. Review and approve, or disapprove and provide the written response described below, contractor invoices and payment requests for competitively bid contracts under this Agreement within twenty (20) working days of receiving same. If DISTRICT disapproves the contractor invoices and payment requests, it shall state the reasons for such disapproval and modifications required to secure DISTRICT's approval. Thereafter, DEVELOPER shall submit revised contractor invoices and payment requests for DISTRICT review in accordance with the provisions of this Paragraph.

d. Assist DEVELOPER with acquisition of right-of-way, easements and other interests in real property required for construction or installation of the Improvements.

e. Timely inspect Improvement(s) in accordance with Paragraph 10 of this Agreement.

f. Timely accept completed Improvement(s) in accordance with Paragraph 11.c. of this Agreement.

7. Acquisition and Dedication of Easements, Rights-of-Way or other Property Interests. If any of the Improvements contemplated by this Agreement is to be constructed or installed on land not owned by DEVELOPER, no construction or installation on that land shall be commenced before:

a. The offer of dedication to DISTRICT of appropriate right-of-way, easements, or other required interest in real property, and appropriate authorization from the property owner to allow construction or installation of the Improvements, has been received by the DISTRICT; or

b. The issuance by a court of competent jurisdiction pursuant to the State Eminent Domain Law of an order of possession for the required right-of-way, easements or other required interest in real property has been granted. DEVELOPER shall comply in all respects with the order of possession.

If, due to a delay in acquiring necessary real property interests, DEVELOPER is unable to construct Improvements or perform any other obligation of this Agreement within the timeframes required by the Schedule of Performance, DEVELOPER shall be entitled to a reasonable extension of time to complete such performance.

8. Security. DEVELOPER shall at all times guarantee DEVELOPER's performance of this Agreement by furnishing to DISTRICT, and maintaining, good and sufficient security as required by the DISTRICT on forms approved by DISTRICT for the purposes and in the amounts as follows:

a. To assure faithful performance of this Agreement in regard to said Improvements in an amount of one hundred percent (100%) of the Estimated Costs; and

b. To secure payment to any contractor, subcontractor, persons renting equipment, or furnishing labor materials for the Improvements required to be constructed or installed pursuant to this Agreement in the additional amount of fifty percent (50%) of the Estimated Costs; and

c. To guarantee or warranty the work done pursuant to this Agreement for a period of one (1) year following acceptance thereof by DISTRICT against any defective work or labor done or defective materials furnished, in the amount of one hundred percent (100%) of the Estimated Costs of the Improvements.

d. The Security required by this Agreement shall be posted prior to construction and shall be kept on file with the District Engineer. The terms of the Security documents referenced in the Recitals of this Agreement are incorporated into this Agreement by this reference. If any Security is replaced by another approved security, the replacement shall be

filed with the District Engineer and, upon filing, shall be deemed to have been made a part of and incorporated into this Agreement. Upon filing of a replacement security with the District Engineer, the former Security shall be released.

9. Alterations to Improvement Plans.

a. Any changes, alterations or additions to the approved Improvement Plans and/or specifications to the Improvements, not exceeding ten percent (10%) of the original Estimated Cost of the Improvements, which are mutually agreed upon by the DISTRICT and DEVELOPER, shall not relieve the improvement security given for faithful performance of this Agreement. In the event such changes, alterations, or additions which are mutually agreed upon by DISTRICT and DEVELOPER exceed ten percent (10%) of the original Estimated Cost of the Improvements, DEVELOPER shall provide improvement security for faithful performance as required by Paragraph 8 of this Agreement for one hundred percent (100%) of the total estimated cost of the Improvement as changed, altered, or amended, minus any completed partial releases allowed by Paragraph 11 of this Agreement.

b. The DEVELOPER shall construct the Improvements in accordance with the approved Improvement Plans. DISTRICT reserves the right to modify the standards applicable to the Project, the Improvements and this Agreement, when the Board of Directors has determined that such modifications are necessary to protect the public health, safety and welfare. If modifications are approved by the Board of Directors pursuant to this subparagraph, consideration shall be given by the Board of Directors to amending the Connection Fee, and the Connection Fee credit and reimbursement amount provided in Paragraph 28 and Exhibit B hereto, to reflect increased costs incurred by DEVELOPER related thereto.

10. Inspection. DEVELOPER shall at all times maintain proper facilities and safe access for inspection of the Improvements by DISTRICT inspectors and to the businesses or residences wherein any Work is in progress. DISTRICT shall have the right to enter any construction site at any time to inspect the Work or the progress of construction of the Improvements that are the subject of this Agreement. Upon completion of the Improvements the DEVELOPER may request a final inspection by the District Engineer, or the District Engineer's authorized representative. The DISTRICT shall cause such final inspection to take place within five (5) business days after DEVELOPER's request. If the District Engineer, or the designated representative, determines that the Improvements have not been completed in accordance with this Agreement, the District Engineer, or his/her designated representative, shall notify DEVELOPER in writing of corrections required to obtain certification of the Improvements. Thereafter, DEVELOPER shall correct noted defects and DISTRICT shall re-inspect the Improvement(s) in accordance with the procedure set forth in this Paragraph. If the District Engineer, or the designated representative, determines that the Improvements have been completed in substantial conformance with this Agreement, then the District Engineer shall certify the completion of the Improvements to the DISTRICT's Board of Directors for acceptance. DEVELOPER shall bear all reasonable costs of inspection and certification.

11. Release of Securities. Subject to acceptance of the Improvements and approval by the DISTRICT's Board of Directors, the Securities required by this Agreement shall be released as follows:

a. Security given for faithful performance of any act, obligation, work or agreement shall be released upon the final completion and acceptance of the act or work, subject to the provisions of Subparagraph b. hereof.

b. In accordance with the requirements of Government Code Section 64999.7, the District Engineer shall allow a partial release of faithful performance Security pursuant to the following procedures. No partial release of Securities for labor and materials shall be allowed.

(1) DEVELOPER shall have one opportunity to engage in the process of partial release of performance Securities as described in this Subparagraph b. between the start of work and completion and acceptance of all work on the Improvements. The process allowing for a partial release of performance security shall occur only when the cost estimate of the remaining work does not exceed twenty percent (20%) of the total original performance security.

(2) At such time that the DEVELOPER believes that the obligation to perform the work for which the performance Security was required is complete, the DEVELOPER may notify the District Engineer in writing of the completed work and shall include with such notification a written list of work completed. Upon receipt of the written notice, the District Engineer shall have ten (10) business days to review and comment or approve the completion of the required work. If District Engineer determines that the Work is constructed in substantial conformance with the approved Improvement Plans and the terms of this Agreement, the District Engineer shall find the Work to be complete. If the District Engineer does not agree that all work has been completed in accordance with the approved Improvement Plans or in accordance with this Agreement, he or she shall supply to the DEVELOPER a list of all remaining work to be completed.

(3) Within forty-five (45) days of receipt of the list of remaining work from the District Engineer, the DEVELOPER may then provide cost estimates for all remaining work for review and approval by the District Engineer. Upon receipt of the cost estimates, the District Engineer shall then have ten (10) business days to review, comment, and approve, modify, or disapprove those cost estimates.

(4) If the District Engineer approves the cost estimate, the District Engineer shall release all performance security except for performance security in an amount up to two hundred percent (200%) of the cost estimate of the remaining work. Substitute bonds or other security may be used as a replacement for the performance security, subject to the approval of the District Engineer in accordance with the standards for approval of the original bonds. If substitute bonds or other security is used as a replacement for the performance security released, the release shall not be effective unless and until the District Engineer receives and approves that form of replacement security as provided for the original security. A reduction in the performance security, authorized under this Subparagraph, is not, and shall not be deemed to be, an acceptance by the District Engineer or the DISTRICT of the Improvements, and the risk of loss or damage to the Improvements and the obligation to maintain the Improvements shall remain the sole responsibility of the DEVELOPER until all Improvements have been accepted by the DISTRICT's Board of Directors and all other required improvements have been fully completed in accordance with the approved Improvement Plans and this Agreement.

(5) The DEVELOPER shall be under the affirmative duty to continue to construct the Improvements in accordance with the Improvement Plans until all remaining items are accepted by the DISTRICT's Board of Directors.

c. Within ten (10) business days of completion, as determined by the District Engineer pursuant to Subparagraph b.(2) above, the District Engineer shall notify the DEVELOPER that he or she has determined the Improvements to be complete. The release of any remaining performance security shall be placed upon the next available regular agenda of the DISTRICT's Board of Directors for acceptance of the Improvements and approval of the release of any remaining performance security. Such acceptance shall not constitute a waiver of defects by DISTRICT. ~~As used in this Agreement the term "completion" shall mean that all items of work necessary to complete the Improvements in accordance with the Improvement Plans have been constructed to the satisfaction of the District Engineer and that no items remain on the punch list prepared by the District Engineer, or upon acceptance by the DISTRICT of a particular facility. "Completion" shall not mean partial use or beneficial use of the Improvement, unless otherwise authorized in writing by the District Engineer.~~

d. ~~Within forty-five (45) days following the expiration of the time within which claims of lien are required to be recorded pursuant to Article 3 (commencing with Section 3114) of Chapter 2 of Title 15 of Part 4 of Division 3 of the Civil Code and acceptance of the Improvements, the Security given to secure payment to the contractor, his or her subcontractors and to persons furnishing labor, materials or equipment shall be reduced to an amount equal to the total claimed by all claimants for who lien have been filed and of which notice has been given to the legislative body, plus an amount reasonably determined by the District Engineer to be required to assure the performance of any other obligations secured by the Security. (Section 3116 of the Civil Code currently provides that such liens must be recorded within (1) ninety (90) days after completion of the Improvement if no notice of completion or cessation has been recorded or (2) thirty (30) days after recordation of a notice of completion or a notice of cessation.) The balance of the security shall be released upon the settlement of all claims and obligations for which the security was given.~~

e. No security given for the guarantee or warranty of work shall be released until the expiration of the warranty period and until any claims filed during the warranty period have been settled. As provided in Paragraph 14, the warranty period shall not commence until final acceptance of all the work and Improvements by the DISTRICT's Board of Directors.

f. The DISTRICT may retain from any security released, an amount sufficient to cover costs and reasonable expenses and fees, including reasonable attorneys' fees and all costs of enforcement of any obligation under this Agreement.

g. Injury to Improvements, Public Property or Public Utility Facilities. DEVELOPER shall replace or have replaced, or repair or have repaired, as the case may be, all Improvements, public utility facilities and surveying or subdivision monuments which are destroyed or damaged as a result of DEVELOPER's performance of any Work under this Agreement. DEVELOPER shall bear the entire cost of replacing or repairing the same, whether such property is owned by the United States or any agency thereof, or the State of California, or any agency or political subdivision thereof, or by the City of Desert Hot Springs, or by the

DISTRICT, or any public or private utility corporation or by any combination of such owners. If such damage or destruction is reasonably and unavoidably caused during DEVELOPER's performance of the Work, the costs of replacement or repair shall be eligible for Connection Fee Credits. Any repair or replacement shall be to the satisfaction, and subject to the approval, of the District Engineer.

12. Permits. Subject to reimbursement pursuant to Paragraph 28, DEVELOPER shall, at DEVELOPER's expense, obtain all necessary permits and licenses for the construction and installation of the Improvements, give all necessary notices and pay all fees and taxes required by law. DISTRICT shall cooperate and provide reasonable assistance as necessary for ~~DEVELOPER to obtain necessary permits, licenses and approvals.~~ Such cooperation may include the execution of the applications, submittals or other documents as may be required by any governmental agencies for the completion of the Work.

13. Default of DEVELOPER. Subject to the notice and cure provision set forth in Paragraph 31 of this Agreement, the following shall constitute DEVELOPER defaults:

a. Default of DEVELOPER shall include: (1) DEVELOPER's failure to timely perform obligations under this Agreement pursuant to the Schedule of Performance; (2) DEVELOPER's failure to timely cure any defect in the Improvements; (3) DEVELOPER's failure to perform substantial construction activities for a period of thirty (30) days after commencement of the Work; (4) DEVELOPER's insolvency, appointment of a receiver, or the filing of any petition in bankruptcy either voluntary or involuntary which DEVELOPER fails to discharge within thirty (30) days; (5) the commencement of a foreclosure action against the Project or a portion thereof, or any conveyance in lieu or in avoidance of foreclosure; or (6) DEVELOPER's failure to perform any other material obligation under this Agreement, as may be determined by the Board of Directors of the DISTRICT, in its sole discretion.

b. The DISTRICT reserves to itself all remedies available to it at law or in equity, including the right to pursue specific performance in the event of a breach of DEVELOPER's obligations under this Agreement. The DISTRICT shall have the right, subject to this Paragraph, to draw upon or utilize the appropriate Security to mitigate DISTRICT's damages in event of default by DEVELOPER. The right of DISTRICT to draw upon or utilize the Security is additional to and not in lieu of the other remedy reserved herein. It is specifically recognized that the estimated costs and security amounts may not reflect the actual cost of construction or installation of the Improvements and, therefore, DISTRICT's damages for DEVELOPER's default shall be measured by the cost of completing the required Improvements. The sums provided by the improvement Security may be used by DISTRICT for the completion of the Improvements in accordance with the Improvement Plans and specifications contained herein.

c. In the event of DEVELOPER's default under this Agreement, DEVELOPER authorizes DISTRICT to perform such obligation twenty (20) days after mailing written notice of default to DEVELOPER and to DEVELOPER's surety, and agrees to pay the entire cost of such performance by DISTRICT.

d. DISTRICT may, but is not required to, take over the work and prosecute the same to completion, by contract or by any other method DISTRICT may deem advisable, for

the account and at the expense of DEVELOPER, and subject to the limits of the Security, DEVELOPER's Surety shall be liable to DISTRICT for any excess cost or damages occasioned DISTRICT thereby; and, in such event, DISTRICT, without liability for so doing, may take possession of, and utilize in completing the Work, such materials, appliances, plant and other property belonging to DEVELOPER as may be on the site of the Work and necessary for performance of the Work.

e. Failure of DEVELOPER to comply with the terms of this Agreement shall constitute consent to the filing by DISTRICT of a notice of violation against all the lots in the Project, and to refuse to provide water or sewer service to the Project. The remedy provided by this Subparagraph is in addition to and not in lieu of other remedies reserved herein. DEVELOPER agrees that the choice of remedy or remedies for DEVELOPER's breach shall be in the discretion of DISTRICT.

f. In the event that DEVELOPER fails to perform any obligation hereunder, DEVELOPER agrees to pay all costs and expenses incurred by DISTRICT in securing performance of such obligations, including costs of suit and reasonable attorney's fees.

g. The failure of DISTRICT to take an enforcement action with respect to a default, or to declare a breach, shall not be construed as a waiver of that default or breach or any subsequent default or breach of DEVELOPER.

14. Warranty. DEVELOPER shall guarantee or warranty the Work done and Improvements constructed pursuant to this Agreement for a period of one year after the earlier of the date of final acceptance of the Improvements by the DISTRICT. Where certain Improvements have been authorized by the DISTRICT to be constructed in phases or sections, the one (1) year warranty period shall commence after DISTRICT's acceptance of the last completed portion of each authorized phase or section of the Improvements. If within the warranty period any Improvement or part of any Improvement done, furnished, installed, constructed or caused to be done, furnished, installed or constructed by DEVELOPER fails to fulfill any of the requirements of this Agreement or the Improvement Plans, DEVELOPER shall without delay and without any cost to DISTRICT, repair or replace or reconstruct any defective or otherwise unsatisfactory part or parts of the work or structure. Should DEVELOPER fail to act promptly or in accordance with this requirement, DEVELOPER hereby authorizes DISTRICT at DISTRICT's option; to perform the work after providing DEVELOPER notice and an opportunity to cure pursuant to Paragraph 31 of this Agreement. DEVELOPER agrees to pay the cost of such work borne by DISTRICT. Should the DISTRICT determine that any urgency requires repairs or replacements to be made before DEVELOPER can be notified, DISTRICT may, in its sole discretion, make the necessary repairs or replacement or perform the necessary work and DEVELOPER shall reimburse DISTRICT's cost of such repairs.

15. DEVELOPER Not Agent of DISTRICT. Neither DEVELOPER nor any of DEVELOPER's agents or contractors are or shall be considered to be agents of DISTRICT in connection with the performance of DEVELOPER's obligations under this Agreement.

16. Injury to Work. Until such time as the Improvements are accepted by DISTRICT, DEVELOPER shall be responsible for and bear the risk of loss to any Improvement(s)

constructed or installed and also be responsible for the care, maintenance of, and damage to such Improvements. DISTRICT shall not, nor shall any officer or employee thereof, be liable or responsible for any accident, loss or damage, regardless of cause, happening or occurring to the Improvements specified in this Agreement prior to the completion and acceptance of said Improvements, unless such accident, loss or damage is caused by the active negligence or willful misconduct of DISTRICT or its officers or employees. All such risks shall be the responsibility of and are hereby assumed by DEVELOPER.

17. Other Agreements. Nothing contained in this Agreement shall preclude DISTRICT from expending monies pursuant to Agreements concurrently or previously executed ~~between the parties, or from entering into Agreements with other developers for the~~ apportionment of costs of public water infrastructure, or other improvements, pursuant to the provisions of the DISTRICT's ordinances and regulations providing therefore, nor shall anything in this Agreement commit DISTRICT to any such apportionment.

18. DEVELOPER's Obligation to Warn Public During Construction. Until final acceptance of the Improvements, DEVELOPER shall give good and adequate warning to the public of each and every dangerous condition existent in said Improvements, or any of them, and will take all reasonable actions to protect the public from such dangerous condition.

19. Vesting of Ownership. Upon acceptance of the Improvements by DISTRICT's Board of Directors and recordation of the Notice of Completion, ownership of the Improvements constructed pursuant to this Agreement shall vest in DISTRICT.

20. Indemnity/Hold Harmless. DISTRICT or any officer or employee thereof shall not be liable for injury to persons or property occasioned by reason of the acts or omissions of DEVELOPER, its agents or employees in the performance of this Agreement, except to the extent such injuries are caused by the active negligence or willful misconduct of DISTRICT, its agents or employees. DEVELOPER further agrees to protect and hold harmless DISTRICT, its officials and employees from any and all claims, demands, causes of action, liability or loss of any sort (collectively, "Claims"), because of, or arising out of, the DISTRICT's approval of this Agreement, or any acts or omissions of DEVELOPER, its agents or employees in the performance of this Agreement, including all claims, demands, causes of action, liability, or loss because of, or arising out of, in whole or in part, the design or construction of a not yet accepted Improvement, except to the extent such Claims are caused by the active negligence or willful misconduct of DISTRICT, its agents or employees. This indemnification and agreement to hold harmless shall extend to injuries to persons and damages or taking of property resulting from the design or construction of said Improvements as provided herein, and in addition, to adjacent property owners as a consequence of the diversion of waters from the design or construction of the Improvements. Until expiration of the warranty period specified by Paragraph 14 hereof, acceptance by the DISTRICT of the Improvements shall not constitute an assumption by the DISTRICT of any responsibility for the design or construction of the Improvements pursuant to the approved Improvement Plans, regardless of any negligent action or inaction taken by the DISTRICT in approving the Improvement Plans, unless the particular Improvement design was specifically required by DISTRICT over written objection by DEVELOPER submitted to the District Engineer before approval of the particular Improvement design, which objection indicated that the particular Improvement design was dangerous or defective and suggested an

alternative safe and feasible design. After acceptance of the Improvements, the DEVELOPER shall remain obligated to eliminate any defect in design or construction, and for any dangerous condition caused by the design or construction defect; provided, however, that DEVELOPER shall not be responsible for routine maintenance following acceptance of the Improvements by the DISTRICT. It is the intent of the parties that DEVELOPER shall remain responsible for all liability for design and construction defects, and for dangerous conditions of the of the Improvements installed or Work performed by DEVELOPER pursuant to this Agreement and that DISTRICT shall not be liable for any negligence, nonfeasance, misfeasance or malfeasance in approving, reviewing or inspecting any work or construction for the term of any applicable statute of limitations. Except during construction and throughout the warranty period specified by Paragraph 14 hereof, the Improvement Security shall not be required to cover the provisions of this Paragraph.

21. Sale or Disposition of Project.

a. Except as provided herein, sale or other disposition of the Property will not relieve DEVELOPER from the obligations set forth herein. If DEVELOPER sells the Property and the Project to any other person, the DEVELOPER may request a novation of this Agreement and a substitution of Security. Upon approval of the novation and substitution of Securities, which approval shall not be unreasonably withheld, conditioned or delayed,, the DISTRICT shall authorize a release of this Agreement and a release of the Securities required by this Agreement. Nothing in the novation shall relieve the DEVELOPER of the obligations under this Agreement for the work or improvement done by DEVELOPER. DISTRICT shall have sole discretion in determining whether the sale or other disposition of any portion, phase or part of the Property or the Project shall relieve the DEVELOPER from its obligations hereunder. DEVELOPER shall reimburse the DISTRICT its cost of reviewing any request pursuant to this Paragraph, which costs may include the DISTRICT's review of the financial responsibility of DEVELOPER's proposed successor or assign. DEVELOPER shall cooperate with the DISTRICT and provide all information and documentation reasonably requested by DISTRICT in reviewing DEVELOPER's request.

b. The provisions of subdivision a shall not apply to the sale of any residential lot which has been subdivided and developed and is individually (and not in "bulk") sold to a member of the public or other ultimate user in accordance with this provision. Notwithstanding any other provisions of this Agreement, this Agreement shall terminate with respect to any lot and any such lot shall be released and no longer be subject to this Agreement without the execution or recordation of any further document, upon satisfaction of all of the following conditions:

(1) The lot has been subdivided and individually (and not in "bulk") sold to a member of the public or other ultimate user for residential purposes; and

(2) The District has authorized the connection of the residence constructed on the lot to the District's water and sewer service facilities; and

(3) A Certificate of Occupancy has been issued for the residence on the lot.

22. Assignment. This Agreement shall apply to, bind and inure to the benefit of the Parties and their respective successors and assigns.

23. Time of the Essence. Time is of the essence of this Agreement.

24. Time for Completion of Work/Extension.

a. DEVELOPER and DISTRICT shall perform their responsibilities under this Agreement in accordance with the Schedule of Performance, attached hereto as Exhibit "C" and incorporated herein.

b. In the event good cause exists as reasonably determined by the District Engineer, the time for completion of the Improvements and other performance of the Work hereunder may be extended. The extension shall be made in writing executed by the DISTRICT Engineer. Any such extension may be granted without notice to DEVELOPER's Surety and shall not affect the validity of this Agreement or release the Surety or Sureties on any security given for this Agreement. The District Engineer shall be the sole and final judge as to whether or not good cause has been shown to entitle DEVELOPER to an extension. As a condition of such extension, the District Engineer may require DEVELOPER to furnish new security guaranteeing performance of this Agreement as extended in an increased amount as necessary to compensate for any increase in construction costs as determined by the District Engineer.

25. Force Majeure. If delays occur in the performance of any obligations of DEVELOPER required by this Agreement, through events or circumstances not within the reasonable control of DEVELOPER, the DEVELOPER will not be considered to be in default of its obligations to construct the affected Improvement or perform the affected Work. DEVELOPER shall be excused for, among other things, any delays or defaults in the performance of this Agreement unavoidably caused by DISTRICT or any other governmental authority, acts of God, the elements (including storm or inclement weather), war, litigation, strikes, walkouts or any other causes beyond DEVELOPER's control. DEVELOPER shall notify the DISTRICT of a force majeure event and anticipated duration of such delay as soon as reasonably possible. In the event of a delay in completion of the Improvements which is not within the control of the DISTRICT, the DISTRICT may, in its sole discretion, determine whether to provide water and/or sewer service to any part or phase of the Project, and on what terms and conditions such service may be provided.

26. Legal Responsibilities. The DEVELOPER shall keep itself informed of all local, State and Federal Laws and regulations which in any manner affect those employed by it or in any way affect the performance of its obligations pursuant to this Agreement. The DEVELOPER shall at all times observe and comply with all such laws and regulations and shall require its contractors and subcontractors to comply with all such laws and regulations. The DISTRICT, and its officers and employees, shall not be liable at law or in equity occasioned by failure of the DEVELOPER to comply with this Paragraph.

27. No Vesting of Rights. Performance by DEVELOPER of this Agreement shall not be construed to vest DEVELOPER's rights with respect to any change in any fee, regulation or ordinance of the DISTRICT.

28. Water Service Connection Fee Credit/Reimbursement.

a. In consideration of the DEVELOPER's performance of the terms and conditions of this Agreement as set forth hereinabove, the DISTRICT shall credit DEVELOPER with water service Connection Fee Credits for each dwelling unit or other structure within the Project which requires water service that is connected to the DISTRICT's water service system, in accordance with the DISTRICT's rules and regulations, until such time as DEVELOPER's Actual Costs of construction of the Covered Improvements have been reimbursed, or the District's obligation to provide reimbursement terminates pursuant to the terms of this Agreement, whichever occurs first.

b. If DEVELOPER has been fully reimbursed its Actual Costs of construction of the Covered Improvements prior to build-out of the project, DEVELOPER shall then be responsible for and shall pay the DISTRICT's water service Connection Fees in effect at the time of each subsequent connection within the Project to the DISTRICT's water service system, in accordance with the DISTRICT's rules and regulations then in effect.

c. If DEVELOPER's Actual Costs of construction of the Covered Improvemen(s) exceeds the total number/amount of credits available for each Covered Improvement (as set forth in Exhibit "B" hereto), the DISTRICT shall reimburse the excess Actual Costs incurred by Developer as follows:

(1) The DISTRICT shall maintain a listing of developer projects which the DISTRICT determines to benefit from the Covered Improvements, which are within the 1530 and 1630 Zones and which are located within the geographical area bounded generally by Indian Avenue on the east and north, by Highway 62 on the west, and by 10th Avenue on the south. As these projects develop, the DISTRICT shall make a minimum of thirty percent (30%) of the water service connection fees paid by those projects each year available for reimbursement to DEVELOPER pursuant to this Agreement, until DEVELOPER has been fully reimbursed its Actual Costs of construction of the Covered Improvements, subject to subparagraph (3) hereinbelow.

(2) The amount available for reimbursement to the DEVELOPER pursuant to this provision shall be calculated by the DISTRICT within one hundred and twenty (120) days of the close of its Fiscal Year, and shall be paid to the DEVELOPER by December 31st of each year.

(3) The DISTRICT's reimbursement obligation under this Agreement shall terminate ten (10) years after the DISTRICT's acceptance of the Covered Improvements, after which time DISTRICT shall have no further reimbursement obligation.

29. Determination of Actual Costs. The Actual Costs for which DEVELOPER is entitled to Water Connection Fee Credits shall be calculated based on receipts, invoices and other customary proofs of payment ("Evidence of Costs"). DEVELOPER shall keep a running record of Actual Costs incurred in constructing the Covered Improvements. Each request for final inspection of a Covered Improvement by DEVELOPER shall be accompanied by a

statement of Actual Costs incurred as of that date together with Evidence of Costs. Within thirty (30) days after acceptance of the Covered Improvement, DEVELOPER shall submit a final statement of Actual Costs together with Evidence of Costs for the Covered Improvement.

30. Notice and Cure Rights. Prior to declaring any default or exercising any remedy under this Agreement, the non-defaulting Party ("Non Defaulting Party") shall provide written notice to the other Party ("Defaulting Party") setting forth specifically the obligation which is not being performed and requesting that the Defaulting Party cure such breach within fifteen (15) days for monetary or fee credit obligations and thirty (30) days for other obligations or if, in the reasonable discretion of the DISTRICT the performance of the non-monetary/fee credit obligations cannot reasonably be cured within that time, then the Defaulting Party shall not be in default if it commences to cure the default within such time limit and diligently effects such cure thereafter. During the cure period, the DISTRICT may suspend its obligation to provide Fee Credits to DEVELOPER pursuant to this Agreement.

31. Notices. All notices required or provided for under this Agreement shall be in writing and delivered in person or sent by mail, postage prepaid and addressed as provided in this Paragraph. Notice shall be effective on the date it is delivered in person, or, if mailed, on the date of deposit in the United States Mail. Notices shall be addressed as follows unless a written change of address is filed with the DISTRICT:

Notice to DISTRICT:

General Manager
MISSION SPRINGS WATER DISTRICT
66575 Second Street
Desert Hot Springs, CA 92240

Notice to DEVELOPER:

Western Pacific Housing, Inc., dba D.R. HORTON
Attn: AMY MOORE
11870 PIERCE ST., STE. 250
RIVERSIDE, CA 92505

32. Severability. The provisions of this Agreement are severable. If any portion of this Agreement is held invalid by a court of competent jurisdiction, the remainder of the Agreement shall remain in full force and effect unless amended or modified by the mutual consent of the parties.

33. Captions. The captions of this Agreement are for convenience and reference only and shall not define, explain, modify, limit, exemplify, or aid in the interpretation, construction or meaning of any provisions of this Agreement.

34. Litigation or Arbitration. In the event that suit or arbitration is brought to enforce the terms of this contract, the prevailing party shall be entitled to litigation costs and reasonable attorney's fees.

35. Entire Agreement. This Agreement constitutes the entire Agreement of the parties with respect to the subject matter. All modifications, amendments, or waivers of the terms of this Agreement must be in writing and signed by the appropriate representatives of the parties. In the case of the DISTRICT, the appropriate party shall be the General Manager of the DISTRICT.

IN-WITNESS WHEREOF, this Agreement is executed by the Parties hereto as of the date first written above.

DEVELOPER

MISSION SPRINGS WATER DISTRICT

By:

[Signature]
[Signature]

Dorothy Glass
President of the Board of Directors

[Notary Required]

ATTEST:

[Signature]
Secretary to the Board of Directors

[If corporation, corporate seal and signatures of two (2) officers is required.]

Exhibit "A"

Description of the Property and the Project

LEGAL DESCRIPTION

Real property in the City of Desert Hot Springs, County of Riverside, State of California, described as follows:

TENTATIVE TRACT MAP 32030-2, BEING A SUBDIVISION OF THE FOLLOWING DESCRIBED PROPERTY:

PARCEL NO. 1

THAT PORTION OF THE NORTHWEST $\frac{1}{4}$ OF THE NORTHWEST $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

BEGINNING AT THE SOUTHEAST CORNER OF THE NORTHWEST $\frac{1}{4}$ OF THE NORTHWEST $\frac{1}{4}$, OF SAID SECTION; THENCE WESTERLY, ON THE SOUTH LINE OF SAID NORTHWEST $\frac{1}{4}$ OF THE NORTHWEST $\frac{1}{4}$ 980.5 FEET, TO THE EAST LINE OF THAT CERTAIN 60 FOOT ROAD KNOWN AS 29 PALMS HIGHWAY; THENCE NORTH $23^{\circ} 01' 13''$ EAST ON THE NORTH LINE OF SAID SECTION 390.71 FEET TO THE NORTHEAST CORNER OF THE NORTHWEST $\frac{1}{4}$ OF THE NORTHWEST $\frac{1}{4}$ OF SAID SECTION; THENCE SOUTH $0^{\circ} 09' 30''$ EAST, ON THE EAST LINE OF THE SAID NORTHWEST $\frac{1}{4}$ OF THE NORTHWEST $\frac{1}{4}$ OF SAID SECTION, 1380.18 FEET, TO THE POINT OF BEGINNING.

EXCEPTING THEREFROM $\frac{1}{2}$ ON ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES UNDERLYING SAID LAND AND $\frac{1}{2}$ OF ALL OTHER MINERALS, AS RESERVED IN DEED FROM JOSEPH R. TROTTER, HUSBAND AND WIFE FILED FOR RECORD MARCH 30, 1955.

SAID PROPERTY IS ALSO SHOWN AS PARCEL 2, 3 AND 4 ON RECORD OF SURVEY ON FILE IN BOOK 27 PAGE 65 OF RECORDS OF SURVEY, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

PARCEL NO. 2

THE NORTHEAST $\frac{1}{4}$ OF THE NORTHWEST $\frac{1}{4}$ AND THE NORTH $\frac{1}{2}$ OF THE NORTHEAST $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

PARCEL NO. 3

THE SOUTH $\frac{1}{2}$ OF THE NORTHWEST $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

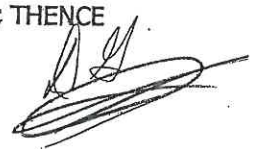
PARCEL NO. 4

THE NORTH $\frac{1}{2}$ OF THE NORTH $\frac{1}{2}$ OF THE SOUTHEAST $\frac{1}{4}$ OF THE NORTHEAST $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

PARCEL NO. 5

THAT PORTION OF THE SOUTHEAST $\frac{1}{4}$ OF THE NORTHEAST $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

BEGINNING AT THE SOUTHEAST CORNER OF SAID SOUTHEAST $\frac{1}{4}$ OF THE NORTHEAST $\frac{1}{4}$; THENCE



WEST ON THE SOUTH LINE OF SAID SOUTHEAST $\frac{1}{4}$ 836 FEET; THENCE NORTH, PARALLEL WITH THE EAST LINE OF SAID SOUTHEAST $\frac{1}{4}$ 209 FEET; THENCE EAST PARALLEL WITH SOUTH LINE OF SAID SOUTHEAST $\frac{1}{4}$ TO EASTERLY LINE THEREOF; THENCE SOUTH OF THE EAST LINE OF SAID SOUTHEAST $\frac{1}{4}$ 209 FEET TO THE POINT OF BEGINNING.

PARCEL NO. 6

PARCEL 1 OF THE WEST $\frac{1}{2}$ OF SOUTHEAST $\frac{1}{4}$ OF SECTION 28, IN TOWNSHIP 2 SOUTH OF RANGE 4 EAST OF THE SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF OF THE SURVEY OF THE SAID LAND, RETURNED TO THE GENERAL LAND OFFICE BY THE SURVEYOR GENERAL, SAID PARCEL BEING DETERMINABLE FROM THE RECORD OF SURVEY RECORDED THE 14TH DAY OF JULY 1961 IN BOOK 34 PAGE 34 RECORDS OF SURVEY, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

PARCEL NO. 7

THE SOUTHWEST $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

EXCEPTING THEREFROM THE EAST $\frac{1}{2}$ OF THE SOUTHWEST $\frac{1}{4}$.

ALSO EXCEPTING THEREFROM THE EAST $\frac{1}{2}$ OF THE NORTHEAST $\frac{1}{4}$ OF THE NORTHWEST $\frac{1}{4}$ OF THE SOUTHWEST $\frac{1}{4}$ OF SAID SECTION.

ALSO EXCEPTING THEREFROM THE SOUTHERLY 40 FEET CONVEYED TO THE COUNTY OF RIVERSIDE BY DEED FILED FOR RECORD JULY 26, 1949 AS INSTRUMENT NO. 3081 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

PARCEL NO. 8

THE EAST $\frac{1}{2}$ OF THE SOUTHWEST $\frac{1}{4}$, AND THE EAST $\frac{1}{2}$ OF THE NORTHEAST $\frac{1}{4}$ OF THE NORTHWEST $\frac{1}{4}$ OF THE SOUTHWEST $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

EXCEPTING THEREFROM THE SOUTHERLY 40 FEET AS CONVEYED TO THE COUNTY OF RIVERSIDE, BY DEED RECORDED JULY 26, 1949 AS INSTRUMENT NO 3081 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

PARCEL NO 9

PARCEL 3 AND 4 OF THE WEST $\frac{1}{2}$ OF SOUTHEAST $\frac{1}{4}$ OF SECTION 28, IN TOWNSHIP 2 SOUTH OF RANGE 4 EAST OF THE SAN BERNARDINO BASE AND MERIDIAN, CALIFORNIA, ACCORDING TO THE OFFICIAL PLAT OF THE SURVEY OF THE SAID LAND, RETURNED TO THE GENERAL LAND OFFICE BY THE SURVEYOR GENERAL, SAID PARCEL BEING DETERMINABLE FROM THE RECORD OF SURVEY RECORDED THE 14TH DAY OF JULY 1961, IN BOOK 34 PAGE 48 OF RECORDS OF SURVEY, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

PARCEL NO 10

PARCEL 2 OF THE WEST $\frac{1}{2}$ OF THE SOUTHEAST $\frac{1}{4}$ OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST OF THE SAN BERNARDINO BASE AND MERIDIAN, ACCORDING TO THE OFFICIAL PLAT OF THE SURVEY OF SAID LAND, RETURNED TO THE GENERAL LAND OFFICE BY THE SURVEYOR GENERAL, SAID PARCEL BEING DETERMINABLE FROM THE RECORD OF SURVEY RECORDED THE 14TH DAY OF JULY, 1961 IN BOOK 34 PAGE 48 RECORDS OF SURVEYS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.



PARCEL NO. 11

THAT PORTION OF THE EAST 1/2 OF SECTION 29, TOWNSHIP 2 SOUTH, RANGE 3 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

COMMENCING AT THE SOUTHEAST CORNER OF SAID SECTION 29; THENCE NORTHERLY ALONG THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 1483 FEET TO THE TRUE POINT OF BEGINNING; THENCE WESTERLY AND PARALLEL WITH THE SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET; THENCE NORTHERLY AND PARALLEL WITH THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 577 FEET; THENCE EASTERLY AND PARALLEL WITH THE SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET TO THE EASTERLY BOUNDARY OF SAID SECTION 29; THENCE SOUTHERLY ALONG THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 577 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL NO 12

THAT PORTION OF THE EAST 1/2 OF SECTION 29, TOWNSHIP 2 SOUTH, RANGE 4 WEST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

COMMENCING AT THE SOUTHEAST CORNER OF SAID SECTION 29; THENCE NORTHERLY ALONG THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 906 FEET TO THE TRUE POINT OF BEGINNING; THENCE WESTERLY AND PARALLEL WITH THE SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET THENCE NORTHERLY AND PARALLEL WITH THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 577 FEET; THENCE EASTERLY AND PARALLEL WITH THE SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET TO THE EASTERLY BOUNDARY OF SAID SECTION 29; THENCE SOUTHERLY ALONG THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 577 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL NO. 13

THE NORTH 165 FEET OF THE REAL PROPERTY DESCRIBED AS FOLLOWS:

THAT PORTION OF THE EAST 1/2 OF SECTION 29, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

COMMENCING AT THE SOUTHEAST CORNER OF SAID SECTION 29; THENCE NORTHERLY ALONG THE EASTERLY BOUNDARY OF SAID SECTION, A DISTANCE OF 329.0 FEET TO THE TRUE POINT OF BEGINNING; THENCE WESTERLY AND PARALLEL WITH THE SOUTH BOUNDARY OF SAID SECTION, A DISTANCE OF 528.0 FEET; THENCE NORTHERLY AND PARALLEL WITH THE EASTERLY BOUNDARY OF SAID SECTION, A DISTANCE OF 577.0 FEET; THENCE EASTERLY AND PARALLEL WITH THE SOUTH BOUNDARY OF SAID SECTION A DISTANCE OF 528.0 FEET; THENCE SOUTHERLY ALONG THE EASTERLY BOUNDARY OF SAID SECTION, A DISTANCE OF 577.0 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL NO 14

THAT PORTION OF THE EAST 1/2 OF SECTION 29, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF

COMMENCING AT THE SOUTHEAST CORNER OF SAID SECTION 29; THENCE NORTHERLY ALONG THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 329 FEET TO THE TRUE POINT OF

BEGINNING; THENCE WESTERLY AND PARALLEL WITH SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET; THENCE NORTHERLY AND PARALLEL WITH THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 577 FEET; THENCE EASTERLY AND PARALLEL WITH THE SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET; THENCE SOUTHERLY AND ALONG THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 577 FEET TO THE TRUE POINT OF BEGINNING.

EXCEPTING THEREFROM THE NORTH 165 FEET THEREOF.

PARCEL NO. 15

THAT PORTION OF THE EAST 1/2 OF SECTION 29, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

COMMENCING AT THE SOUTHEAST CORNER OF SAID SECTION 29; THENCE WESTERLY ALONG THE SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING WESTERLY ALONG THE SAID SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET; THENCE NORTHERLY AND PARALLEL WITH THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 2640 FEET; THENCE EASTERLY AND PARALLEL WITH THE SOUTHERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 528 FEET; THENCE SOUTHERLY AND PARALLEL WITH THE EASTERLY BOUNDARY OF SAID SECTION 29, A DISTANCE OF 2640 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL NO. 16

THE NORTHEAST 1/4 OF THE SOUTHEAST 1/4 OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF; AND THE NORTHEAST 1/4 OF THE SOUTHEAST 1/4 OF THE SOUTHEAST 1/4 OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

PARCEL NO. 17

THE NORTHWEST 1/4 OF THE SOUTHEAST 1/4 OF THE SOUTHEAST 1/4 OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

PARCEL NO. 18

THE SOUTHWEST 1/4 OF THE SOUTHEAST 1/4 OF THE SOUTHEAST 1/4 OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL GOVERNMENT PLAT THEREOF.

EXCEPTING THEREFROM THE SOUTHERLY 55 FEET THEREOF, AS GRANTED TO THE COUNTY OF RIVERSIDE BY DEED RECORDED JULY 26, 1949 AS FILE NO 3084 AND BY DEED RECORDED SEPTEMBER 19, 1962 AS FILE NO. 87713 BOTH OF OFFICIAL RECORDS OF RIVERSIDE COUNTY.

APN: 667-080-004 and 667-080-005 and 667-080-006 and 667-090-004 and 667-090-028 and 667-100-002 and 667-100-003 and 667-100-004 and 667-100-005 and 667-100-006 and 667-100-007 and 667-100-008 and 667-100-010 and 667-100-011 and 667-120-016 and 667-120-024 and 667-120-025 and 667-120-026 and 667-120-027 and 667-080-002-3 and 667-080-003-4



Exhibit "B"

DESCRIPTION OF THE OFF-SITE WATER SYSTEM IMPROVEMENTS TO BE DESIGNED AND CONSTRUCTED BY DEVELOPER (COVERED IMPROVEMENTS AND IMPROVEMENTS REQUIRED TO BE DEDICATED TO THE DISTRICT):

A. COVERED IMPROVEMENTS (SUBJECT TO CREDIT/REIMBURSEMENT)*:

- 1. 2 MG RESERVOIR (1530 Zone) (Covered Cost \$1,713,600.00)
- 2. TRANSMISSION LINE (Gateway to Indian Avenue/1530 Zone) (Covered Cost \$5,503,680.00)
- 3. 2.5 MG RESERVOIR (1630 Zone) (Covered Cost \$2,419,200.00)
- 4. TRANSMISSION LINE (from Well to Reservoir/1630 Zone) (Covered Cost \$1,043,280.00)

5. 2,000 GPM WELL(S) (w/BOOSTER(S)) (1 or 2 wells, min. cap. 1,000 gpm per well/1630 Zone) (Covered Cost \$2,139,984.00)

*The District will, on an annual basis, review actual reasonable construction costs incurred by Developer on the Covered Improvements, and will consider adjustment of its water connection fees to reflect these costs for purposes of connection fee credit and reimbursement.

B. IMPROVEMENTS REQUIRED FOR THE PROJECT, TO BE CONSTRUCTED AND DEDICATED TO THE DISTRICT:

- 1. 2,000 GPM WELL(S) (w/BOOSTER(S)) (1 or 2 wells, min. cap. 1,000 per well/1530 Zone)
- 2. TRANSMISSION LINE (from 2nd well site to 1530 Zone connection point)
- 3. TRANSMISSION LINE (from 2nd well site to 1630 Zone connection point)

DISTRICT'S PRELIMINARY ESTIMATE OF COST ELIGIBLE FOR CONNECTION FEE CREDIT/REIMBURSEMENT, FOR CONSTRUCTION OF COVERED IMPROVEMENTS:

Twelve Million, Eight Hundred Nineteen, Seven Hundred Forth Four and no/100 Dollars (\$12,819,744.00).

District Engineer

ACTUAL CONSTRUCTION COSTS ELIGIBLE FOR CONNECTION FEE CREDIT FOR CONSTRUCTION OF COVERED IMPROVEMENTS:

_____ (\$ _____)
[To be completed upon acceptance of construction]

District Engineer Confirmation

Exhibit "C"

Schedule of Performance

| <u>Action</u> | <u>Responsible Party</u> | <u>Timing</u> |
|--|--------------------------|---|
| 1. Submit Improvement Plans | Developer | 30 days after District's Board of Directors approves Agreement |
| 2. Review and approve or disapprove Improvement Plans | District | Within 20 working days of receipt for each submission or re-submission with corrections |
| 3. Submit bid and contract documents | Developer | Within 20 days after approval of Improvement Plans |
| 4. Review and approve or disapprove bid and contract documents | District | Within 20 working days of receipt |
| 5. Issue invitation for bid and contract documents | Developer | Within 20 days of approval |
| 6. Post Security | Developer | Prior to award of construction contract |
| 7. Construct Improvements | Developer | To be provided as contracts are awarded for individual improvements. |
| 8. Inspect Improvements | District | Within 5 business days of call for inspection. |
| 9. Submit as-built plans | Developer | Prior to District acceptance of the Improvements |
| 10. Accept Improvements | District | Per Agreement |

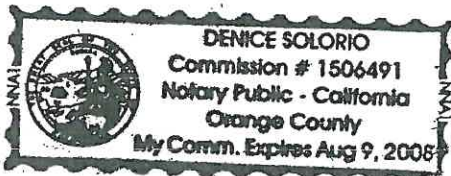


CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California }
County of Orange } ss.

On August 30, 2006 before me, Denice Solorio, Notary
Date Name and Title of Officer (e.g., "Jane Doe, Notary Public")
personally appeared Barbara Murakami and Todd Funk
Name(s) of Signer(s)

- personally known to me
- proved to me on the basis of satisfactory evidence



to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

[Handwritten Signature]
Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: _____

Document Date: _____ Number of Pages: _____

Signer(s) Other Than Named Above: _____

Capacity(ies) Claimed by Signer

Signer's Name: _____

- Individual
- Corporate Officer — Title(s): _____
- Partner — Limited General
- Attorney-in-Fact
- Trustee
- Guardian or Conservator
- Other: _____

Signer Is Representing: _____

