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FILED-Rancho Cucamonga District
SAN BERNARDINO COUNTY
SUPERIOR COURT

5 Attorneys for CHINO BASIN WATERMASTER

JAN 31 2002

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7 By *Nancy S. Williams* Deputy

8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 COUNTY OF SAN BERNARDINO - RANCHO CUCAMONGA DIVISION

10
11 CHINO BASIN MUNICIPAL WATER DISTRICT,)

CASE NO. RCV 51010

12 Plaintiff,)

Judge: Honorable J. MICHAEL GUNN

13 v.)

14 THE CITY OF CHINO,)

MOTION FOR A DECLARATION
REGARDING DISCHARGE OF
OBLIGATIONS UNDER ARTICLE
VII OF THE PEACE
AGREEMENT

15 Defendants.)
16)
17)
18)

DATE: FEBRUARY 20, 2002
TIME: 11:30 A.M.
DEPT: 8

19 I.

20 INTRODUCTION

21 Watermaster files this Motion for a Declaration Regarding Discharge of Obligations
22 Under Article VII of the Peace Agreement in order to satisfy the requirements of Section 7 of the
23 Integrated Chino-Arlington Desalters System Term Sheet ("Term Sheet") as more fully described
24 below. A copy of the Term Sheet is attached to this pleading as Exhibit "A."

25
26 On September 19, 2001, Watermaster counsel, on behalf of the parties involved in the
27 desalter negotiations, submitted a Status Report on such negotiations to the Court. A hearing
28

MOTION FOR DECLARATION

1 regarding this Status Report was scheduled for November 15, 2001. This Desalter Status Report
2 notified the Court that pursuant to Section 7 of the Term Sheet, the parties to the Term Sheet
3 intend to request the Court to issue an Order regarding their discharge of obligations under
4 Article VII of the Peace Agreement.

5 **II.**

6 **MOTION FOR A DECLARATION REGARDING DISCHARGE OF OBLIGATIONS**
7 **UNDER ARTICLE VII OF THE PEACE AGREEMENT**

8 The Chino Basin Optimum Basin Management Program ("OBMP") requires the
9 construction and operation of desalters in the Chino Basin in order to enhance hydraulic control
10 of Basin waters and to provide water quality benefits to the Basin. One desalter has already been
11 constructed (the "Chino I Desalter") by the Santa Ana Watershed Project Authority ("SAWPA")
12 acting through a subcommittee known as Project Committee No. 14 ("PC 14") which is
13 composed of Western Municipal Water District of Riverside County ("Western"), Inland Empire
14 Utilities Agency ("IEUA") and the Orange County Water District ("OCWD"). In March of 2000,
15 Proposition 13, also known as the "Water Bond," was passed by the voters of California.
16 Proposition 13 allocated a substantial amount of money to SAWPA which earmarked a portion
17 of this money specifically to provide partial funding for an expansion of the Chino I Desalter
18 ("Chino I Expansion") and for the construction of an additional desalter (the "Chino II
19 Desalter"). Final discretionary action by SAWPA to request an allocation of this money from the
20 State Water Resources Control Board is scheduled to be taken on March 5, 2002. Article VII of
21 the Peace Agreement, titled "Desalters," established the framework of an agreement between the
22 parties according to which the funds made available by Proposition 13 would be spent, and
23 according to which the local share of this funding would be provided and the water from the
24 desalters allocated.

25 On July 31, 2000, Western approved the Peace Agreement through the adoption of
26 Resolution 2120 of the Western Board of Directors. However, Western's approval of the Peace
27 Agreement was expressly contingent upon the satisfaction of two conditions. The first condition
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1 broadly requires that since implementation of Article VII of the Peace Agreement must be
2 consistent with Western's existing obligations and commitments to construct and operate desalter
3 facilities in the Chino Basin, it must ensure that the financing of the desalter facilities is
4 coordinated with funds from Proposition 13, and it must improve the reliability and backup of the
5 desalter facilities through appropriate interties. Western's first condition also required that the
6 City of Norco have readily available and direct access to water produced by the desalter facilities.
7 The second condition sought to ensure the financial feasibility and stability of the desalter
8 facilities by requiring the purchasers of the desalted water to commit to purchase a minimum
9 quantity of water produced from the desalter facilities.

10 To address Western's conditions of approval for the Peace Agreement, the following
11 parties negotiated and executed the Term Sheet: the State of California, the Cities of Ontario,
12 Chino, Chino Hills and Norco, the Jurupa Community Services District, the Santa Ana River
13 Water Company, and the members of PC 14. As such, all proper and necessary parties have
14 reached agreement on the essential terms of how to plan, design, construct, manage, operate and
15 implement the desalter facilities described under Article VII of the Peace Agreement.

16 While Article VII of the Peace Agreement contemplated that the PC 14 members would
17 design, build and own the Chino I Expansion and the Chino II Desalter, the parties to the Term
18 Sheet found an alternative arrangement would be more effective. Pursuant to the Term Sheet, the
19 Cities of Ontario, Chino, Chino Hills and Norco, the Jurupa Community Services District, the
20 Santa Ana River Water Company formed a joint powers authority known as the Chino Basin
21 Desalter Authority ("CDA"), with IEUA as an ex officio member. A copy of the joint powers
22 agreement creating the CDA is attached to this pleading as Exhibit "B."

23 Subsequently, CDA negotiated and reached agreement with SAWPA on behalf of the PC
24 14 members for CDA's ownership and operation of the Chino I Desalter, and for the allocation of
25 the Proposition 13 grant funds to CDA for the design, construction, ownership and operation of
26 the Chino I Expansion and the Chino II Desalter. The document memorializing the agreement
27 between CDA and SAWPA on behalf of the PC 14 members is known as the Chino Desalter
28

1 Facilities Acquisition Agreement (“Facilities Acquisition Agreement”). A copy of the most
2 current draft of the Facilities Acquisition Agreement is attached to this pleading as Exhibit “C,”
3 and the parties will provide the Court a fully executed copy of the agreement no later than the
4 date of the hearing on this motion.

5 Because the provisions of the Term Sheet deviate from the obligations set forth in Article
6 VII of the Peace Agreement, the parties included several provisions in the Term Sheet to
7 reconcile the differences by providing generally that implementation of the Term Sheet satisfies
8 the obligations in Article VII of the Peace Agreement. Specifically, Section 7(b) of the Term
9 Sheet provides for three things:

10 1. The parties to the Term Sheet agree amongst themselves that performance by the
11 PC 14 members of their obligations in the Term Sheet, and any agreements executed in
12 furtherance thereof, shall discharge and satisfy the obligations, responsibilities, and liabilities of
13 the PC 14 members under Article VII of the Peace Agreement, with the exception of those
14 provisions of Article VII regarding “Future Desalters”; and

15 2. The parties agree to submit a joint notification to the Court that they intend that
16 the construction and operation of the Chino I Expansion and the Chino II Desalters described in
17 Exhibit “A” satisfies Western’s and IEUA’s obligation under the Peace Agreement to design and
18 construct desalters with a cumulative minimum capacity of 14 mgd [as discussed above, the
19 parties submitted this joint notification to the Court in a Status Report filed by the Watermaster
20 with the Court on September 19, 2001]; and

21 3. The parties to the Term Sheet shall:
22 [C]ollectively request that the Court exercising continuing jurisdiction in the
23 Chino Basin Judgment issue an order in its case No. 51010, declaring that
24 performance of this Term Sheet and any agreements executed in furtherance
25 hereof, shall fully discharge and satisfy all obligations, responsibilities, and
26 liabilities of IEUA and WMWD [Western] under the Peace Agreement under
27 Article VII of that Agreement, with the exception of those provisions of Article
28 VII regarding “Future Desalters.”

Accordingly and pursuant to Section 7(b) of the Term Sheet, the parties respectfully
request the Court to issue an order in this case declaring that performance of the Term Sheet and

1 any agreements executed in furtherance thereof, shall fully discharge and satisfy all obligations,
2 responsibilities, and liabilities of IEUA and Western under Article VII of the Peace Agreement,
3 with the exception of those provisions of Article VII regarding "Future Desalters," as defined in
4 the Peace Agreement.

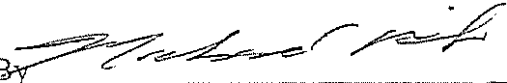
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6 DATED: *Jan. 30, 2002*

HATCH AND PARENT

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By 
SCOTT S. SLATER
MICHAEL T. FIFE
Attorneys for Chino Basin Watermaster

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HATCH AND PARENT
21 East Carrillo Street
Santa Barbara, CA 93101

EXHIBIT

“A”

INTEGRATED CHINO-ARLINGTON DESALTERS SYSTEM TERM SHEET

1. **The Parties.** The Parties to this Term Sheet include the Western Municipal Water District ("WMWD"), Inland Empire Utilities Agency ("IEUA") and the Orange County Water District ("OCWD") (collectively "the Sellers"), and the Cities of Chino, Chino Hills, Norco and Ontario, the Jurupa Community Services District ("JCSD"), Santa Ana River Water Company (collectively "the Purchasers"), and the State of California ("State").

2. **Statement of General Covenants.** WMWD, IEUA and OCWD, through Project Committees No. 9 and No. 14 ("PC No. 9 and PC No. 14") as they are defined in their authorizing agreements of the Santa Ana Watershed Project Authority ("SAWPA"), plan to design, finance and construct the Integrated Chino - Arlington Desalters System ("ICADS"). WMWD, IEUA and OCWD, through PC No. 14, plan to design, finance and construct the Chino I Expansion and the Chino II Desalter only after consultation with the Joint Enterprise Group ("JEG"). WMWD and OCWD, through PC No. 9, will plan, design, finance and construct improvements to the Arlington Desalter that are designed to maximize the quantity of desalted water that can be produced from the facility within the limits of the grant funding and financing available for such improvements. The Chino I Desalter, the Chino I Expansion, the Chino II Desalter and the Arlington Desalter will all be included in the ICADS Project. ICADS will result in the physical integration of the operation of the three desalters as provided in this Term Sheet. Desalted water from the Arlington Desalter, if available, will be offered first to the Home Gardens County Water District ("Home Gardens"), the City of Norco and the State for use on lands south of the Santa Ana River ("River") in an annual amount not to exceed 1,200 acre-feet per year as provided below, and then to the JEG under the terms of a long-term water supply contract that allows, but does not require, the JEG to purchase the water. Thereafter, water that is not sold to JEG will be made available to the State for use north or south of the River as the next priority, and then to OCWD, the Purchasers, the State and other entities. In general conformity with the terms set forth below, the Parties to this Term Sheet will undertake the following commitments with regard to the ICADS Project:
 - (a) The Sellers will:
 - (i) through PC No. 14, consult with JEG, and as directed by JEG, design, finance and construct Chino I Expansion and the Chino II Desalters, as such facilities are described in this Term Sheet, and in furtherance of the Chino Basin Optimum Basin Management Program ("OBMP") and the Peace Agreement. PC No. 14

shall defer to the express direction of JEG provided that JEG assumes full legal and financial responsibility for the direction it provides to PC No. 14 as provided within this Term Sheet; and

- (ii) through PC No. 9, contract to sell water from the Arlington Desalter in the following order of priority: (1) to the Home Gardens, the City of Norco and the State for use on its lands south of the River in an amount not to exceed 1,200 acre-feet; (2) to JEG; (3) to the State for use on lands north or south of the River; (4) to OCWD and (5) to the Purchasers and the State; and (6) to other entities.

(b) The Purchasers will:

- (i) through JEG, execute with Sellers a lease to purchase agreement for the Chino I, Chino I Expansion and the Chino II Desalters and assume the debt service. The lease/purchase amount shall be generally equivalent to the debt service of these facilities. In exchange for each Purchaser's assumption of their pro-rata costs of debt service and their agreement to pay the costs of producing the desalted water, including operations and maintenance expenses, each Purchaser shall have the right to use the desalted water generated by the facilities. A Purchaser may assume this responsibility under a purchase contract, as a participating member of JEG or both;
- (ii) exercise good faith and best efforts to provide direction to PC No. 14, regarding design, finance, planning and construction of the Chino I Expansion and the Chino II Desalters;
- (iii) operate and maintain the Chino I, Chino I Expansion and the Chino II desalter facilities and operate and maintain production from the Chino I Expansion and the Chino II Desalters at or above the minimum quantities specified in the Peace Agreement (14 mgd);
- (iv) have the right to exercise an option to receive desalted water from the Arlington Desalter that is surplus to the needs of the Home Gardens, the City of Norco and the State for use on lands south of the River in a quantity not to exceed 1,200 acre-feet per year under a water supply contract with a higher priority than OCWD;
- (v) have the right to purchase desalted water under a second and independent option to purchase surplus to the needs of the State for use on lands north of the River

and OCWD;

- (vi) form a JEG that is comprised of some or all of the Purchasers (and in the sole discretion of the Purchasers, include members other than the Purchasers) with a sufficient constituency to assume the debt service for the Chino I, Chino I Expansion and the Chino II Desalters. The JEG shall hold the rights to the desalted water made available by Chino I, the Chino I Expansion and the Chino II Desalters and desalted water made available under contract with the Arlington Desalter. The JEG shall allocate its water inter-se. The Purchasers will exercise best efforts to form the JEG as soon as practicable; and
- (vii) within 30 (thirty) days from the date of execution, nominate a designee to serve as the point of communication between the Purchasers and the other Parties to this Agreement.

3. **Description of Facilities.** The facilities that are integral to the production and delivery of desalted water are commonly known as the ICADS Project Alternative 10A, and are generally described and depicted in Exhibit "A" attached hereto. The Parties to the Term Sheet shall exercise good faith and mutual best efforts to promptly and efficiently agree upon changes or substitutions to Alternative 10A that do not compromise the integrity of the project by (a) reducing production quantities below those set forth in Alternative 10A, or (b) unreasonably increasing the price of the desalter water, unless no Purchaser objects to the increase in price, and (c) the Purchasers assume the full legal and financial responsibility associated with any changes or substitutions that are directed by the Purchasers under this Term Sheet.

4. **Design, Finance and Construction.** The design, finance and construction of the desalter facilities shall be the primary responsibility of the Sellers as provided herein.

(a) **Chino I Expansion and Chino II Desalter.** WMWD, IEUA and OCWD, through PC No. 14, shall consult with and receive direction from JEG. Through JEG, Purchasers will assume responsibility for directing PC No. 14 in all aspects of design, operations, maintenance, management and control of Chino I, Chino I Expansion and Chino II Desalters.

- (i) Any direction provided by JEG to PC No. 14 regarding finance, design, planning, and construction of these Desalters shall control so long as JEG assumes full legal and financial consequences associated with the direction it provides to PC No. 14 under this Term Sheet.

- (ii) PC No. 14 shall contract with JEG for contract management of design and construction.
 - (iii) The Purchasers and Sellers shall exercise best efforts to prudently and efficiently limit the costs of construction to ensure that the facilities actually constructed are funded to the maximum extent possible through the grant funds made available by Proposition 13. PC No. 14 shall continue to manage the debt on the Desalters, including the Metropolitan Water District ("MWD") incentives to exercise best efforts to obtain a continuation of the incentives for the benefit of the Purchasers and the State. The Sellers will refinance the debt on Chino I to address the current revenue deficits in a manner to provide for the lowest possible per unit cost of water.
- (b) Arlington Desalter. WMWD and OCWD, through PC No. 9, shall finance and construct the improvements to the Arlington Desalter. The Arlington Desalter will be physically integrated with the Chino Desalters.
- (c) Allocation of Funds. A grant of \$56 million to be made available by Proposition 13 for ICADS, and that has been earmarked by SAWPA for such purpose, will be allocated for both the Arlington Desalter improvements and the Chino Desalters as follows, if actually required to complete construction of Alternative 10A:
- (i) 77 percent of the actual project costs for the Chino I Expansion and Chino II Desalter facilities and related improvements shall be paid from Proposition 13 grant funds, but in an amount not to exceed \$48 million.
 - (ii) 75 percent of the actual project costs for the Arlington Desalter and related improvements shall be paid from Proposition 13 grant funds, but in an amount not to exceed \$8 million.
- (d) Additional Grant Funds. Additional grant funds of up to \$2 million shall be made available and committed to the purpose of completing the Arlington bridge crossing and upgrades to Alternative 10A to enhance the quantity of desalted water produced by the Arlington Desalter. This funding shall be repaid from the following sources:
- (i) Any of the Proposition 13 grant funds allocated to the ICADS Project that are not necessary because actual ICADS project costs are less than projected.

- (ii) Other SAWPA projects receiving Proposition 13 grant funds to the extent Proposition 13 grant funds are not necessary because the actual costs of the other SAWPA projects are less than projected.
- (iii) Other projects of WMWD, IEUA, or OCWD that have or will receive Proposition 13 grant funds, to the extent additional funding is secured for such projects from sources other than Proposition 13.
- (iv) A pro-rata reduction from other total Proposition 13 funding that was previously designated for IEUA, WMWD and OCWD.

5. **Operations Maintenance and Liability.** Responsibility for the operations, maintenance and liability of the desalter facilities shall be assigned as follows.

- (a) Chino I, Chino I Expansion and Chino II Desalters. Through JEG, the Purchasers are responsible for all aspects of design, operations, maintenance, management and control of Chino I, Chino I Expansion and Chino II Desalters, including water sales, legal liability and other matters (except as provided below in Section 7(c)) associated with these desalter facilities, irrespective of whether such liability arises out of the design, construction, operation, maintenance or control of such desalter facilities.
- (b) Arlington Desalter. WMWD and OCWD through PC No. 9 are responsible for all aspects of design, operations, maintenance, management and control of the Arlington Desalter, including water sales, legal liability and other matters (except as provided below in Section 5(c)) associated with the Arlington Desalter facilities, irrespective of whether such liability arises out of the design, construction, operation, maintenance or control of such desalter facilities. The desalted water shall be sold to JEG and the State at a price no greater than the actual cost of service for the Arlington Desalter as provided in Section 6.
- (c) Third-Party Claims.
 - (i) The Purchasers and Sellers shall jointly secure and maintain an insurance policy against claims that may be submitted by persons other than the Purchasers and Sellers (third parties) arising out of the groundwater production for the Chino I and the Chino I Expansion. The Purchasers shall secure and maintain an insurance policy against third-party claims arising out of the groundwater production from the Chino II Desalter. Personal injury, workers' compensation or negligence actions unrelated to groundwater production from the Chino I, Chino I Expansion and the

Chino II Desalter facilities shall not be considered to be a third-party claim. The costs of the insurance for the Chino I and the Chino I Expansion shall be divided equally between the Sellers and the Purchasers and shall be maintained until formal legal title to such facilities is transferred from the Sellers to JEG. The costs of insurance for the Chino II Desalter shall be the sole responsibility of the Purchasers.

- (ii) PCNo. 14 shall warrant that it has or will settle all known claims arising from the design, construction and operation of the Chino I Desalter, or assume full legal responsibility for such claims, prior to the transfer of operation and maintenance responsibility to JEG under the lease/purchase agreement.
- (iii) In the event that third-party claims, as defined herein, are filed arising out of activities related to the production of groundwater for the desalter operations and there is insufficient insurance, the Parties to the Term Sheet shall have the same responsibilities and liabilities that they may or may not have under general law. This Term Sheet shall not be construed or relied upon by any party in asserting the respective liability of another party to this Term Sheet relative to any future third-party claims.
- (iv) The existing contractual rights and obligations of the Parties under existing contracts regarding the inter-se allocation of liability for third-party claims and insurance, whatever they may be, are not waived or altered.

6. Water Supply

- (a) Desalted Water Made Available by the Chino I, Chino I Expansion and Chino II Desalters. The desalted water shall be made available to the Purchasers from the Chino I, Chino I Expansion and Chino II Desalters and shall be allocated among the Purchasers and the State as generally described in Alternative 10A.
 - (i) If the Santa Ana River Water Company cannot receive its full entitlement to desalted water as contemplated by Alternative 10A, then JCSD and Ontario, through JEG, shall abate their respective use to ensure that Santa Ana River Water Company can receive its full entitlement from JEG. However, JCSD and Ontario shall only have this obligation if Santa Ana River Water Company's demand is at a "steady rate."
 - (ii) The price of all desalted water among the members of JEG shall be all-inclusive.

There shall be no separate or additional costs for wheeling or transportation, with the price per acre-foot being established at each agency's designated point of delivery.

- (iii) The cost for the Chino I, Chino I Expansion and the Chino II Desalters shall be melded upon formation of the JEG so that the per unit cost of desalted water to each Purchaser's designated point of delivery shall be the same.
 - (iv) First priority for the sale of desalted water shall be to the Purchasers through JEG for their own municipal, industrial and domestic use. Second priority for the sale of water surplus to the needs of the Purchasers through JEG set forth above, shall be to the State and then to other entities in the complete discretion of JEG. The Purchasers are prohibited from re-marketing the desalted water for use by others until the State has been offered and has declined the use of the surplus water.
 - (v) The quality of desalted water at the point of delivery for each Purchaser and the State from JEG shall be at least as good as the quality specified in Alternative 10A (25 ppm nitrates and 350 ppm total dissolved solids), unless the Purchasers otherwise agree.
- (b) Desalted Water Made Available From Arlington to JEG. WMWD and OCWD will offer to sell the desalted water from Arlington surplus to the needs of Home Gardens, the City of Norco, and the State for use on lands south of the River in an amount not to exceed 1,200 acre-feet per year in lieu of that portion of the deliveries to the City of Norco that would be necessary to serve the same purpose, to JEG. In addition, if there is still surplus water, WMWD and OCWD will offer the surplus to the State for use on lands north of the River and then to OCWD and then to JEG. The desalted water from Arlington made available to JEG shall be allocated among the Purchasers as provided in this Term Sheet. The desalted water shall be sold at a price equal to the cost of service for the Arlington Desalter, no greater than the price of desalted water provided to the City of Norco subject to any incremental adjustment associated with the transportation of the desalted water.
- (i) The City of Norco shall exercise best efforts to take all of its deliveries of desalted water from the Arlington Desalter. Subject to its exercise of best efforts to rely upon the Arlington Desalter to meet its demands, the City of Norco shall retain its contractual rights to 1,000 acre-feet of water from Chino I to satisfy the City's remaining needs up to 620 gpm maximum.
 - (ii) The price of the desalted water sold to JEG and the State from the Arlington

Desalter shall not exceed the price of water sold by PC No. 9 to the City of Norco from the Arlington Desalter, plus any reasonable incremental adjustments to account for variables such as delivery costs, if any.

- (c) **Sale of Desalted Water From the Arlington Desalter to Other Entities.** Any desalted water produced by the Arlington Desalter, surplus to the water sold to Home Gardens, the City of Norco, the State for use on lands south of the River in an amount not greater than 1,200 acre-feet per year in lieu of deliveries to the City of Norco for the same purpose, and the JEG, may be sold to the State for use on lands north or south of the River, to OCWD, and then again offered to the JEG and finally to other entities.

7. **Actions Upon Execution of the Term Sheet.**

- (a) **WMWD Rescission of Conditional Resolution.** Upon the execution of this Term Sheet by all the Parties hereto, WMWD will rescind its prior Resolution expressing conditional approval of the Peace Agreement and replace it with a Resolution that indicates its unqualified support of the Peace Agreement, consistent with and as implemented by this Term Sheet and the agreements to be executed pursuant hereto.
- (b) **Joint Submittal re Satisfaction of Obligations, Responsibilities, and Liabilities under Section VII of the Peace Agreement.**
 - (i) If Sellers perform the terms of this Term Sheet and any agreements executed in furtherance hereof, then the Parties to this Term Sheet expressly acknowledge and agree that such performance by Sellers shall discharge and satisfy the obligations, responsibilities, and liabilities of Sellers under Article VII of the Peace Agreement, with the exception of those provisions of Article VII regarding "Future Desalters," as defined in the Peace Agreement. Sellers' performance, and the discharge and satisfaction of Sellers' obligations, responsibilities, and liabilities as provided in this section, shall be deemed complete and binding even if full performance by Sellers is made impossible by an action of the Parties to this Term Sheet or any third party.
 - (ii) To effectuate this section, the Parties agree to submit a joint notification to the Court that they intend that the construction and operation of the Chino I Expansion and the Chino II Desalters described in Exhibit "A" satisfies WMWD's and IEUA's obligation under the Peace Agreement to design and construct desalters with a cumulative minimum capacity of 14 mgd. The Parties to this Term Sheet

shall collectively request that the Court exercising continuing jurisdiction in the Chino Basin Judgment issue an order in its case No. 51010, declaring that performance of this Term Sheet and any agreements executed in furtherance hereof, shall fully discharge and satisfy all obligations, responsibilities, and liabilities of IEUA and WMWD under the Peace Agreement under Article VII of that Agreement, with the exception of those provisions of Article VII regarding "Future Desalters."

(iii) Upon execution of final agreements for desalted water consistent with this Term Sheet, the Parties will jointly notify the Court of completion and request a further finding that the construction and operation of the desalter facilities described in Exhibit "A," as provided in the contracts between the Parties, satisfies all the obligations, responsibilities, and liabilities of all the Purchasers acting through JEG under the Peace Agreement set forth in Article VII of the Peace Agreement regarding the purchase, use and delivery of desalted water other than those obligations, responsibilities and liabilities related to "Future Desalters." In addition, all other obligations of Purchasers acting through JEG under the Peace Agreement including, but not limited to, the requirement that desalters be operated in a manner that will not cause material physical injury, shall be unaffected.

(c) Good Faith and Best Efforts. The Parties mutually covenant to exercise reasonable best efforts and shall proceed in accordance with the covenant of good faith and fair dealing. They shall proceed to translate this Term Sheet into a contract that reduces all material terms to writing within ninety (90) days from the date of execution of this Term Sheet. OCWD, WMWD, and IEUA shall exercise best efforts in securing SAWPA's adoption of a Resolution supporting this Term Sheet and an allocation of funds as provided herein.

(d) Warranty. IEUA, WMWD and OCWD warrant that they have the legal authority, as individual public agencies, members of SAWPA and its PC No. 14 and PC No. 9, to incur all of their obligations under this Term Sheet, and they agree that they will use such legal authority and additional best efforts to perform those obligations.

8. State of California.

(a) As of the date of execution of this Term Sheet, the State as a priority purchaser of desalted water under the Peace Agreement has not identified any specific quantity of desalted water that it can commit to purchase at this time.

(b) The State may exercise some or all of the following options for water: (1) take service from

the City of Chino under any terms that are mutually agreeable to the State and the City of Chino; (2) take service from the City of Chino on the same terms and conditions generally applicable to customers within its service territory; and (3) take service from the City of Chino, through water supplied from the ICADS Project, subject to the following special conditions applicable to service under this Section 8(b)(3)(i-viii) that:

- (i) The amount of desalted water for such service is no more than 100 acre-feet per year, plus any additional amount that is surplus to the then available quantity within the capacity of the Chino I, Chino I Expansion and Chino II desalter facilities;
 - (ii) The surplus amount is not already sold to other purchasers;
 - (iii) All other purchasers of desalted water from ICADS through JEG then having prior contractual commitments to buy such water, will abate their production on a pro-rata basis for the initial 100 acre-feet of desalted water in order to accommodate this new State service demand. However, no abatement will be necessary for the sale of surplus desalted water, because it will not then be subject to any obligation by JEG to sell it to others;
 - (iv) The State will pay any and all additional capital and operation and maintenance costs necessary to connect to and receive service from the ICADS Project;
 - (v) The State will reimburse other purchasers for the proportionate share of capital costs attributable to the amount of the State's ICADS desalted water, including debt service, previously paid by the Purchasers for construction and preservation of the ICADS production capacity with which to provide such service to the State;
 - (vi) The State pays the same price for such water as other purchasers from the JEG of ICADS desalted water from the Chino I, Chino I Expansion or Chino II ICADS desalter facilities;
 - (vii) The service will be limited to institutional or agricultural uses of the State itself; and
 - (viii) The State's right to surplus desalted water from the Chino I, Chino I Expansion and the Chino II ICADS desalter facilities shall have priority to the Purchaser's rights to remarket desalted water for use by others.
- (c) The State may elect between either of the following two options to serve the State on its lands south of the River with additional water: (1) as a customer of the City of Norco or

(2) from the Arlington Desalter through PC No. 9.

(i) Water service provided by the City of Norco to the State shall be on terms and conditions generally applicable to customers within its service territory or under any terms that are mutually agreeable to the State and the City of Norco.

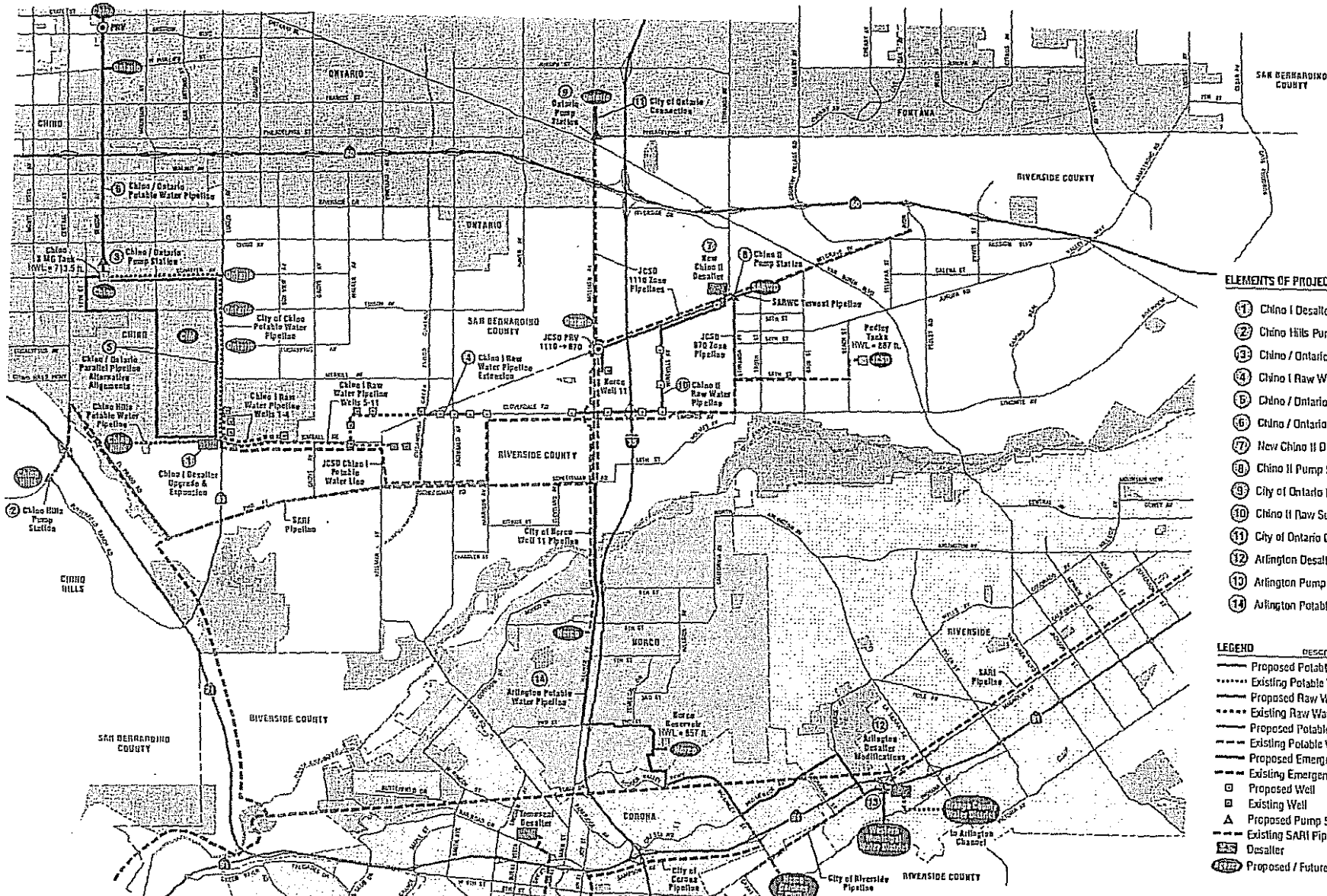
(ii) If, after the exercise of good faith efforts, the State is unable to reach an agreement with the City of Norco on terms and conditions mutually agreeable to obtain sufficient water to meet its needs, the State may elect to purchase desalted water for use on land south of the River from PC No. 9, before JEG and before OCWD, subject to the following terms and conditions:

- (1) The State must provide notice of its decision in writing and transmit its request to PC No. 9 and the City of Norco within six (6) months from the Date of Execution. The State's right to make this election shall expire if not exercised within six (6) months from the Date of Execution. This means that the State's right or priority to desalted water in an amount up to 1,200 acre-feet from the Arlington Desalter for use on lands south of the River, wherever such a right or priority is referenced in this Term Sheet, will expire if not exercised within six (6) months following the Date of Execution.
- (2) The State's use of water from the Arlington Desalter shall be expressly limited to its lands and facilities south of the River.
- (3) The State may request and receive up to 1,200 acre-feet per year from the Arlington Desalter, provided that it agrees to purchase the quantity requested under a long-term "take or pay" - "steady rate" arrangement.
- (4) The State's priority to the 1,200 acre-feet per year of desalted water from the Arlington Desalter shall be equal to the priorities held by the City of Norco and Home Gardens, and the deliveries to the State for use on lands south of the River shall be in lieu of that portion of the deliveries of desalted water designated for the City of Norco to serve the same purpose.
- (5) The price of the desalted water shall be equal to the per acre-foot price charged to the City of Norco by PC No. 9, plus any differential cost.

- (6) The State shall pay any and all additional capital, operation and maintenance costs necessary to connect and receive service from the Arlington Desalter.
- (d) The State shall have the option to purchase desalted water from PC No. 9 for use on lands north and south of the River if there is water surplus to the needs of Home Garden, the City of Norco, the State for use on lands south of the River in a quantity not to exceed 1,200 acre-feet per year, and JEG.
- (e) Nothing herein shall be construed as placing any limitation on the State's rights:
 - (i) To request reimbursement from the Chino Basin Watermaster for the reasonable costs to be incurred in the design, construction and operation of future facilities that further the implementation of the OBMP as provided in Article X of the Watermaster Rules and Regulations or in the Peace Agreement;
 - (ii) To contend that desalter operations have or will cause material physical injury to the State or the Chino Basin;
 - (iii) To pursue any legal remedy under the law to redress compensable injury to the State arising out of the desalter operations; or
 - (iv) To exercise its rights under the Peace Agreement and the Rules and Regulations other than to the extent the Parties to the Peace Agreement have discharged their respective obligations under this Term Sheet and the findings that are made pursuant to Section 7 (b) above.
- 9. **No Waiver of Judgment Rights.** Nothing herein shall waive any rights of the Parties arising under the Judgment entered in Chino Basin Municipal Water District v. City of Chino.
- 10. **Terms Not Exhaustive.** The Parties mutually agree that the preceding terms represent essential terms to be incorporated into a final lease agreement for the Chino Desalters and the final agreements for the purchase and sale of desalted water. However, these terms are not intended to be exhaustive. They do, however, represent a meeting of the minds as to the matters expressly referenced.
- 11. **Condition Precedent to Performance.** As an express condition precedent to the effectiveness of the final agreements, the Commission of SAWPA must endorse this Term Sheet by the adoption of a resolution pursuant to which SAWPA agrees to (a) delegate all executive authority to PC No.

14 and PC No. 9 to carry out the provisions of Project Agreements 14 and 9 and the implementation of these projects under the Term Sheet, and (b) to complete in good faith all processes necessary to allocate Proposition 13 bond proceeds in accordance with the provisions of this Term Sheet. However, Section 7(a) through 7(d) of this Term Sheet shall be binding and of full force and effect on all Parties to the Term Sheet on the Date of Execution.

12. **Term Sheet Effective Upon Full Execution.** This Term Sheet shall not be effective until executed by all of the Parties to the Term Sheet and the endorsement by SAWPA as provided in Section 9.
13. **Date of Execution.** The Date of Execution of this Term Sheet shall be the day upon which the last of the Parties to the Term Sheet executes the Term Sheet.



ELEMENTS OF PROJECTS

- 1 Chino I Desalter Upgrade & Expansion
- 2 Chino Hills Pump Station
- 3 Chino / Ontario Pump Station
- 4 Chino I Raw Water Pipeline Extension
- 5 Chino / Ontario Parallel Pipeline
- 6 Chino / Ontario Potable Water Pipeline
- 7 New Chino II Desalter
- 8 Chino II Pump Station
- 9 City of Ontario Pump Station
- 10 Chino II Raw Supply Line
- 11 City of Ontario Connection
- 12 Arlington Desalter Modifications
- 13 Arlington Pump Station Modifications
- 14 Arlington Potable Water Pipeline

SYMBOL	DESCRIPTION	DRAWN
--- (Solid)	Proposed Potable Water Pipeline	(SAWPA)
--- (Dashed)	Existing Potable Water Pipeline	(SAWPA)
--- (Dotted)	Proposed Raw Water Pipeline	(SAWPA)
--- (Dash-dot)	Existing Raw Water Pipeline	(SAWPA)
---	Proposed Potable Water Pipeline	(Other)
---	Existing Potable Water Pipeline	(Other)
---	Proposed Emergency Supply	(SAWPA)
---	Existing Emergency Supply	(Other)
□ (Open)	Proposed Well	
□ (Filled)	Existing Well	
▲ (Triangle)	Proposed Pump Station / Modifications	
--- (Double Dashed)	Existing SARI Pipeline	
□ (Square)	Desalter	
○ (Circle)	Proposed / Future Turnouts	



**Integrated Chino-Arlington Desalters System (ICADS)
Project Alternative 10A Facilities Map**

EXHIBIT A-2

INTEGRATED CHINO-ARLINGTON DESALTERS SYSTEM (ICADS)
PROJECT ALTERNATIVE 10A FACILITIES

I.D. No.	Facility Description
1	CHINO I DESALTER FACILITIES
1	VOC Treatment Facilities
2	VOC Treatment [note 1]
3	Treatment Plant Expansion Modifications
4	Ion Exchange Facilities
5	Clearwell Pump Station Upgrade
6	Pump Stations
7	Chino/Ontario Pump Station
8	City of Chino Hills Pump Station
9	Pipelines/Turnouts
10	Chino I Raw Water Pipeline Extension
11	Chino/Ontario Parallel Pipeline
12	Chino/Ontario Potable Water Pipeline
13	Brine Disposal Line
14	Supply Wells for Treatment Plant Expansion
15	Well Construction and Equipment
II	CHINO II DESALTER FACILITIES
1	Treatment Plant
2	RO & Ion Exchange Facilities
3	Clearwell
4	Pump Stations
5	Jurupa Pump Station
6	Ontario Pump Station
7	Pipelines/Turnouts
8	Chino II Raw Water Pipeline
9	City of Ontario Connection
10	SARWC Turnout Pipeline
11	Brine Disposal Line
12	Supply Wells
13	Well Construction and Equipment
III	ARLINGTON DESALTER FACILITIES
1	Treatment Plant Modifications
2	Treatment Facility Modifications
3	Disinfection System
4	Pump Station
5	Clearwell
6	Other Facilities
7	Arlington Potable Water Pipeline
8	Brine Disposal Line

Note 1: VOC Treatment Facilities costs not included in ICADS project.

EXHIBIT A-3

INTEGRATED CHINO-ARLINGTON DESALTERS SYSTEM (ICADS)
PROJECT ALTERNATIVE 10A
WATER DELIVERIES FROM CHINO I EXPANSION AND CHINO II
(ACRE-FEET PER YEAR)

<u>PURCHASERS</u>	<u>DELIVERIES (AFY)</u>
City of Chino	5,000
City of Chino Hills	4,200
Jurupa Community Services District	8,200
City of Norco	1,000
City of Ontario	5,000
Santa Ana River Water Company(1)	1,200
Other	400
Total	25,000

(1) Deliveries from Chino I Expansion and/or Chino II

EXHIBIT

“B”

JOINT EXERCISE OF POWERS AGREEMENT
creating the
CHINO BASIN DESALTER AUTHORITY
("CDA")

This Joint Exercise of Powers Agreement ("Agreement") is made and entered into as of the 25th day of Sept., 2001, by and among the Jurupa Community Services District ("JCSD"), the Santa Ana River Water Company ("SARWC"), the cities of Chino, Chino Hills, Norco and Ontario and the Inland Empire Utilities Agency ("IEUA") (collectively the "Parties" and individually, a "Party").

RECITALS

- A. The Parties to this Agreement all have an interest in the successful management of groundwater resources in the Chino Basin.
- B. The Parties are subject to the Judgment entered in Chino Basin Municipal Water District v. City of Chino (San Bernardino Case No. RCV 51010) that called for the development of an Optimum Basin Management Program ("OBMP").
- C. With the exception of the Santa Ana River Water Company, the Parties all executed the Peace Agreement on or before August 1, 2000 to facilitate and enable the implementation of the OBMP. The Santa Ana River Water Company, while not a party to the Peace Agreement, did approve of the Peace Agreement through minute order of its governing board.
- D. Article VII of the Peace Agreement set forth various terms and conditions for the construction and operation of Chino Basin desalters and a general template for the purchase and sale of desalted water.
- E. The Parties, "Purchasers" in that fully executed document entitled "Integrated Chino-Arlington Desalters System Term Sheet" ("Term Sheet") attached hereto and incorporated herein as Exhibit "A," elected to discharge their respective rights and obligations under Article VII of the Peace Agreement in accordance with the terms and conditions set forth in such Term Sheet.
- F. The Parties acknowledge that this Agreement to form a Joint Powers Authority is in fulfillment of the Purchasers' collective obligation to form a Joint Enterprise Group ("JEG") in accordance with Section 2(b)(vi) of the Term Sheet.

- G. The Parties have the power and authorization to design, finance, lease, purchase, acquire, construct, operate, maintain, sell, hypothecate or otherwise dispose of the Facilities for the purpose of the production, treatment and distribution of water to the Purchasers as provided in the Term Sheet, and for the improvement of the degraded water quality of the Chino Basin.
- H. These powers can be exercised best through the cooperative action of the Parties through a joint exercise of powers authority.
- I. Each of the Parties is authorized to contract with each other for the joint exercise of these common powers under Article I, Chapter 5, Division 7, Title I commencing with Section 6500 of the Government Code of the State of California.
- J. SARWC is a mutual water company authorized to enter into this Agreement by Section 6525 of Article I, Chapter 5, Division 7, Title I of the Government Code of the State of California.

COVENANTS

The Parties agree as follows:

I.

DEFINITIONS

- 1.1 For the purpose of this Agreement, the following words shall have the following meanings:
 - (a) "Agreement" means this joint exercise of powers agreement.
 - (b) "Chino Basin Desalter Authority" or "CDA" means the joint exercise of powers authority created by this Agreement and referred to in the Term Sheet as the Joint Enterprise Group or JEG.
 - (c) "Facilities" means those facilities described in section 7.1 herein.
 - (d) "Fiscal Year" means July 1 through June 30 or such other period as the Board of Directors shall determine.

- (e) "Member" means each of the Parties that become a signatory to this Agreement.
- (f) "Original Members" means JCSD, the SAWRC, the cities of Chino, Chino Hills, Norco and Ontario, and, the ex-officio Member, the Inland Empire Utilities Agency.
- (g) "Purchasers" means purchasers under the Term Sheet.
- (h) "Term Sheet" means the Integrated Chino-Arlington Desalters System Term Sheet previously executed by all of the Original Members, and effective as of July 1, 2001.

1.2 Rules of Construction

- (a) Unless the context clearly requires otherwise:
 - (i) The plural and singular forms include the other;
 - (ii) "Shall," "will," "must," and "agrees" are each mandatory;
 - (iii) "may" is permissive;
 - (iv) "or" is not exclusive;
 - (v) "includes" and "including" are not limiting; and
 - (vi) "between" includes the ends of the identified range.
- (b) The masculine gender shall include the feminine and neuter genders and vice versa.
- (c) Reference to any agreement, document, instrument, or report means such agreement, document, instrument or report as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof.
- (d) Except as specifically provided herein, reference to any law, statute, ordinance, regulation or the like means such law as amended, modified, codified or reenacted, in whole or in part and in effect from time to time, including any rules and regulations promulgated thereunder.
- (e) This Agreement shall be construed consistent with the Term Sheet. In the event of conflict between this Agreement and the Term Sheet, the Term Sheet shall control.

II.

ORGANIZATION

- 2.1 CDA Created.** There hereby is created a public entity separate from its Members, to be known as the "Chino Basin Desalter Authority" ("CDA"). The CDA is formed by this Agreement pursuant to the provisions of Article I, Chapter 5, Division 7, Title 1 commencing with Section 6500, of the Government Code of the State of California.

- 2.2 **Membership.** The Members of the CDA shall be the original Parties to this Agreement, including IEUA as an ex-officio Member, and such other entities which execute an Amendment to this Agreement and each Amendment thereto, and which have not withdrawn from the CDA pursuant to the provisions of Article IX hereof. Notwithstanding any other provision of this Agreement SARWC shall have an independent unilateral right to withdraw from this Agreement without incurring any liability of the Members, Parties, or CDA. SARWC must exercise this right by written notice delivered to all other Members no later than thirty (30) days after execution by all necessary parties of the last of the following agreements: (i) an agreement with SAWPA in accordance with Section 2(b)(i) of the Term Sheet; (ii) all transportation agreements as referenced in Section 12.1(a) of this Agreement; (iii) all operations and management agreements as referenced in Section 12.1(b) of this Agreement; and (iv) all water purchase agreements between the CDA and each of its voting Members. Upon exercise of this option to withdraw, SARWC shall purchase water from the CDA in the amount specified by Section 5.1(b) hereof, and in accordance with the Term Sheet, without being a Member of the CDA. The voting rights of the remaining Members shall be adjusted accordingly. If SARWC does not exercise this right, then it may withdraw from the CDA only in accordance with Section 9.1 hereof.
- 2.3 **Names.** The names, particular capacities, and addresses of the Members shall be as set forth in this Agreement and in any Amendment hereof.
- 2.4 **Board of Directors.** The CDA shall be governed by a Board of Directors ("Board") comprised of one representative from each Member of the CDA. The representative of IEUA, however, shall serve as the representative of an ex-officio Member only.
- 2.5 **Selection of Directors.** Within thirty (30) days after the execution of this Agreement by all of the Original Members, each Member shall designate and appoint, by resolution of its governing body, a representative to serve as a Director on the Board. Each Member also shall appoint an alternate Director to serve in the absence of the regular Director, to assume all rights and duties of the absent Director. At least one of either the Director or the alternate Director shall have technical expertise relevant to the operations and maintenance of the desalter facilities as determined by each Member. Each Member shall give written notice to the CDA of the names of its Director and alternate Director. Each Director and alternate Director shall hold office from the first meeting of the Board after the appointment of the Director or alternate Director until a successor is selected and qualified. Directors and alternate Directors shall serve at the pleasure of the governing body of their appointing Members and may be removed at any time, with or without cause, at the sole discretion of such governing body.
- 2.6 **Stipend.** The CDA shall pay a stipend to the Members of the Board, including its ex-officio Member, in the amount of \$150.00 per meeting for a maximum of four meetings per year. In addition, a Director or alternate Director shall be reimbursed for reasonable expenses incurred in the conduct of the business of the CDA.

2.7 **Voting.** Unless otherwise provided herein, each Member, other than its ex-officio Member, shall be entitled to vote. A voting Member's vote shall be weighted according to the relative proportion that each Member's then existing firm commitment to purchase water bears to the total quantity of water then available for purchase from the CDA by all of its Members. The initial weighting of votes shall be as provided in Exhibit "A-3" to the Term Sheet and as more fully set forth immediately below. However, IEUA, as an ex-officio Member, shall be entitled to full access to all information provided to the Board, and entitled to full participation in deliberation of matters before the Board, but shall not be entitled to vote.

	<u>Entity</u>	<u>Acre-Feet</u>	<u>Weighted Vote</u>
a.	JCSD	8,200 afy	33.33%
b.	Chino	5,000 afy	20.33%
c.	Ontario	5,000 afy	20.33%
d.	Chino Hills	4,200 afy	17.07%
e.	SARWC	1,200 afy	4.88%
f.	Norco	<u>1,000 afy</u>	<u>4.07%</u>
	<i>Totals:</i>	<i>24,600 afy</i>	<i>100%</i>

2.8 **Principal Office.** The principal office of the CDA shall be established by resolution of the Board.

2.9 **Meetings.** The Board shall meet at the CDA principal office or such other place designated by the Board. The time and place of regular meetings of the Board shall be determined by resolution adopted by the Board, with a copy of such resolution furnished to each Member. Regular meetings of the Board shall occur once every quarter, and the first meeting of the fiscal year shall occur within thirty (30) days of the beginning of the fiscal year. In addition to its four regular meetings, the Board may hold special meetings upon the written request of at least two-thirds (2/3) of the voting power of the Board. All meetings of the Board shall be adjourned, sine die or to a time and place certain, by a majority vote of the voting power present at the meeting.

2.10 **Quorum.** For the purposes of transacting the business of the Board, a quorum shall consist of two-thirds (2/3) of the voting power of the Board.

2.11 **Officers.** There shall be selected from the membership of the Board, a Chairperson and a Vice-Chairperson. The Board shall also appoint a Secretary who may be a Director. The Treasurer shall be the Treasurer of IEUA who shall serve in the combined office of Treasurer and Auditor.

(a) **Treasurer.** The Treasurer shall be the depository and have custody of all money of the CDA from whatever source, and shall draw all warrants and pay demands against the CDA as approved by the Board. The Treasurer shall function as the combined offices of Treasurer and Auditor pursuant to Government Code § 6505.6.

(b) **Additional Officers.** The Board shall have the power to appoint such additional officers as it deems necessary.

(c) **Terms.** The Chairperson, Vice-Chairperson, and Secretary shall hold office for a period of one year commencing January 1st of each fiscal year; provided, however, the first Chairperson, Vice-Chairperson and Secretary appointed shall hold office from the date of appointment to December 31st of the ensuing fiscal year.

(d) **Qualifications.** Any officer, employee or agent of the Board also may be an officer, employee or agent of any of the Members. The public officer or officers or persons who have charge of, handle, or have any access to any money or property of the CDA shall be bonded, and the amount of their bond shall be designated and fixed in the budget for each fiscal year pursuant to Government Code § 6505.1. The Treasurer may be changed only by a two-thirds (2/3) vote of the Members, and only then if IEUA is not acting as a financial representative of the CDA for securing loans, grants, commercial paper or other funding for the benefit of the CDA.

(e) **Privileges, Liability and Immunity.** All of the privileges and immunities from liability, exemption from laws, ordinances and rules, all pension, relief, disability, workmen's compensation and other benefits which apply to the activities of officers, agents, or employees of any of the Members when performing their respective functions shall apply to the same degree and extent while such individuals are engaged in the performance of any of the functions and other duties under this Agreement. None of the officers, agents, or employees appointed by the Board shall be deemed by reason of their employment by the Board to be employed by any of the Members or subject to any of the requirements of such Members.

2.12 **Staff.** CDA shall have no full time staff. The Member who appoints the Director who serves as the Chairperson of the Board shall provide administrative staff support as needed by the CDA. The cost of this administrative staff time shall be borne by the Member who appoints the Director who serves as Chairperson.

- 2.13 **Minutes.** The Secretary of the Board shall cause minutes of all meetings of the Board to be kept, and shall cause a copy of such minutes to be forwarded to each Director and alternate Director.
- 2.14 **Rules.** The Board may adopt from time to time such rules and regulations for the conduct of its affairs as it may deem necessary.

III.

PURPOSE AND POWERS

- 3.1 **Purpose.** Each Member has in common the power to study, plan, develop, finance, acquire, lease, design, construct, maintain, repair, manage, operate, control and dispose of the Facilities, either alone or in cooperation with other public or private entities, as provided in the Term Sheet and to purchase water from facilities owned and operated by other entities. The purpose of this Agreement is to jointly exercise some or all of the foregoing common powers, as appropriate, and for the exercise of such additional powers as may be authorized by law in the manner herein set forth, in order to effectuate the purposes of the Term Sheet. Nothing contained in this Agreement shall obligate any Member to participate in projects other than with regard to the Facilities that may be undertaken by any other Member.
- 3.2 **Powers and Responsibilities.** All of the power and authority of the CDA shall be exercised by the Board. On an annual basis, at its first meeting of each fiscal year, the Board shall:
- (a) Adopt an Operating Plan for the Facilities and direct IEUA and JCSD to implement that plan in accordance with the terms and conditions of the contracts between CDA and IEUA and JCSD for operation and maintenance of the Facilities, entered into pursuant to Section 3.3 hereof;
 - (b) Adopt a Capital Facilities Plan that generally will describe the operations of the Facilities and any alterations to the Facilities, including construction, lease, purchase acquisition, or divestiture of capital improvements in a manner consistent with the Term Sheet and this Agreement;
 - (c) Adopt a budget for the CDA for the ensuing fiscal year;
 - (d) Set the rate at which CDA will sell water; and
 - (e) Ensure that the Facilities are operated in such a manner that the minimum quantity and quality requirements for desalted water specified in the Term Sheet are satisfied.

- 3.3 **Operations.** Operations and management of the Facilities will be provided by IEUA and JCSD under contracts with the CDA, execution of both of which shall be an express condition subsequent to this Agreement as provided in Section 12.1(b) hereof. Under such operation and management contracts, IEUA shall be responsible for operation and management of the Chino I Desalter and Chino I Expansion, and JCSD shall be responsible for operation and management of the Chino II Desalter. IEUA and JCSD shall report to the Board as provided in the contracts, and as is otherwise prudent under the circumstances. However, in the event of termination, breach or other failure of performance of such contracts, CDA, in its sole discretion may secure substitute operation and management service on terms and conditions acceptable to the Board.
- 3.4 **ICADS Term Sheet.** The CDA shall have the power generally to exercise all rights and obligations of the JEG described in the Term Sheet.
- 3.5 **Manner of Exercising Powers.** In exercising the foregoing powers, the CDA is subject to the restrictions upon the manner of exercising the powers of the City of Ontario.
- 3.6 **Consultants.** The Board shall have the authority and discretion to hire consultants determined by it to be needed by the CDA. If the Board determines that the CDA needs legal counsel, it shall hire legal counsel that does not represent any Member, or the Chino Basin Watermaster, or any other entity that purchases water from the CDA, unless all Members waive conflicts and consent to representation by such counsel.

IV.

FINANCING

- 4.1 **Recovery of Costs.** The CDA shall recover all of its costs, including but not limited to capital, operation, maintenance and administrative expenses of any kind, through contracts for the delivery of minimum quantities of desalted water to the Members and through the contracts for sale of water to others as provided in the Term Sheet.
- 4.2 **Purchase of Water.** Each of the Parties to this Agreement agrees to execute contracts to purchase the quantities of desalted water from the CDA as provided in Sections 5.1(a) and (b) hereof.

- 4.3 **Price of Desalted Water.** The price of desalted water delivered from the Facilities shall be a uniform per acre-foot amount for all Purchasers, and shall be set to recover all fixed and variable costs incurred by the CDA. However, there shall be no separate or additional costs for wheeling or transportation of water made available by CDA to each Purchaser's designated point of delivery. The price of desalted water to entities which are not Purchasers and which have not become Members of the CDA shall be determined in the sole discretion of the Board.
- 4.4 **Excess Revenue.** Any excess revenue collected from the sale of water by the CDA shall be applied to reduce the cost of water in the following year on a pro-rated basis according to the then existing relative quantity commitments to purchase water from the CDA. In the alternative, a Purchaser may elect to receive its share of excess revenue in the form of an immediate rebate. Proceeds from the divestment of Facilities shall not be considered in the calculation of excess revenue.
- 4.5 **Revenue Deficit.** If insufficient revenue is collected from the sale of water by the CDA to satisfy all costs of the CDA described in Section 4.3 hereof, then such deficiency will be assessed by the CDA against all Purchasers on a pro-rated basis according to the relative quantity commitments to purchase water from the CDA for the preceding fiscal year in which such deficit was incurred. The CDA also may set the price of water sold to entities which are not Purchasers and which have not become Members of the CDA at a level which will ameliorate revenue deficiencies.
- 4.6 **Budget Reserves.** The Board shall determine on an annual basis, prior to the beginning of the fiscal year, a level of reasonable cash reserves to be accumulated by the CDA. This reserve shall be accumulated from revenues collected in excess of all actual costs of the CDA. Once the targeted reserve level is reached, all additional revenues collected in excess of the actual costs of the CDA shall be considered excess revenue, and dispersed according to Section 4.4 above.

V.

QUANTITY AND QUALITY

- 5.1 **Quantities of Water.**
- (a) **Minimum Quantity.** CDA shall produce a minimum of 24,600 acre-feet of desalted water per year.

(b) Minimum Quantity Commitments. The Members shall purchase the minimum quantity of desalted water provided in the Term Sheet and as set forth below during each fiscal year, at the price provided by Section 4.3 hereof, without regard to whether they actually take delivery of such water.

(1)	JCSD:	8,200 acre-feet per year (“afy”)
(2)	Ontario:	5,000 afy
(3)	Chino:	5,000 afy
(4)	Chino Hills:	4,200 afy
(5)	SARWC:	1,200 afy
(6)	Norco	1,000 afy
	<i>Total:</i>	<i>24,600 afy</i>

(c) Surplus Water. CDA shall make any water available from the Facilities in excess of the amounts described in Section 5.1(b) above or otherwise subject to a contract to sell by the CDA, as provided in the Term Sheet.

5.2 Abatement:

(a) Reduction as a Result of Equipment Failure or Force Majeure. Except as provided in Section 5.2(c) hereof, if there is insufficient water available from the CDA Facilities to satisfy all contractual entitlements of the Members, then the amount of water delivered will be abated in an amount proportional to the amount that Member contracts-for from the CDA relative to the amount then contracted-for by the other Members.

(b) Reduction as a Result of Request by State of California. In the event the State of California elects to request the firm delivery of desalted water from the CDA in an amount no greater than 100 acre-feet per year in accordance with the provisions of Section 8(b)(i) of the Term Sheet, but cannot receive its full requested delivery amount, each Member shall abate its delivery in proportion to the amount of desalted water that Member contracts-for from the CDA relative to the amount then contracted-for by the other Members, if necessary.

- (c) SARWC Request. If the SARWC cannot receive its full allocation of 1,200 acre-feet of water as provided in the Term Sheet, then JCSD and Ontario shall abate their respective deliveries of desalted water on a pro-rata basis to ensure that SARWC can receive its full allocation from CDA. However, JCSD and Ontario shall only have this obligation if SARWC's demand is constant or at a "steady-rate" of 744 gpm.

- 5.3 Quality: The quality of desalted water at the point of delivery for each purchaser under the Term Sheet shall meet the minimum standards of not more than 25 ppm for nitrates and not more than 350 ppm for total dissolved solids, unless an individual purchaser waives such requirements at its point of delivery.

VI.

ACCOUNTING

- 6.1 Accounting Procedures. Full books and accounts shall be maintained for the CDA in accordance with practices established by, or consistent with, those utilized by the Controller of the State of California for like public entities. In particular, the Treasurer shall comply strictly with requirements for the statute governing joint powers agencies, Chapter 5, Division 7, Title 1 of the Government Code.
- 6.2 Audit. On an annual fiscal year basis, the Board shall contract with an independent certified public accountant to perform a financial audit of the accounts and records of the CDA. Copies of such audit reports shall be filed with the State Controller and each Member within six months of the end of the audited fiscal year.

VII.

FACILITIES

- 7.1 Description of Facilities. The Facilities are those generally described as ICADS Project Alternative 10A, depicted in Exhibit "A-2" to the Term Sheet, with the exception of the Arlington Desalter, and also including proper substitutions, modifications and additions. The Facilities may also include those facilities described in Appendix I to this Agreement. The Parties to this Agreement shall exercise good faith and mutual best efforts to promptly and efficiently agree upon changes or substitutions to the Facilities that do not compromise the purposes of the CDA by (a) reducing production quantities below those set forth in Section 5.1 herein or (b) unreasonably increasing the price of the desalted water, unless no Member objects to the price and (c) the Members of CDA assume the full legal and financial responsibility associated with any changes or substitutions.

- 7.2 **Ownership of Facilities.** All Facilities constructed or acquired by the CDA shall be held in the name of the CDA for the benefit of its Members in accordance with the terms of this Agreement and the Term Sheet.
- 7.3 **Acquisition, Construction and Improvement of Facilities.** Consistent with Section 7.1 hereof, the Facilities may be acquired, constructed, changed, substituted and improved by the CDA by a majority vote of the Board for the common benefit of the Members. CDA may also acquire, construct or improve Facilities (“improvements”) for the benefit of less than all Members, so long as it allocates the cost of such improvements on the basis of benefits received.
- 7.4 **Divestment of Facilities.** The CDA may sell or otherwise dispose of Facilities by a two-thirds (2/3) approval vote of the Board. However, divestment may only occur if the CDA receives Fair Market Value for the Facilities. Also, no sale, lease, encumbrance or other divestment of a CDA Facility shall occur if it will cause financial harm to a Member or if the divestment adversely impacts the ability of CDA to meet the quantity and quality commitments set forth in Section 5.3, and any adversely affected Member objects to the divestment. The Board shall determine how to utilize the proceeds of the divestment according to the provisions of this Agreement. However, any disbursement of proceeds from the divestment of Facilities shall be made to Members on a pro-rata basis according to their then relative quantity commitments to purchase water from the CDA.
- 7.5 **Right of First Refusal of Members.** Each Member shall possess a right of first refusal to acquire Facilities that are to be divested by the CDA. In the event that two or more Members of the CDA wish to exercise the right of first refusal with regard to any portion of the Facilities, the entity in whose service area the Facility is located shall have a priority right to exercise that right. If the Facility is not located in the service area of any of the entities who wish to exercise the right, then the Board will determine which Member shall be entitled to acquire the Facility, and the terms and conditions of such acquisition, by majority vote.

VIII.

LIABILITY

- 8.1 **Liabilities.** The debts, liabilities and obligations of the CDA shall be the debts, liabilities or obligations of the CDA alone and not of the Members, including ex officio Members. However, a Member separately may contract for, or otherwise assume responsibility for specific debts, liabilities, or obligations of the CDA, and no other Member then shall be liable therefore.

IX.

ADDITION AND WITHDRAWAL OF MEMBERS

- 9.1 **Voluntary Withdrawal.** Except as provided in Section 2.2 hereof with regard to SARWC, any Member may withdraw from the CDA at any time upon giving each of the other Members written notice 180 days prior to the end of the fiscal year; provided, however, any withdrawing Member shall be obligated for all liabilities and expenses of the CDA and its interim pre-formation representative, JCSD, incurred prior to withdrawal, including any commitments to purchase water from the CDA and any other diminution of revenue caused by such withdrawal, unless those obligations are assigned and assumed.
- 9.2 **Assignment.** A Member may assign its rights under this Agreement subject to the following conditions.
- a. **Assignments to Members.** A Member may assign its right to another Member upon approval by majority vote of the Board, which approval shall not be unreasonably withheld.
 - b. **Assignments to Non-Members.** A Member may assign its rights and obligations under this Agreement to entities other than a Member upon prior approval by majority vote of the Board, which approval shall not be unreasonably withheld. However, the CDA and each individual Member shall have a right of first refusal to assume the assigning Member's rights and obligations under the same terms and conditions negotiated by the assigning Member.
 - (i) As between CDA and any Member, CDA shall have first priority right to exercise the right of first refusal. If the CDA declines to exercise this right, then any individual Member may exercise this right.
 - (ii) In the event that two or more Members wish to exercise this right of first refusal then the Board will determine which Member shall be entitled to exercise this right by a majority vote of the Board.
 - (iii) The Member proposing the assignment shall not be permitted to vote on the question of the approval of the assignment, but may vote on the question of who shall be entitled to exercise the right of first refusal.
 - (iv) The voting rights of the assignee under this Agreement shall be determined in the sole discretion of CDA as provided in Section 9.4.

- 9.3 **Condemnation or Purchase – Voting.** Where the withdrawal of a Member is the result of condemnation or purchase of that Member by another Member of the CDA, the Board representation of the withdrawing Member shall be eliminated and the other Member shall still have only one representative on the Board, but that representative then shall have the weighted voting rights of the withdrawing Member, and shall assume all financial commitments of the withdrawing Member including any commitments to purchase water from the CDA.
- 9.4 **Admission of New Members.** Additional entities may become Members of the CDA upon such terms and conditions as may be provided by the Board with the consent of two-thirds (2/3rds) vote of the Board, and evidenced by the execution of a written Amendment to this Agreement by all Members, including the additional Member. The addition of new Members shall not affect any other rights of existing Members without the consent of all affected Members.

X.

DISSOLUTION

- 10.1 **Term.** The CDA shall continue in existence until dissolved in accordance with the terms of this Article X.
- 10.2 **Dissolution.** The CDA shall not be dissolved until all debts and liabilities of the CDA have been eliminated.
- 10.3 **Dissolution Vote.** Subject to Section 10.2 above and the rights and obligations set forth in the Term Sheet, the CDA may be dissolved by a two-thirds (2/3) affirmative vote of the Board, or by the failure of a condition subsequent.
- 10.4 **Disposition of Property Upon Dissolution.** Upon dissolution of the CDA, any surplus funds on hand shall be returned to the then Members in proportion to the contributions made which proportion shall be defined as the then existing relative quantity commitments to purchase water from the CDA, plus the return of any property contributed by a Member to the CDA for use as part of the Facilities without payment by the CDA to that Member for such use. Upon an affirmative vote to dissolve in accordance with Section 10.3 above, the Board shall offer any Facilities, rights and interests of the CDA for sale to the Members at not less than Fair Market Value. In the event that two or more Members of the CDA wish to purchase any portion of the Facilities, the entity in whose service area the Facility is located shall have a priority right to purchase the Facilities. If the Facility is not located in the service area of any of the entities who wish to purchase it, then the Board will determine who shall be entitled to acquire the Facility by majority vote. If no such sale is consummated within a reasonable period of time, the Board shall then offer such Facilities, rights and interests for sale to any other third party for good and adequate consideration which shall not be less than

Fair Market Value. The net proceeds from any sale shall be distributed among the then Members in proportion to the contributions made which proportion shall be defined as the then existing relative quantity commitments to purchase water from the CDA. The Members shall arrange for the salvage of any remaining Facilities.

XI.

MISCELLANEOUS

- 11.1 **Amendments.** This Agreement may be amended upon written approval of any Amendment by all Members. The approval by a Member of an Amendment to this Agreement shall not be effective until a certified copy of the resolution of the governing body of such Member is filed with the Secretary of the CDA, together with a fully executed original of such amendment.
- 11.2 **Notice.** Any notice required to be given or delivered hereunder shall be delivered via the United States Postal Service.
- 11.3 **Choice of Law.** This Agreement shall be governed by the laws of the State of California.
- 11.4 **Severability.** If one or more clauses, sentences, paragraphs or provisions of this Agreement shall be held to be unlawful, invalid or unenforceable, it is hereby agreed by the Members that the remainder of the Agreement shall not be affected thereby.
- 11.5 **Initial Notice.** Within thirty (30) days of the effective date of this Agreement, the CDA shall cause a notice of the Agreement to be prepared in the manner set forth in Section 6503.5 of the Government Code and filed with the Office of the Secretary of State.
- 11.6 **Additional Notices.** Within thirty (30) days of the effective date of any amendment to this Agreement the CDA shall prepare and file with the Office of the Secretary of State the notice required by Section 6503.5 of the Government Code.

XII

EXPRESS CONDITIONS SUBSEQUENT

- 12.1 **Mutual Agreements.** This Agreement is subject to satisfaction of the following two express conditions subsequent within ninety (90) days after execution of this Agreement:

- (a) Transportation Agreements. The CDA shall execute an agreement with each of its Members that set forth the terms and conditions for transportation of water from the CDA to each of the Members which is acceptable to all Members. Any such agreement shall require the return of any property contributed by a Member to the CDA for use as part of the Facilities without payment by the CDA to that Member for such use.
- (b) Operations and Management Agreements. The CDA shall execute an agreement with IEUA for the operation and management of the Chino I Desalter and the Chino I Expansion, and with JCSD for the operation and management of the Chino II Desalter which is acceptable to all Members.

12.2 Failure of Condition Subsequent. CDA shall dissolve forthwith in accordance with the provisions of Article X above, unless the conditions subsequent set forth in Section 12.1 above are satisfied within 90 days of the execution of this Agreement, or unless the conditions subsequent are waived by all Parties.

APPENDIX I

LIST OF INITIAL EXISTING CHINO I FACILITIES

Wells

Well 1	15000 Euclid Avenue	75 HP	600 GPM
Well 2	15200 Euclid Avenue	40 HP	300 GPM
Well 3	15300 Euclid Avenue	75 HP	600 GPM
Well 4	7600 Kimball Avenue	40 HP	600 GPM
Well 5	8500 Kimball Avenue	125 HP	1,200 GPM
Well 6	8600 Kimball Avenue	125 HP	1,200 GPM
Well 7	8650 Kimball Avenue	125 HP	1,200 GPM
Well 8	15250 Walker Avenue	100 HP	900 GPM
Well 9	8700 Remington Street	100 HP	1,200 GPM
Well 10	8800 Remington Street	100 HP	1,200 GPM
Well 11	9300 Remington Street	125 HP	1,200 GPM

Treatment Facility

9.3 MGD (9,200 AFY) treatment facility Located 6905 Kimball Avenue. Treatment process includes pretreatment, filtration, RO, disinfection and blending.

Offsite Facilities

Jurupa/Norco's Product Waterline

Approximately 62,000 LF of waterline traversing from the Chino I facility to Jurupa's point of connection on 56th Street.

(of this 62,000 LF, 14,000 LF of 30" is located in San Bernardino County and 48,000 LF of 24" and 30" is in Riverside County) (Jurupa paid to upsize the pipeline from 24" to 30" from the County line to Wineville Avenue and therefore owns the capacity difference between the 24" and 30" on this section)

Jurupa's Reservoir

5 MG steel reservoir constructed on Jurupa's property located at Indian Palms Drive and Star View Drive.

City of Chino's Product Waterline

Approximately 23,500 LF of 16" waterline traversing from the Chino 1 treatment facility to reservoir site on Schaefer Avenue.

City of Chino's Reservoir

3 MG steel reservoir constructed on the City of Chino's property located on Schaefer Avenue

City of Chino's Pump Station

Facility consists of (3) 2,450 GPM pumps and appurtenances located at the City of Chino's Reservoir site.

City of Chino Hills Product Waterline

16" waterline traversing from the Chino 1 treatment facility to a point of connection at the intersection of Kimball Avenue and El Prado Road.

CITY OF ONTARIO

DATED: 8/21/01

By: [Signature]
City Manager

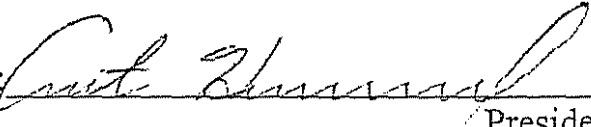
DATED: 8/21/01

Attested: [Signature]
City Clerk

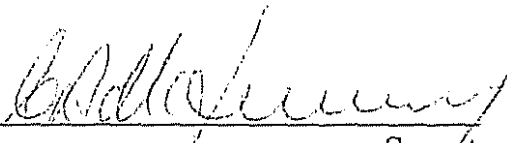
[Signature]
Approved as to Form

JURUPA COMMUNITY SERVICES DISTRICT

DATED: 8/6/01

By: 
President

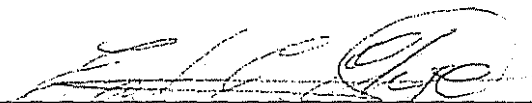
DATED: 8/6/01

Attested: 
Secretary

Approved as to Form

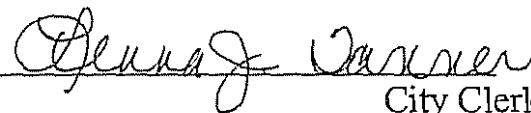
CITY OF CHINO

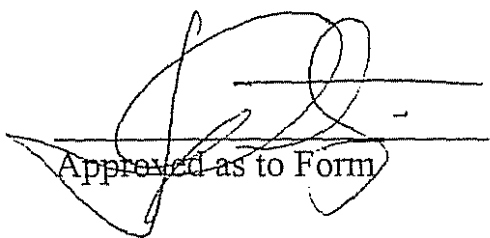
DATED: 9-4-2001

By: 

Mayor Pro Tem

DATED: 9-4-01

Attested: 
City Clerk



Approved as to Form

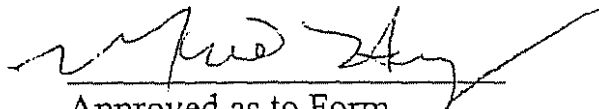
CITY OF CHINO HILLS

DATED: 10-23-01

By: 
Mayor

DATED: 10-24-01

Attested: 
City Clerk


Approved as to Form

CITY OF NORCO

DATED: 8/7/01

By: Walt H Clark
Mayor

DATED: 8/5/01

Attested: Jan 7 7th 7th 7th
City Clerk

John H. Clark
Approved as to Form

SANTA ANA RIVER WATER COMPANY

DATED: August 15, 2001

By: Viki R. Rupe
Viki R. Rupe President

DATED: August 15, 2001

Attested: J. Arnold Rodriguez
J. Arnold Rodriguez Secretary

Michele A. Staples
Approved as to Form
Michele A. Staples Esq.

INLAND EMPIRE UTILITIES AGENCY

DATED: August 15, 2001

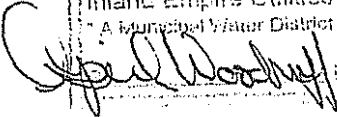
By: John L. Anderson
President

DATED: August 15, 2001

Attested: Anna L. Hunsbue
Secretary

Approved as to Form

The undersigned certifies that this is a true copy as on file in the permanent records of the Agency. This stamp must be in purple ink to constitute a certified copy.
Inland Empire Utilities Agency*
* A Municipal Water District


 Date 10.18.01

AMENDMENT NO. 1
TO THE JOINT EXERCISE OF POWERS AGREEMENT
CREATING THE CHINO BASIN DESALTER AUTHORITY

This Amendment No. 1 ("Amendment") to the Joint Exercise of Powers Agreement creating the Chino Basin Desalter Authority is made and entered into as of December ____, 2001, by and among the Jurupa Community Services District ("JCSD"), the Santa Ana River Water Company ("SARWC"), the cities of Chino, Chino Hills, Norco and Ontario and the Inland Empire Utilities Agency ("IEUA") (collectively the "Parties" and individually, a "Party").

RECITALS

A. The Parties have previously entered into the Joint Exercise of Powers Agreement creating the Chino Basin Desalter Authority (the "Agreement").

B. The parties desire to amend the Agreement to increase the time during which certain conditions subsequent can be fulfilled.

NOW THEREFORE, THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. Incorporation By Reference. This amendment hereby incorporates by reference all terms and conditions set forth in the Agreement, unless specifically modified by this Amendment. All terms and conditions set forth in the Agreement which are not specifically modified by this Amendment shall remain in full force and effect.

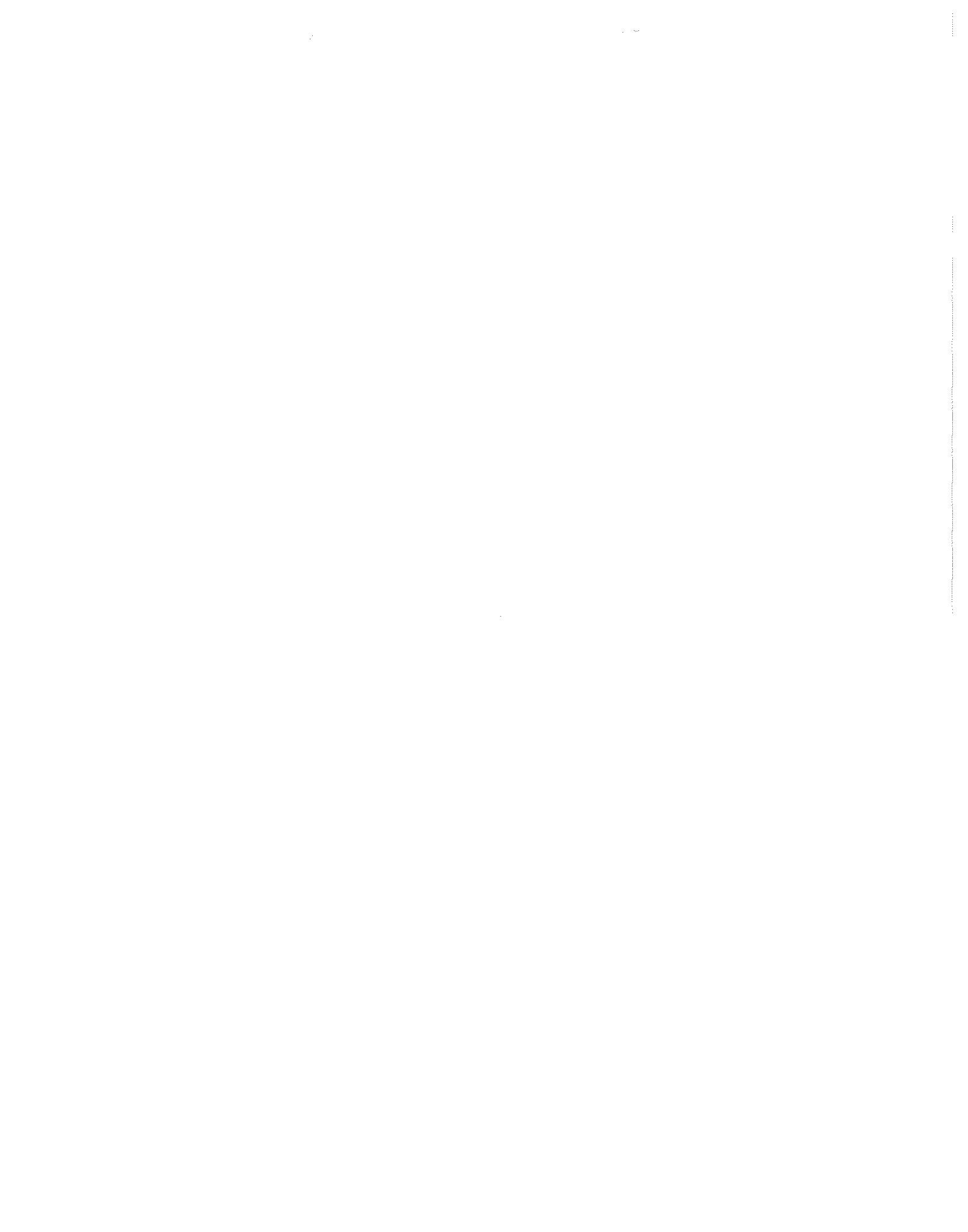
2. Terms of Amendment.

A. Section 12.2 of the Agreement is hereby amended to read as follows:

"CDA shall dissolve forthwith in accordance with the provisions of Article X above, unless the conditions subsequent set forth in Section 12.1 above are satisfied within 180 days of the execution of this Agreement, or unless the conditions subsequent are waived by all Parties."

EXHIBIT

“C”



FACILITIES ACQUISITION AGREEMENT

THIS FACILITIES ACQUISITION AGREEMENT ("Agreement") is dated as of January 15, 2002, (the "Effective Date") by and between SANTA ANA WATERSHED PROJECT AUTHORITY, a joint exercise of powers agency ("Seller"), acting [at the direction] [on behalf] of Project Committee No. 14, and the CHINO BASIN DESALTER AUTHORITY, a joint exercise of powers agency ("Buyer"). The Seller and Buyer are each sometimes referred to herein as a "Party" and collectively referred to as the "Parties."

IN CONSIDERATION of the respective agreements hereinafter set forth, Seller and Buyer agree as follows:

1. Property Included in Sale. Seller hereby agrees to sell and convey to Buyer, and Buyer hereby agrees to purchase from Seller, subject to the terms and conditions set forth herein, the following:

(a) 7 parcels of real property, located in the City of Chino, County of San Bernardino, State of California and being more particularly described in Exhibit A-1 attached hereto and the leasehold interests more particularly described in Exhibit A-2 attached hereto (collectively, the "Real Property");

(b) all rights, privileges and easements appurtenant to the Real Property (collectively, the "Appurtenances");

(c) all of Seller's right, title and interest in and to all improvements and fixtures located on the Real Property, including, without limitation, the desalting facility commonly referred to as the Chino 1 Desalter, as well as all other buildings and structures presently located on the Real Property, all apparatus, equipment and appliances used in connection with the operation or occupancy of the Real Property, such as heating and air conditioning systems and facilities used to provide any utility, refrigeration, ventilation, or other services on the Real Property, and along with all on-site parking (collectively, the "Improvements");

(d) all personal property owned by Seller related to the Real Property including those items described in Exhibit B attached hereto (the "Personal Property"); and

(e) all existing pipelines, wells, pumping facilities and related facilities necessary for the operation of the Improvements, including all easements, encroachment permits and similar interests in property, as described in Exhibit C attached hereto (the "Off Site Property").

(f) any intangible personal property now or hereafter owned by Seller and used in the ownership, use or operation of the Real Property, Improvements and Personal Property, and, to the extent approved by Buyer pursuant to this Agreement, any contract rights, utility contracts, membrane warranties or other agreements or rights relating to the ownership, use and operation of the Real Property, as defined below, and all warranties of various contractors, subcontractors and consultants described in Exhibit D (collectively, the "Intangible Property").

All of the items referred to in subsections (a), (b), (c), (d), (e) and (f) above are collectively referred to as the "Property." The Property shall not include any of the facilities commonly referred to as the "Arlington Desalter."

2. Purchase Price.

(a) The purchase price of the Property is _____ Million _____ Thousand and _____ Dollars (\$_____) (the "Purchase Price") which Purchase Price includes all of the costs described on Exhibit K.

(b) The Purchase Price shall be paid as follows:

(i) Upon execution of this Agreement by both Buyer and Seller, Buyer shall deposit in escrow with Chicago Title Company ("Title Company"), a deposit in the amount of One Hundred Dollars (\$100.00) (the "Deposit"). Title Company shall place the Deposit in an interest bearing account with interest to accrue to the benefit of Buyer. In the event Buyer terminates this Agreement for any reason on or before Buyer gives the notice referenced in Section 7(b), Title Company shall return the Deposit, together with all accrued interest thereon to Buyer within seven (7) days of Buyer's written request therefore, without any further action by Seller or any other third party.

(ii) The balance of the Purchase Price, shall be paid to Seller in immediately available funds at the closing of the purchase and sale contemplated hereunder (the "Closing").

3. Title to the Property.

(a) At the Closing, Seller shall convey to Buyer marketable and insurable fee simple title to the Real Property, the Appurtenances and the Improvements, by a duly executed and acknowledged grant deed substantially in the form attached hereto as Exhibit E (the "Deed"). Evidence of delivery of marketable and insurable fee simple title for each parcel of Real Property shall be the issuance by Title Company to Buyer of ALTA Extended Coverage owner's policies of title insurance for each parcel of Real Property in the aggregate amount of \$_____, being the portion of the Purchase Price allocable to the Real Property, insuring fee simple title to the Real Property, the Appurtenances and the Improvements in Buyer, subject only to such exceptions as Buyer shall approve pursuant to Subsection 5(a) below (the "Title Policy"). [MAY BE DELETED PENDING REVIEW OF TITLE REPORT.] [The Title Policy shall include without limitation full coverage against mechanics' and materialmen's liens arising out of the demolition, construction, repair or alteration of any of the Improvements including any tenant improvements therein and shall contain such special endorsements as Buyer may reasonably require (the "Endorsements").]

(b) At the Closing, Seller shall transfer title to the Personal Property and the Off Site Property by a warranty bill of sale in the form attached hereto as Exhibit F (the "Bill of Sale"), such title to be free of any adverse liens, encumbrances or interests.

(c) At the Closing, Seller shall transfer title to the Intangible Property by such instruments as Buyer may determine to be necessary, including, without limitation, an assignment of Intangible Property in the form attached hereto as Exhibit G (the "Assignment of Intangible Property"), such title to be free of any liens, encumbrances or interests.

4. Due Diligence and Time for Satisfaction of Conditions. Buyer, through a Due Diligence Committee comprised of legal counsel for each of the Cities of Chino, Chino Hills, Norco and Ontario, and Jurupa Community Services District, or their designees (the "Buyer Due Diligence Committee"), shall commence due diligence with respect to the Property promptly upon Seller's full execution hereof, and the due diligence period shall expire on the date of the notice of Buyer referred to in Section 7(b). The Due Diligence Committee will initially review the documents at the offices of the Seller and the Buyer will arrange for the copying of any of such documents at the Buyer's own expense. Seller agrees to deliver to Buyer, at Seller's expense, true and correct copies of all of the items described on Exhibit H attached hereto on or before [^] the end of the Due Diligence Period; provided, however, Seller shall submit only those items described on Exhibit H that are in Seller's possession or which are reasonably obtainable by Seller.

Notwithstanding anything in this Agreement to the contrary, including but not limited to the activities of the Buyer Due Diligence Committee, Buyer shall have the right to terminate this Agreement for any reason at any time prior to the end of the Due Diligence Period.

The Seller agrees to meet with the Buyer Due Diligence Committee from time to time as reasonably requested by the Buyer. The Seller agrees to provide all relevant information with respect to the Property, including all information specified in Exhibits D, G, K, M and N hereto. In addition, the Seller shall provide to the Buyer Due Diligence Committee all relevant information in Seller's physical possession with respect to: (i) material physical or mechanical defects of the Property, and known violations of applicable building codes, environmental, zoning and land use laws, and other applicable local, state and federal laws and regulations actually known to Seller; (ii) any violation of any federal, state, local or administrative agency ordinance, law, rule, regulation, order or requirement relating to environmental conditions or hazardous materials, including information with respect to installation, use or removal of any storage tank on, from or in connection with the Property or use of any building materials that contain hazardous material actually known to Seller; (iii) any violation of an order of any environmental agency (including without limitation, the San Bernardino County Health Care Agency, the Santa Ana Regional Water Quality Control Board, the California Department of Toxic Substances Control and other federal, state or local governmental agency responsible for enforcing environmental laws actually known to Seller.

The Buyer and Seller each acknowledge that the Seller is selling and the Buyer is purchasing the Property in "as-is" condition. Seller is not obligated to, nor will Seller investigate the condition of any items listed in this Section. The Due Diligence Period is intended to allow the Buyer, through the Due Diligence Committee, to have reasonable opportunity to inspect and investigate the Property. Buyer acknowledges that, except as expressly set forth in Section 8 below, the Seller is not making any representation and/or warranties, either expressed or implied, with respect to the Property, including the Project's suitability or fitness for a particular purpose. Buyer acknowledges for Buyer and Buyer's successors and assignees, that Buyer has been given a reasonable opportunity to inspect and investigate the Property either independently or through agents of Buyer's and that in purchasing the Property, Buyer is not relying on Seller as to the condition or safety of the Property, known or unknown, including, but not limited to, environmental conditions, soil or sub-soil conditions, electrical or life safety systems, plumbing, paint, sewer, roof, foundations, soils and geology, and any mechanical equipment or systems.

5. Conditions to Closing. The following conditions are precedent to Buyer's obligation to purchase the Property (the "Conditions Precedent"):

(a) Buyer's review and approval of title to the Property, within the Due Diligence Period, as follows:

(i) On or before January 25, 2002, Seller shall deliver to Buyer a current preliminary title report for the Real Property, issued by Title Company, accompanied by copies of all documents referred to in the preliminary title report and plotted easements (collectively, the "Preliminary Report"), and together with an ownership search disclosing all prior owners of the Real Property for the fifty (50) year period preceding the date when Seller acquired the Real Property (the "Chain of Title Search");

(ii) Seller shall deliver to Buyer copies of all existing and proposed easements, covenants, restrictions, agreements or other documents which affect title to the Property and which are not disclosed by the Preliminary Report;

(iii) Seller, at Seller's expense, shall deliver to Buyer an "as-built" ALTA survey of the Real Property and Improvements prepared by a surveyor or civil engineer licensed in the State in which the Property is located. Said survey shall be acceptable to, and certified to, Buyer and Title Company with appropriate ALTA certification signed by the surveyor or engineer preparing the survey and in sufficient detail to provide the basis for the Title Policy without boundary, encroachment or survey exceptions; and

(iv) If Buyer is not satisfied with any exception to title contained in the Preliminary Report and such exception cannot be removed, the Buyer may elect to terminate this Agreement prior to the end of the Due Diligence Period. If so terminated, the Title Company shall return the Deposit to Buyer.

(b) Buyer's review and approval, within the Due Diligence Period, of the items described on Exhibit H, all service contracts, utility contracts, books and records, maintenance contracts, management contracts, leasing contracts, and brokerage and leasing commission agreements which may continue after Closing, certificates of occupancy, presently effective warranties or guaranties received by Seller from any contractors, subcontractors, suppliers or materialmen in connection with any construction, repairs or alterations of the Improvements or any tenant improvements, reports of insurance carriers insuring the Property and each portion thereof respecting the claims history of the Property, if any, environmental reports, soils reports, insurance policies, insurance certificates of tenants, lease correspondence, and other contracts or documents of significance to the Property (collectively, the "Service Contracts"), and such other information relating to the Property that is specifically requested by Buyer of Seller in writing during the Due Diligence Period to the extent such information either is in the possession or control of Seller, or any affiliate of Seller, or may be obtained by Seller, or any affiliate of Seller, through the exercise of commercially reasonable efforts. Any expenses incurred by Buyer in connection with the review of the items set forth in this Subsection 5(b) shall be the responsibility of Buyer.

(c) Buyer's review and approval, within the Due Diligence Period, of the structural, mechanical, electrical and other physical characteristics and condition of the Property, structural calculations for the Improvements, if any, site plans, engineering reports and plans, landscape plans, and floor plans, and copies of the as-built plans and specifications for the Property.

Buyer shall have the right to make an analysis of the Property consisting of such engineering, feasibility studies, soils tests, and environmental studies as Buyer may desire to permit Buyer to determine the suitability of the Property for Buyer's contemplated uses and to conduct such other review and investigation which Buyer deems appropriate to satisfy itself to acquire the Property.

(d) Buyer's review and approval, within the Due Diligence Period, of all governmental permits and approvals relating to the construction, operation, use or occupancy of the Property, and all zoning, land-use, subdivision, environmental, building and construction laws and regulations restricting or regulating or otherwise affecting the use, occupancy or enjoyment of the Property.

(e) All of Seller's representations and warranties contained in or made pursuant to this Agreement shall have been true and correct when made and shall be true and correct as of the Closing Date.

(f) The physical condition of the Property shall be substantially the same on the day of Closing as on the date of Buyer's execution of this Agreement, reasonable wear and tear and loss by casualty excepted (subject to the provisions of Section 11 below).

(g) Buyer shall have been able to procure insurance satisfactory in coverage, terms and amount with respect to the Property, including but not limited to a policy of legal liability pollution insurance.

(h) Buyer shall have received certified executed copies of (i) Water Purchase Agreements, dated as of January 15, 2002, by and between the Buyer and each of Jurupa Community Services District, the City of Chino, the City of Chino Hills, the City of Norco, the City of Ontario and the Santa Ana River Water Company, (ii) Chino Basin Desalination Program, Phase I, Joint Participation Agreement for Recovery, Treatment and Utilization of Contaminated Groundwater among Metropolitan Water District of California, the Western Municipal Water District of Riverside County, Chino Basin Municipal Water District, Orange County Water District and Santa Ana Watershed Project Authority, (iii) the Assignment of Rights, Delegation of Duties and First Amendment to Joint Participation Agreement, a form of which is attached hereto as Exhibit M, (iv) the Agreement by and Between the Chino Basin Desalter Authority, Jurupa Community Services District, the City of Ontario, the City of Norco and Santa Ana River Water Company Providing for the Transportation of Chino II Desalter Water and (v) an audit relating to the Property, paid for by the Seller and satisfactory in the sole discretion of the Buyer.

(i) Seller shall provide to the Buyer a certified copy of a resolution approving the project authorization package for grant proceeds from the State of California in the amount of 77% of the actual project costs for the Chino 1 Expansion and the Chino 2 Desalter, not to exceed \$48 million.

(j) The Assignment, Acceptance, Assumption and Clarification of Interest of Lease and Consent to Assignment, Acceptance, Assumption of Clarification of Lease in the form attached hereto as Exhibit N.

(k) Buyer shall have closed a financing, on terms and conditions solely satisfactory to the Buyer, which provides moneys sufficient to acquire the Property and finance the Chino 1 Desalter Expansion and the Chino 2 Desalter.

(l) The Parties hereto agree to cooperate in order to complete a comprehensive audit of the accounts and books relating to the Property prior to the Closing Date, which audit is intended in part to identify all unpaid costs related to the Property and all unspent cash related to the Property. The cost of such audit shall be payable by the Buyer. The Seller will not settle any pending litigation or any outstanding third party claims known to Seller prior to the Closing, without first consulting with of the Due Diligence Committee.

(m) Buyer shall have received a report, satisfactory to the Buyer in form and conclusions, from Black & Veatch with respect to the operation of the Property.

The Conditions Precedent contained in Subsections 5(a) through (m) are intended solely for the benefit of Buyer and are not intended to limit the Buyer's right to terminate this Agreement pursuant to Section 4 hereof. If any of the Conditions Precedent is not satisfied in the sole discretion of the Buyer, Buyer shall have the right either to waive in writing the Condition Precedent and proceed with the purchase or terminate this Agreement; provided however that the Buyer shall not waive the conditions set forth in Section 5(h)(i) without the written consent of Seller. If, by the end of the Due Diligence Period, Buyer shall not have rejected any of the Conditions Precedent which are to be satisfied by the end of the Due Diligence Period, then this Agreement shall be deemed approved.

The Parties acknowledge that the claims or litigation identified as 1, 2 and 11 on Exhibit J hereto (the "Unsettled Claims") may not be settled prior to the Closing Date. On the Closing Date, the Buyer shall either (i) deliver written notice to the Seller that the Buyer will accept liability and control of the Unsettled Claims (in which case, the Seller will execute a written assignment to the Buyer of that certain Hargis Agreement for Services by Independent Contractor and Related Task Orders and such agreement will be deemed included on Exhibit D and Schedule 1 to Exhibit G hereto), (ii) or if no such written notice is delivered to the Seller, the Seller shall retain \$500,000 from the Chino Desalter Enterprise Fund (the "Settlement Deposit") for use in the settlement (upon prior consultation with the Buyer) of the Unsettled Claims including payment of administrative, legal or other out-of-pocket costs incurred by Seller in connection therewith. The Settlement Deposit shall be deposited by the Seller in an interest bearing account. Upon the settlement of the Unsettled Claims, the Seller shall pay to Buyer any amounts remaining from the Settlement Deposit, including accrued interest. If the Settlement Deposit is not sufficient to settle the Unsettled Claims, the Buyer shall pay to the Seller, upon request, amounts necessary to settle the Unsettled Claims.

6. Remedies.

(a) In the event the sale of the Property is not consummated because of the failure of any condition or any other reason other than a default described in Section 6(b) below, the Buyer's or Seller's sole remedy shall be to terminate this Agreement by written notice to the other Party. Except as provided in Section 6(b) below, the Parties hereby waive any right to recover any damages, costs or expenses or to bring an action of any kind upon such termination. Except as provided in Section 6(b) below, the Parties hereby waive the right to bring any action for specific performance under any circumstances.

(b) In the event that Seller wrongfully terminates this Agreement or the escrow contemplated by this Agreement after a bond purchase contract with respect to bonds contemplated by Section 5(k) above has been executed, Buyer's Deposit plus accrued interest shall be returned to

Buyer, and Buyer may pursue any remedy permissible under California law consistent with Section 17(i) below.

7. Closing and Escrow.

(a) Upon mutual execution of this Agreement, the Parties hereto shall deposit an executed counterpart of this Agreement with Title Company and this Agreement shall serve as instructions to Title Company as the escrow holder for consummation of the purchase and sale contemplated hereby. Seller and Buyer agree to execute such additional escrow instructions as may be appropriate to enable the escrow holder to comply with the terms of this Agreement; provided, however, that in the event of any conflict between the provisions of this Agreement and any supplementary escrow instructions, the terms of this Agreement shall control.

(b) Escrow shall close (the "Closing Date") within fourteen (14) days after notice by Buyer to Seller that the financing for the acquisition described in Section 5(k) has been secured, or such longer period as may be necessary for the Title Company to issue appropriate title insurance coverage insuring against mechanics liens; provided however, in the event the escrow has not closed by March 31, 2002, this Agreement shall terminate at the election of either Party and without the consent of the other Party. In the event the Closing does not occur on or before the Closing Date, the escrow holder shall return to the depositor thereof items which were deposited hereunder, including, without limitation, the return of the Deposit to Buyer.

(c) At or before the Closing, Seller shall deliver or cause to be delivered to Buyer or the Title Company, as appropriate, the following:

(i) a duly executed and acknowledged Grant Deed in the form attached hereto as Exhibit E;

(ii) a duly executed Bill of Sale in the form attached hereto as Exhibit F;

(iii) (1) Certificates from the Secretary of State or other appropriate government official of the State of California indicating that, as of the Closing Date, there are no filings against Buyer or Seller in the office of the Secretary of State or other government official under the Uniform Commercial Code of the State of California which would be a lien on any of the items specified in the Bill of Sale (other than any filings as to which Buyer and/or Seller, as applicable, is given satisfactory evidence that such filings are being released as of the Closing); and (2) filings of Buyer and Seller which are required for Buyer and Seller to be entered into the California Roster of Public Agency;

(iv) originals or certified copies of the Service Contracts not previously delivered to Buyer pursuant to Subsection 5(b) above;

(v) a duly executed Assignment of Intangible Property in the form attached as Exhibit G;

(vi) originals of the plans and specifications, building permits and certificates of occupancy for the Improvements and all tenant-occupied space included within the Improvements not previously delivered to Buyer pursuant to Section 5 above;

(vii) a FIRPTA affidavit (in the form attached as Exhibit I) pursuant to Section 1445(b)(2) of the Internal Revenue Code of 1986 (the "Code"), and on which Buyer is entitled to rely, that Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code and a properly executed California Form 597-W;

(viii) closing statement in form and content satisfactory to Buyer and Seller; and

(ix) any other instruments, records or correspondence called for hereunder which have not previously been delivered.

Buyer may waive compliance on Seller's part under any of the foregoing items by an instrument in writing.

(d) At or before the Closing, Buyer shall deliver to Seller or the Title Company, as appropriate, the following:

(i) a closing statement in form and content satisfactory to Buyer and Seller;

(ii) the Purchase Price; and

(iii) Certificate of Resolution of Acceptance of the Property by Buyer in accordance with Section 27281 of the California Government Code.

(e) Seller and Buyer shall each deposit such other instruments as are reasonably required by the escrow holder or otherwise required to close the escrow and consummate the purchase of the Property in accordance with the terms hereof. Seller and Buyer hereby designate Title Company as the "Reporting Person" for the transaction pursuant to Section 6045(e) of the Code and the regulations promulgated thereunder.

(f) Prior to Closing, the Seller agrees to continue to pay all invoices related to the Property on a current basis. After the Closing Date, the Buyer shall be responsible for the payment of the costs, including any outstanding litigation or third party claims except as provided in Section 10(a), relating to the Property hereto and the Buyer shall indemnify and hold the Seller harmless from any and all liability or claims arising from or related to the payment or nonpayment of all such costs. At Closing, Seller shall transfer all amounts in the Desalter Enterprise Fund (except the Settlement Deposit, if any) and the Desalter Capital Fund to Buyer. During the first ninety (90) days after Closing, the Seller may present an invoice to Buyer for Seller administrative costs (at rates provided to Buyer prior to Closing), legal costs of Aldufi and Wysocki (at rates provided to Buyer prior to Closing) or actual out-of-pocket expenses incurred by the Seller after the Closing for assistance rendered to Buyer at Buyer's request with respect to transfers of property, permits or other related Project activities. Buyer shall reimburse Seller for such costs within thirty (30) days after receipt of an invoice from Seller.

(g) Any costs, expenses, claims, damages or fees required to be paid by Seller pursuant to this Agreement will be paid by Seller from the remaining proceeds of the variable rate bonds issued by the Chino Basin Regional Financing Authority in April 2001, the Chino Desalter

Financing Agreement, or the Chino Desalter Enterprise Fund as determined by Seller in consultation with the Treasurer of the Buyer.

8. Representations and Warranties of Seller. Seller hereby represents and warrants to Buyer as follows:

(a) To Seller's actual knowledge, the survey, mechanical and structural plans and specifications, soil reports, certificates of occupancy, warranties, operating statements, and income and expense reports, and all other books and records relating to the Property and all other contracts or documents delivered to Buyer in connection with this Agreement (including, without limitation, the Service Contracts) are and at the time of Closing will be true, correct and complete copies of such documents, and the assumed contracts are and at the time of Closing will be in full force and effect (or, if the contract is a construction contract for which a notice of completion has been filed as noted on Schedule 1 to Exhibit G hereto, such contract has not been terminated), without default by (or notice of default to) any Party, to the best actual knowledge of the Seller. Except as shown on Exhibit G and Exhibit L, there are no other Service Contracts affecting the Property.

(b) To Seller's actual knowledge, except as described on Exhibit J hereto, there are no condemnation, environmental, zoning or other land-use regulation proceedings, either instituted or, to Seller's actual knowledge, planned to be instituted against Seller. Seller shall notify Buyer promptly of any such proceedings against Seller of which Seller becomes aware.

(c) To Seller's actual knowledge, the Property has been and is operating with all licenses, permits, variances, approvals, authorizations, easements and rights of way required from all governmental authorities having jurisdiction over the Property or from private parties for the intended use, operation and occupancy of the Property. Notwithstanding the foregoing, an application is pending for an Air Quality Management District Permit for aqueous ammonia at the Property's Treatment Plant.

(d) Except as disclosed on Exhibit J hereto, to Seller's actual knowledge, there is no litigation pending nor has Seller received any written threats of litigation nor are there written claims known to Seller or threatened in writing against Seller that arise out of the ownership, operation or maintenance of the Property. Seller shall notify Buyer promptly of any such litigation, written threats of litigation or known written or written threatened claims of which Seller becomes aware prior to Closing of which the Seller has actual knowledge.

(e) Seller is a joint exercise of power agency duly organized, validly existing and in good standing under the laws of the State of California; this Agreement and all documents executed by Seller which are to be delivered to Buyer at the Closing are and at the time of Closing will be duly authorized, executed and delivered by Seller, are and at the time of Closing will be legal, valid and binding obligations of Seller enforceable against Seller in accordance with their respective terms, are and at the time of Closing will be sufficient to convey title (if they purport to do so), and do not and at the time of Closing will not violate any provision of any agreement or judicial order to which Seller or the Property is subject.

(f) Except as described on Exhibit L hereto, at the time of Closing there will be no outstanding written or oral contracts made by Seller for any improvements to the Property which have not been fully paid for and Seller shall cause to be discharged all mechanics' and materialmen's liens arising from any labor or materials furnished to the Property prior to the time of Closing.

(g) Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code.

(h) Seller has not granted any option or right of first refusal or first opportunity to any Party to acquire any interest in any of the Property.

(i) Neither Seller nor, to the best of Seller's actual knowledge, any predecessor in interest of Seller has either filed or been the subject of any filing of a petition under any Federal Bankruptcy Law or any federal or state insolvency laws or laws for composition of indebtedness or for the reorganization of debtors.

(j) No property taxes are currently due with respect to the Property.

(k) Except for the design contract with RBF Consulting with respect to the Chino Desalter I Expansion, Chino Desalter II and the Arlington Desalter Enhancement, all of the Intangible Property is used exclusively in the ownership, use or operation of the Real Property, Improvements and Personal Property, and not jointly for any other use.

9. Representations and Warranties of Buyer. Buyer hereby represents and warrants that it is a joint exercise of power agency duly organized, validly existing and in good standing under the laws of the State of California and is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code. This Agreement and all documents executed by Buyer which are to be delivered to Seller at the Closing are and at the time of Closing will be duly authorized, executed and delivered by Buyer, are and at the time of Closing will be legal, valid and binding obligations of Buyer enforceable against Buyer in accordance with their respective terms, and do not and at the time of Closing will not violate any provision of any agreement or judicial order to which Buyer is subject. At closing, Buyer shall have all licenses, permits, variances, approvals, authorizations, easements, and rights or way required from all governmental authorities having jurisdiction over the Property or from private parties necessary for the use, operation and occupancy of the Property.

10. Indemnification.

(a) Seller shall indemnify Buyer and defend and hold Buyer harmless from and against any and all known written third-party claims arising out of the groundwater production for the Property and actually known to Seller prior to the Closing Date, and not previously settled by Seller; provided, however, in the event that the Buyer elects to assume liability and control of the Unsettled Claims, the Seller shall have no such duty to indemnify, defend or hold harmless. Personal injury, worker's compensation or negligence actions unrelated to groundwater production from the Property or Chino I Expansion and Chino II Desalter shall not be considered to be a third-party claim.

(b) After the Closing Date, Buyer is responsible for all aspects of design, construction, operations, maintenance, management and control of the Property, including water sales, legal liability and other matters (except as provided in Section 10(a) above) associated with the Property, irrespective of whether such liability arises out of the design, construction, operation, maintenance or control of the Property.

(c) Buyer shall indemnify Seller and defend and hold Seller harmless from any claims, losses, demands, liabilities, costs, expenses, penalties, damages and losses, including, without

limitation, attorney's fees, asserted against, incurred or suffered by Seller resulting from an personal injury or property damage occurring in or on the Property or relating thereto after the Closing Date, from any cause whatsoever other than as a consequence of the sole acts or omissions of Seller, its agents, employees or contractors.

(d) The indemnification provisions of this Section 10 shall survive beyond the Closing.

(e) Seller and Buyer shall each secure additional insured endorsements naming the other Party as an additional insureds on their respective general liability insurance policy for any claims by third parties related to groundwater production which claims were not known to the Parties at the Closing Date ("Unknown Claims"). After the Closing Date, should any Unknown Claims be brought against Buyer, Seller or both, Seller shall tender its defense to Buyer, and Seller shall assign to Buyer all rights, benefits, coverage and indemnity under Seller's general liability insurance policy. Buyer shall accept Seller's tender of defense, and pursuant thereto shall defend, indemnify and hold harmless Seller for any Unknown Claims. Seller shall cooperate with Buyer in the defense of any Unknown Claims, and Buyer shall reimburse Seller for any costs, including administrative and legal costs, incurred by Seller in such defense including, but not limited to, costs relative to complying with discovery requests, gathering information and documents to prepare a defense of the action, attending depositions and other activities which may be necessary to adequately defend the Unknown Claims. Buyer shall reimburse the Seller for such costs within thirty (30) days of receipt of an invoice from Seller.

11. Risk of Loss. If any of the Property is damaged or destroyed prior to the Closing Date, Buyer may terminate this Agreement, or if Buyer does not elect to terminate this Agreement, Seller shall assign to Buyer all of Seller's right, title, and interest in and to all proceeds of insurance, if any, on account of such damage or destruction.

12. Possession. Possession of the Property shall be delivered to Buyer on the Closing Date, provided, however, that prior to the Closing Date Seller shall afford authorized representatives of Buyer reasonable access to the Property as set forth in Section 5(c), above.

13. Maintenance of the Property. Between Seller's execution of this Agreement and the Closing, Seller shall maintain the Property, or cause the Property to be maintained in good order, condition and repair, reasonable wear and tear excepted, and shall make all repairs, maintenance and replacements of the Improvements and any Personal Property and otherwise operate the Property in the same manner as before the making of this Agreement, as if Seller were retaining the Property.

14. Buyer's Consent to Contracts and Leases Affecting the Property; Termination of Existing Contracts. Seller shall not, after the Effective Date, enter into any new leases or contracts, or any amendments thereof, or permit any third party to do so, or waive any rights of Seller under any contract, without in each case obtaining Buyer's prior written consent thereto (which consent may be given or denied in Buyer's sole discretion).

15. Insurance. Through the Closing Date, Seller shall maintain or cause to be maintained, at Seller's sole cost and expense, the existing policy or policies of insurance insuring the Property.

16. Cooperation. Seller and Buyer shall cooperate and do all acts as may be reasonably required or requested by the other with regard to the fulfillment of any Condition Precedent or the consummation of the transactions contemplated hereby including execution of any documents, applications or permits. Seller hereby irrevocably authorizes Buyer and its agents to make all inquiries of any third party, including any governmental authority, as Buyer may reasonably require to complete its due diligence.

17. Miscellaneous.

(a) Notices. Any notices required or permitted to be given hereunder shall be given in writing and shall be delivered (a) in person, (b) by certified mail, postage prepaid, return receipt requested, (c) by Federal Express or another reputable commercial overnight courier that guarantees next day delivery and provides a receipt, or (d) by telefacsimile or telecopy, and such notices shall be addressed as follows:

If to Seller: Santa Ana Watershed Project Authority
11615 Sterling Avenue
Riverside, California 92503

With a copy to: David L. Wysocki
Aklufi and Wysocki
3403 Tenth Street, Suite 610
Riverside, California 92501

If to Buyer: Chino Basin Desalter Authority
c/o Jurupa Community Services District
8621 Jurupa Road
Riverside, California 92509

With a copy to: Mr. John Schatz
P.O. Box 7775
Laguna Niguel, CA 92607-7775

Covington & Crowe LLP
1131 West Sixth Street, Suite 300
P.O. Box 1515
Ontario, CA 91762
Attention: Robert Dougherty

Jackson DeMarco & Peckenpaugh
4 Park Plaza, Suite 1600
Irvine, CA 92614
Attention: Michele Staples

City of Chino Hills
Burke Williams & Sorenson
3403 Tenth Street, Suite 300
Riverside, CA 92501
Attention: Geralyn Skapik

City of Chino – City Attorney
El Central Real Plaza
12616 Central Avenue
Chino, CA 91710
Attention: Jim Erickson

City of Norco – City Attorney
2870 Clark Avenue
P.O. Box 428
Norco, CA 92860-0428

Stradling Yocca Carlson & Rauth
660 Newport Center Drive
Newport Beach, CA 92660
Attention: Douglas S. Brown

or to such other address as either Party may from time to time specify in writing to the other Party. Any notice shall be deemed delivered when actually delivered, if such delivery is in person, upon deposit with the U.S. Postal Service, if such delivery is by certified mail, upon deposit with the overnight courier service, if such delivery is by an overnight courier service, and upon transmission, if such delivery is by telefacsimile or telecopy.

(b) Brokers and Finders. Each Party represents and warrants to the other that no broker or finder was instrumental in arranging or bringing about this transaction and that there are no claims or rights for brokerage commissions or finder's fees in connection with the transactions contemplated by this Agreement. In the event that any other broker or finder perfects a claim for commission or finder's fee based upon such contact, dealings or communication, the Party through whom such other broker or finder makes a claim shall indemnify, save harmless and defend the other Party from said claim and all costs and expenses (including reasonable attorneys' fees) incurred by the other Party in defending against the same. The provisions of this section shall survive the Closing.

(c) Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the Parties hereto and their respective successors, heirs, administrators and assigns.

(d) Amendments. Except as otherwise provided herein, this Agreement may be amended or modified only by a written instrument executed by Seller and Buyer.

(e) Deadlines on Non-Business Days. In the event any deadline specified herein falls on a day which is not a regular business day, then the deadline shall be extended to the end of the next following regular business day.

(f) Continuation and Survival of Representations and Warranties. All representations and warranties by the respective Parties contained herein or made in writing pursuant to this Agreement are intended to and shall remain true and correct as of the time of Closing, shall be deemed to be material, and, together with all conditions, covenants and indemnities made by the respective Parties contained herein or made in writing pursuant to this Agreement (except as otherwise expressly limited or expanded by the terms of this Agreement), shall survive the execution

and delivery of this Agreement and the Closing, [^] and, under the circumstances described in Section 6(b), beyond a termination of this Agreement.

(g) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

(h) Relationship of Agreement and Other Documents. This Agreement is intended to satisfy the obligations of the Parties under Section 2(a)(i), Section 2(b)(i) through (iii), Section 2(b)(vi) and (vii), Section 3, Section 4(a), Section 5(a) and Section 5(c) of the Term Sheet relating to the Property executed by Western Municipal Water District of Riverside County, Inland Empire Utilities Agency, Orange County Water District, the cities of Chino, Chino Hills, Norco and Ontario, Jurupa Community Services District, the Santa Ana River Water Company and the State of California.

(i) Enforcement. If either Party hereto fails to perform any of its obligations under this Agreement or if a dispute arises between the Parties hereto concerning the meaning or interpretation of any provision of this Agreement, such dispute shall first be submitted to non-binding mediation by a mediator mutually acceptable to the Parties hereto. Each Party shall bear such Party's own costs and expenses for such mediation, including attorney's fees and expenses. If such mediation fails to result in a resolution of such dispute, then either Party may file legal action in the Superior Court of San Bernardino County. Each Party shall bear such Party's own costs and expenses, including attorneys' fees and expenses incurred by such Party in connection with such legal action. In such connection, each Party hereby waives, to the fullest extent permitted by law, a jury trial with respect to any legal action brought under this Agreement.

(j) Time of the Essence. Time is of the essence of this Agreement.

(k) Counterparts. This Agreement may be signed in counterparts and all counterparts so executed shall constitute one contract, binding on all Parties hereto, even though all Parties are not signatory to the same counterpart.

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

Buyer: CHINO BASIN DESALTER AUTHORITY,
a joint exercise of powers agency

By: _____

Its: _____

Seller: SANTA ANA WATERSHED PROJECT
AUTHORITY, a joint exercise of powers agency

By: _____

Its: _____

Title Company agrees to act as escrow holder in accordance with the terms of this Agreement, to act as the Reporting Person (as such term is defined in this Agreement) and to execute the Escrow Agreement.

CHICAGO TITLE COMPANY

By: _____

Its: _____

Dated: _____

LIST OF EXHIBITS

Exhibit A-1	Description of Real Property – Fee Interests
Exhibit A-2	Description of Real Property – Leasehold Interests
Exhibit B	Description of Included Personal Property
Exhibit C	Off Site Property
Exhibit D	Contractors, Subcontractors and Consultant Warranties
Exhibit E	Grant Deed
Exhibit F	Warranty Bill of Sale
Exhibit G	Assignment of Service Contracts, Warranties and Guaranties and Other Intangible Property
Exhibit H	Due Diligence Items
Exhibit I	Certificate of Transferor Other Than an Individual (FIRPTA Affidavit)
Exhibit J	Litigation, Threatened Litigation and Known or Threatened Claims
Exhibit K	Purchase Price
Exhibit L	Outstanding Contracts
Exhibit M	Form of MWD Assignment
Exhibit N	Form of Airport Lease Assignment

EXHIBIT A-1

DESCRIPTION OF REAL PROPERTY – FEE INTERESTS

[FROM JC]

EXHIBIT A-2

DESCRIPTION OF REAL PROPERTY – LEASEHOLD INTERESTS

[FROM JC]

EXHIBIT B

DESCRIPTION OF INCLUDED PERSONAL PROPERTY

[FROM JCSD]

EXHIBIT C

OFF SITE PROPERTY

The Offsite Property includes separate radio telemetry links with each of the end users. The radio telemetry link with the city of Chino Hills operates in the 400 MHz range; where as the radio telemetry links for the city of Chino and the Jurupa Community Services District operate in the 800 MHz range. The city of Chino and city of Chino Hills radio telemetry links are approximately 3.0 and 1.5 miles, respectively. The Jurupa Community Services District radio telemetry link is approximately 7.5 miles. The telemetry links are used to transmit treatment system operation status information and alarms to each end user specific to their system operational needs, and to provide an emergency shutdown capability if abnormal operating conditions are experienced in their distribution system.

The groundwater production well startup flows are bypassed to an equalization basin located at the membrane treatment system site. The basin has a storage capacity of approximately 0.8 million gallons. The stored well startup water is pumped from the equalization basin to the brine discharge pipeline for disposal.

The membrane treatment system ancillary facilities include disinfection of blended treated water, a 0.75 million gallon on-site treated water clearwell and separate treated water booster pump stations for each of the end users. The treated water entering the clearwell is disinfected with sodium hypochlorite. The capacity of the clearwell was established to provide a minimum disinfectant contact time comparable with that required for surface water supplies, based on California Department of Health Services concerns for potential pathogen contamination of the groundwater source, and their concurrence for the worst case scenario for the pending Groundwater Disinfection Rule. The final treated water delivered to the end users can be chlorinated or chloraminated water. Provisions have been included in the design of the project disinfection system to allow the addition of aqua ammonia and sodium hypochlorite to the discharge side of the treated water pump station pumps for those end users desiring chloraminated water.

The Offsite Property also includes: eleven groundwater production wells and wellhead facilities; 29,000 feet of extracted groundwater PVC pipelines, ranging in size from 12-inches to 30-inches in diameter, from the wells to the membrane treatment system site; 5,600 linear feet of 27-inch and 30-inch vitrified clay brine disposal pipeline from the membrane treatment system site to a local regional industrial waste sewer; 96,000 feet of 16-inch and 24-inch cement mortar lined and coated steel treated water delivery pipelines from the membrane treatment system site to the two cities and one water agency that will purchase the project's treated water. The project also includes the construction of one 5 million gallon steel tank reservoir at the point-of-delivery to the Jurupa Community Services District distribution system, and one 3 million gallon storage reservoir and a booster pump station at the point-of-delivery to the city of Chino distribution system. The remote booster pump station for the city of Chino is needed to pump the water into their lower pressure zone.

EXHIBIT D

CONTRACTORS, SUBCONTRACTORS AND CONSULTANT WARRANTIES

1. Warranty on the Construction Contract for the Chino Basin Desalination,
Program City of Chino Offsite Facilities
Kenko, Inc. dba McGrand & Associates
1025 Calimesa Blvd., Suite 4
Calimesa, California 92320

2. Warranty on the Construction Contract for the Chino Basin Desalination,
Program On-Site Treatment System Facilities
C.W. Roen Construction Company
40 Oak Court
P.O. Box 4
Danville, California 94526

3. County of San Bernardino Standard Airport Lease Agreement and Amendments thereto

4. Assignment of Rights, Delegation of Duties and First Amendment to Joint Participation Agreement

5. Letter from Hydranautics, including Membrane Element Warranty No. SAWI4300

6. Chino Basin Desalination Program Wellhead Facilities, Extracted GW Pipeline and Jurupa CSD Pipeline, including Warranty from E.G. Meyers

EXHIBIT E

GRANT DEED

[FROM TITLE OFFICER]

EXHIBIT F

WARRANTY BILL OF SALE

For good and valuable consideration the receipt of which is hereby acknowledged, SANTA ANA WATERSHED PROJECT AUTHORITY, a joint exercise of powers agency ("Seller"), does hereby sell, transfer, and convey to the CHINO BASIN DESALTER AUTHORITY, a joint exercise of powers agency ("Buyer"), all personal property owned by Seller and located on or in or used in connection with the Real Property and Improvements (as such terms are defined in that certain Facilities Acquisition Agreement dated as of _____, 2002, between Seller and Buyer, including, without limitation, those items described in Schedule 1 attached hereto.

Seller does hereby represent to Buyer that Seller is the lawful owner of such personal property, that to the Sellers actual knowledge such personal property is free and clear of all encumbrances, and that Seller has good right to sell the same as aforesaid and will warrant and defend the title thereto unto Buyer, its successors and assigns, against the claims and demands of all persons whomsoever.

DATED this ____ day of _____, 2002.

Seller: SANTA ANA WATERSHED PROJECT
AUTHORITY,
a joint exercise of powers agency

By: _____

Its: _____

Schedule 1 to
Warranty Bill of Sale

[JCSD TO PROVIDE]

EXHIBIT G

ASSIGNMENT OF SERVICE CONTRACTS,
WARRANTIES AND GUARANTIES
AND OTHER INTANGIBLE PROPERTY

THIS ASSIGNMENT ("Assignment") is made and entered into as of this _____ day of _____, 2002, by SANTA ANA WATERSHED PROJECT AUTHORITY, a joint exercise of powers agency ("Assignor"), to CHINO BASIN DESALTER AUTHORITY, a joint exercise of powers agency ("Assignee").

FOR GOOD AND VALUABLE CONSIDERATION, the receipt of which is hereby acknowledged, effective as of the Effective Date (as defined below), Assignor hereby assigns and transfers unto Assignee all of its right, title, claim and interest in and under:

(a) all warranties and guaranties made by or received from any third party with respect to that certain real property described in Schedule 1 attached hereto (the "Property"), any building, building component, structure, fixture, machinery, equipment, or material situated on, contained in any building or other improvement situated on, or comprising a part of any building or other improvement situated on, any part of the Property including, without limitation, those warranties and guaranties listed in Schedule 1 attached hereto (collectively, "Warranties");

(b) all of the Service Contracts listed in Schedule 1 attached hereto; and

(c) any Intangible Property (as defined in that certain Facilities Acquisition Agreement (the "Agreement") dated as of January 15, 2002 between Assignor and Assignee).

ASSIGNOR AND ASSIGNEE FURTHER HEREBY AGREE AND COVENANT AS FOLLOWS:

1. Except as otherwise set forth in the Facilities Acquisition Agreement, effective as of the Effective Date, Assignee hereby assumes all of the owner's obligations under the Service Contracts and agrees to indemnify Assignor against and hold Assignor harmless from any and all cost, liability, loss, damage or expense.

2. If either Party hereto fails to perform any of its obligations under this Assignment or if a dispute arises between the Parties hereto concerning the meaning or interpretation of any provision of this Assignment, such dispute shall be resolved in accordance with Section 17(i) of the Agreement.

3. This Assignment shall be binding on and inure to the benefit of the Parties hereto, their heirs, executors, administrators, successors in interest and assigns.

4. This Assignment shall be governed by and construed and in accordance with the laws of the State of California.

5. For purposes of this Assignment, the "Effective Date" shall be the date of the Closing (as defined in the Facilities Acquisition Agreement).

6. Assignor shall cooperate with the Assignee to acquire any consents which may be needed to effect the assignment and transfer of the Warranties.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment the day and year first above written.

ASSIGNOR: SANTA ANA WATERSHED PROJECT
AUTHORITY
a joint exercise of powers agency

By: _____

Its: _____

ASSIGNEE: CHINO BASIN DESALTER AUTHORITY,
a joint exercise of powers agency

By: _____

Its: _____

Schedule 1 to
Assignment of Service
Contracts Warranties
and Guaranties and
Other Intangible Property

- C.W. Roen Contract including warranty on the Construction Contract for the Chino Basin Desalination, Program On-Site Treatment System Facilities*
- Kenko Contract including warranty on the Construction Contract for the Chino Basin Desalination, Program City of Chino Offsite Facilities*
- Letter from Hydranautics, including Membrane Element Warranty No. SAWI4300
- Agreement for Transfer of SARI Pipeline Capacity from Santa Ana Watershed Project Authority to Chino Basin Desalter Authority
- Agreement for Transfers of SARI System Treatment Disposal Capacity from Santa Ana Watershed Project Authority to Chino Basin Desalter Authority
- RBF Consulting Design Contract
- County of San Bernardino Standard Airport Lease Agreement and Amendments thereto
- Assignment of Rights, Delegation of Duties and First Amendment to Joint Participation Agreement
- Chino Basin Desalination Program Wellhead Facilities, Extracted GW Pipeline and Jurupa CSD Pipeline, including Warranty from E.G. Meyers

* Notice of completion has been filed.

EXHIBIT H

DUE DILIGENCE ITEMS

1. Notes or written agreements affecting the Property, including all rental agreements.
2. All plat maps, surveys, construction plans and any other plans or documentation relating to the Property.
3. All inspection reports, letters, test results, advisories and/or similar documents that pertain to the Property, including, without limitation, written inspection reports, soils and engineering reports, Phase I and Phase II reports, documentation regarding the existence or nonexistence of asbestos, PCB's or other Hazardous Materials.
4. Information regarding any underground storage tanks in, on, or about the Property.
5. Copies of invoices for the preceding six months relating to the operation and maintenance of the Property.
6. The most recent Fire Department inspection report.
7. Written releases or other documents relating to third party claims settled prior to the Closing Date or remaining unsettled at Closing Date.

EXHIBIT I

CERTIFICATE OF TRANSFEROR
OTHER THAN AN INDIVIDUAL
(FIRPTA Affidavit)

Section 1445 of the Internal Revenue Code provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. To inform CHINO BASIN DESALTER AUTHORITY, a joint exercise of powers agency, the transferee of certain real property located in _____, that withholding of tax is not required upon the disposition of such U.S. real property interest by SANTA ANA WATERSHED PROJECT AUTHORITY, a joint exercise of powers agency ("Transferor"), the undersigned hereby certifies the following on behalf of Transferor:

1. Transferor is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);
2. Transferor's U.S. employer identification number is _____; and
3. Transferor's office address is _____.

Transferor understands that this certification may be disclosed to the Internal Revenue Service by the transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalty of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Transferor.

Dated: _____, 2002.

SANTA ANA WATERSHED PROJECT AUTHORITY,
a joint exercise of powers agency

By: _____
Its: _____

EXHIBIT J

LITIGATION, THREATENED LITIGATION AND KNOWN OR THREATENED CLAIMS

[ATTACH SPREADSHEET FROM DAVE WYSOCKI]

EXHIBIT K

PURCHASE PRICE

Acquisition Price	\$
Payoff of Δ <u>Chino Basin Regional Financing Authority Bonds (Net of Chino Basin Regional Financing Authority funds on hand and subject to Section 5 of the Facilities Acquisition Agreement)</u>	
SAWPA Related Project Costs	<hr/>
	\$

EXHIBIT L

OUTSTANDING CONTRACTS

- C.W. Roen Contract including warranty on the Construction Contract for the Chino Basin Desalination, Program On-Site Treatment System Facilities
- Kenko Contract including warranty on the Construction Contract for the Chino Basin Desalination, Program City of Chino Offsite Facilities
- Letter from Hydranautics, including Membrane Element Warranty No. SAWI4300
- Agreement for Transfer of SARI Pipeline Capacity from Santa Ana Watershed Project Authority to Chino Basin Desalter Authority
- Agreement for Transfers of SARI System Treatment Disposal Capacity from Santa Ana Watershed Project Authority to Chino Basin Desalter Authority
- RBF Agreement for Services by Independent Contractor and Related Task Orders
- Hargis Agreement for Services by Independent Contractor and Related Task Orders
- County of San Bernardino Standard Airport Lease Agreement and Amendments thereto
- Assignment of Rights, Delegation of Duties and First Amendment to Joint Participation Agreement
- Chino Basin Desalination Program Wellhead Facilities, Extracted GW Pipeline and Jurupa CSD Pipeline, including Warranty from E.G. Meyers

EXHIBIT M
FORM OF MWD ASSIGNMENT

EXHIBIT N

FORM OF AIRPORT LEASE ASSIGNMENT

FACILITIES ACQUISITION AGREEMENT

THIS FACILITIES ACQUISITION AGREEMENT ("Agreement") is dated as of January 15, 2002, (the "Effective Date") by and between SANTA ANA WATERSHED PROJECT AUTHORITY, a joint exercise of powers agency ("Seller"), and the CHINO BASIN DESALTER AUTHORITY, a joint exercise of powers agency ("Buyer"). The Seller and Buyer are each sometimes referred to herein as a "Party" and collectively referred to as the "Parties."

IN CONSIDERATION of the respective agreements hereinafter set forth, Seller and Buyer agree as follows:

1. Property Included in Sale. Seller hereby agrees to sell and convey to Buyer, and Buyer hereby agrees to purchase from Seller, subject to the terms and conditions set forth herein, the following:

(a) ___ parcels of real property consisting of approximately ___ acres, located in the City of Chino, County of San Bernardino, State of California and being more particularly described in Exhibit A-1 attached hereto and the leasehold interests more particularly described in Exhibit A-2 attached hereto (collectively, the "Real Property");

(b) all rights, privileges and easements appurtenant to the Real Property (collectively, the "Appurtenances");

(c) all of Seller's right, title and interest in and to all improvements and fixtures located on the Real Property, including, without limitation, the desalting facility commonly referred to as the Chino 1 Desalter, as well as all other buildings and structures presently located on the Real Property, all apparatus, equipment and appliances used in connection with the operation or occupancy of the Real Property, such as heating and air conditioning systems and facilities used to provide any utility, refrigeration, ventilation, or other services on the Real Property, and along with all on-site parking (collectively, the "Improvements");

(d) all personal property owned by Seller related to the Real Property including those items described in Exhibit B attached hereto (the "Personal Property"); and

(e) all existing pipelines, wells, pumping facilities and related facilities necessary for the operation of the Improvements, including all easements, encroachment permits and similar interests in property, as described in Exhibit C attached hereto (the "Off Site Property").

(f) any intangible personal property now or hereafter owned by Seller and used in the ownership, use or operation of the Real Property, Improvements and Personal Property, and, to the extent approved by Buyer pursuant to this Agreement, any contract rights, utility contracts, membrane warranties or other agreements or rights relating to the ownership, use and operation of the Real Property, as defined below, and all warranties of various contractors, subcontractors and consultants described in Exhibit D (collectively, the "Intangible Property").

All of the items referred to in subsections (a), (b), (c), (d), (e) and (f) above are collectively referred to as the "Property." The Property shall not include any of the facilities commonly referred to as the "Arlington Desalter."

2. Purchase Price.

(a) The purchase price of the Property is _____ Million _____ Thousand and _____ Dollars (\$ _____) (the "Purchase Price") which Purchase Price includes all of the costs described on Exhibit K.

(b) The Purchase Price shall be paid as follows:

(i) Upon execution of this Agreement by both Buyer and Seller, Buyer shall deposit in escrow with Chicago Title Company ("Title Company"), a deposit in the amount of One Hundred Dollars (\$100.00) (the "Deposit"). Title Company shall place the Deposit in an interest bearing account with interest to accrue to the benefit of Buyer. In the event Buyer terminates this Agreement for any reason on or before _____, Title Company shall return the Deposit, together with all accrued interest thereon to Buyer within seven (7) days of Buyer's written request therefore, without any further action by Seller or any other third party.

(ii) The balance of the Purchase Price, shall be paid to Seller in immediately available funds at the closing of the purchase and sale contemplated hereunder (the "Closing").

3. Title to the Property.

(a) At the Closing, Seller shall convey to Buyer marketable and insurable fee simple title to the Real Property, the Appurtenances and the Improvements, by a duly executed and acknowledged grant deed substantially in the form attached hereto as Exhibit E (the "Deed"). Evidence of delivery of marketable and insurable fee simple title for each parcel of Real Property shall be the issuance by Title Company to Buyer of ALTA Extended Coverage owner's policies of title insurance for each parcel of Real Property in the aggregate amount of \$ _____, being the portion of the Purchase Price allocable to the Real Property, insuring fee simple title to the Real Property, the Appurtenances and the Improvements in Buyer, subject only to such exceptions as Buyer shall approve pursuant to Subsection 5(a) below (the "Title Policy"). [MAY BE DELETED PENDING REVIEW OF TITLE REPORT.] [The Title Policy shall include without limitation full coverage against mechanics' and materialmen's liens arising out of the demolition, construction, repair or alteration of any of the Improvements including any tenant improvements therein and shall contain such special endorsements as Buyer may reasonably require (the "Endorsements").]

(b) At the Closing, Seller shall transfer title to the Personal Property and the Off Site Property by a warranty bill of sale in the form attached hereto as Exhibit F (the "Bill of Sale"), such title to be free of any adverse liens, encumbrances or interests.

(c) At the Closing, Seller shall transfer title to the Intangible Property by such instruments as Buyer may determine to be necessary, including, without limitation, an assignment of Intangible Property in the form attached hereto as Exhibit G (the "Assignment of Intangible Property"), such title to be free of any liens, encumbrances or interests.

4. Due Diligence and Time for Satisfaction of Conditions. Buyer, through a Due Diligence Committee comprised of legal counsel for each of the Cities of Chino, Chino Hills, Norco and Ontario, and Jurupa Community Services District, or their designees (the "Buyer Due Diligence Committee"), shall commence due diligence with respect to the Property promptly upon Seller's full

execution hereof, and the due diligence period shall expire on the date of the notice of Buyer referred to in Section 7(b). The Due Diligence Committee will initially review the documents at the offices of the Seller and the Buyer will arrange for the copying of any of such documents at the Buyer's own expense. Seller agrees to deliver to Buyer, at Seller's expense, true and correct copies of all of the items described on Exhibit H attached hereto on or before January 4, 2002; provided, however, Seller shall submit only those items described on Exhibit H that are in Seller's possession or which are reasonably obtainable by Seller.

Notwithstanding anything in this Agreement to the contrary, including but not limited to the activities of the Buyer Due Diligence Committee, Buyer shall have the right to terminate this Agreement for any reason at any time prior to the end of the Due Diligence Period.

The Seller agrees to meet with the Buyer Due Diligence Committee from time to time as reasonably requested by the Buyer. The Seller agrees to provide all relevant information with respect to the Property, including all information specified in Exhibits D, G, K, M and N hereto. In addition, the Seller shall provide to the Buyer Due Diligence Committee all relevant information in Seller's physical possession with respect to: (i) material physical or mechanical defects of the Property, and known violations of applicable building codes, environmental, zoning and land use laws, and other applicable local, state and federal laws and regulations actually known to Seller; (ii) any violation of any federal, state, local or administrative agency ordinance, law, rule, regulation, order or requirement relating to environmental conditions or hazardous materials, including information with respect to installation, use or removal of any storage tank on, from or in connection with the Property or use of any building materials that contain hazardous material actually known to Seller; (iii) any violation of an order of any environmental agency (including without limitation, the San Bernardino County Health Care Agency, the Santa Ana Regional Water Quality Control Board, the California Department of Toxic Substances Control and other federal, state or local governmental agency responsible for enforcing environmental laws actually known to Seller.

The Buyer and Seller each acknowledge that the Seller is selling and the Buyer is purchasing the Property in "as-is" condition. Seller is not obligated to, nor will Seller investigate the condition of any items listed in this Section. The Due Diligence Period is intended to allow the Buyer, through the Due Diligence Committee, to have reasonable opportunity to inspect and investigate the Property. Buyer acknowledges that, except as expressly set forth in Section 8 below, the Seller is not making any representation and/or warranties, either expressed or implied, with respect to the Property, including the Project's suitability or fitness for a particular purpose. Buyer acknowledges for Buyer and Buyer's successors and assignees, that Buyer has been given a reasonable opportunity to inspect and investigate the Property either independently or through agents of Buyer's and that in purchasing the Property, Buyer is not relying on Seller as to the condition or safety of the Property, known or unknown, including, but not limited to, environmental conditions, soil or sub-soil conditions, electrical or life safety systems, plumbing, paint, sewer, roof, foundations, soils and geology, and any mechanical equipment or systems.

5. Conditions to Closing. The following conditions are precedent to Buyer's obligation to purchase the Property (the "Conditions Precedent"):

(a) Buyer's review and approval of title to the Property, within the Due Diligence Period, as follows:

(i) On or before January 25, 2002, Seller shall deliver to Buyer a current preliminary title report for the Real Property, issued by Title Company, accompanied by copies of all documents referred to in the preliminary title report and plotted easements (collectively, the "Preliminary Report"), and together with an ownership search disclosing all prior owners of the Real Property for the fifty (50) year period preceding the date when Seller acquired the Real Property (the "Chain of Title Search");

(ii) Seller shall deliver to Buyer copies of all existing and proposed easements, covenants, restrictions, agreements or other documents which affect title to the Property and which are not disclosed by the Preliminary Report;

(iii) Seller, at Seller's expense, shall deliver to Buyer an "as-built" ALTA survey of the Real Property and Improvements prepared by a surveyor or civil engineer licensed in the State in which the Property is located. Said survey shall be acceptable to, and certified to, Buyer and Title Company with appropriate ALTA certification signed by the surveyor or engineer preparing the survey and in sufficient detail to provide the basis for the Title Policy without boundary, encroachment or survey exceptions; and

(iv) If Buyer is not satisfied with any exception to title contained in the Preliminary Report and such exception cannot be removed, the Buyer may elect to terminate this Agreement prior to the end of the Due Diligence Period. If so terminated, the Title Company shall return the Deposit to Buyer.

(b) Buyer's review and approval, within the Due Diligence Period, of the items described on Exhibit H, all service contracts, utility contracts, books and records, maintenance contracts, management contracts, leasing contracts, and brokerage and leasing commission agreements which may continue after Closing, certificates of occupancy, presently effective warranties or guaranties received by Seller from any contractors, subcontractors, suppliers or materialmen in connection with any construction, repairs or alterations of the Improvements or any tenant improvements, reports of insurance carriers insuring the Property and each portion thereof respecting the claims history of the Property, if any, environmental reports, soils reports, insurance policies, insurance certificates of tenants, lease correspondence, and other contracts or documents of significance to the Property (collectively, the "Service Contracts"), and such other information relating to the Property that is specifically requested by Buyer of Seller in writing during the Due Diligence Period to the extent such information either is in the possession or control of Seller, or any affiliate of Seller, or may be obtained by Seller, or any affiliate of Seller, through the exercise of commercially reasonable efforts. Any expenses incurred by Buyer in connection with the review of the items set forth in this Subsection 5(b) shall be the responsibility of Buyer.

(c) Buyer's review and approval, within the Due Diligence Period, of the structural, mechanical, electrical and other physical characteristics and condition of the Property, structural calculations for the Improvements, if any, site plans, engineering reports and plans, landscape plans, and floor plans, and copies of the as-built plans and specifications for the Property. Buyer shall have the right to make an analysis of the Property consisting of such engineering, feasibility studies, soils tests, and environmental studies as Buyer may desire to permit Buyer to determine the suitability of the Property for Buyer's contemplated uses and to conduct such other review and investigation which Buyer deems appropriate to satisfy itself to acquire the Property.

(d) Buyer's review and approval, within the Due Diligence Period, of all governmental permits and approvals relating to the construction, operation, use or occupancy of the Property, and all zoning, land-use, subdivision, environmental, building and construction laws and regulations restricting or regulating or otherwise affecting the use, occupancy or enjoyment of the Property.

(e) All of Seller's representations and warranties contained in or made pursuant to this Agreement shall have been true and correct when made and shall be true and correct as of the Closing Date.

(f) The physical condition of the Property shall be substantially the same on the day of Closing as on the date of Buyer's execution of this Agreement, reasonable wear and tear and loss by casualty excepted (subject to the provisions of Section 11 below).

(g) Buyer shall have been able to procure insurance satisfactory in coverage, terms and amount with respect to the Property, including but not limited to a policy of legal liability pollution insurance.

(h) Buyer shall have received certified executed copies of (i) Water Purchase Agreements, dated as of January 15, 2002, by and between the Buyer and each of Jurupa Community Services District, the City of Chino, the City of Chino Hills, the City of Norco, the City of Ontario and the Santa Ana River Water Company, (ii) Chino Basin Desalination Program, Phase I, Joint Participation Agreement for Recovery, Treatment and Utilization of Contaminated Groundwater among Metropolitan Water District of California, the Western Municipal Water District of Riverside County, Chino Basin Municipal Water District, Orange County Water District and Santa Ana Watershed Project Authority, (iii) the Assignment of Rights, Delegation of Duties and First Amendment to Joint Participation Agreement, a form of which is attached hereto as Exhibit M, (iv) the Agreement by and Between the Chino Basin Desalter Authority, Jurupa Community Services District, the City of Ontario, the City of Norco and Santa Ana River Water Company Providing for the Transportation of Chino II Desalter Water and (v) an audit relating to the Property, paid for by the Seller and satisfactory in the sole discretion of the Buyer.

(i) Seller shall provide to the Buyer a certified copy of a resolution approving the project authorization package for grant proceeds from the State of California in the amount of 77% of the actual project costs for the Chino 1 Expansion and the Chino 2 Desalter, not to exceed \$48 million.

(j) The Assignment, Acceptance, Assumption and Clarification of Interest of Lease and Consent to Assignment, Acceptance, Assumption of Clarification of Lease in the form attached hereto as Exhibit N.

(k) Buyer shall have closed a financing, on terms and conditions solely satisfactory to the Buyer, which provides moneys sufficient to acquire the Property and finance the Chino 1 Desalter Expansion and the Chino 2 Desalter.

(l) The Parties hereto agree to cooperate in order to complete a comprehensive audit of the accounts and books relating to the Property prior to the Closing Date, which audit is intended in part to identify all unpaid costs related to the Property and all unspent cash related to the Property. The cost of such audit shall be payable by the Buyer. The Seller will not settle any

pending litigation or any outstanding third party claims known to Seller prior to the Closing, without first consulting with of the Due Diligence Committee.

(m) Buyer shall have received a report, satisfactory to the Buyer in form and conclusions, from Black & Veatch with respect to the operation of the Property.

The Conditions Precedent contained in Subsections 5(a) through (m) are intended solely for the benefit of Buyer and are not intended to limit the Buyer's right to terminate this Agreement pursuant to Section 4 hereof. If any of the Conditions Precedent is not satisfied in the sole discretion of the Buyer, Buyer shall have the right either to waive in writing the Condition Precedent and proceed with the purchase or terminate this Agreement; provided however that the Buyer shall not waive the conditions set forth in Section 5(h)(i) without the written consent of Seller. If, by the end of the Due Diligence Period, Buyer shall not have rejected any of the Conditions Precedent which are to be satisfied by the end of the Due Diligence Period, then this Agreement shall be deemed approved.

The Parties acknowledge that the claims identified as 1, 2 and 11 on Exhibit J hereto (the "Unsettled Claims") [△] may not be settled prior to the Closing Date. On the Closing Date, the Buyer shall either (i) deliver written notice to the Seller that the Buyer will accept liability and control of the Unsettled Claims (in which case, the Seller will execute a written assignment to the Buyer of that certain Hargis Agreement for Services by Independent Contractor and Related Task Orders and such agreement will be deemed included on Exhibit D and Schedule 1 to Exhibit G hereto), (ii) or if no such written notice is delivered to the Seller, the Seller shall retain \$500,000 from the Chino Desalter Enterprise Fund (the "Settlement Deposit") for use[△] in the settlement (upon prior consultation with the Buyer) of the Unsettled Claims. The Settlement Deposit shall be [△] deposited by the Seller in an interest bearing account[△]. Upon the settlement of the Unsettled Claims, the Seller shall pay to Buyer any amounts remaining from the Settlement Deposit, including accrued interest. If the Settlement Deposit is not sufficient to settle the Unsettled Claims, the Buyer shall pay to the Seller, upon request, amounts necessary to settle the Unsettled Claims. [△]

6. Remedies.

(a) In the event the sale of the Property is not consummated because of the failure of any condition or any other reason other than a default described in Section 6(b) below, the [△] Buyer's or Seller's sole remedy shall be to terminate this Agreement by written notice to the other Party. Except as provided in Section 6(b) below, the Parties [△] hereby waive any right to recover any damages, costs or expenses or to bring an action of any kind upon such termination[△]; Except as provided in Section 6(b) below, the Parties hereby waive the right to bring any action for specific performance under any circumstances.

(b) In the event that Seller wrongfully terminates this Agreement or the escrow contemplated by this Agreement after a bond purchase contract with respect to bonds contemplated by Section 5(k) above has been executed, [△] Buyer's Deposit plus [△] accrued interest shall be returned to Buyer, and Buyer may pursue any remedy permissible under California law consistent with Section 17(i) below.

7. Closing and Escrow.

(a) Upon mutual execution of this Agreement, the Parties hereto shall deposit an executed counterpart of this Agreement with Title Company and this Agreement shall serve as instructions to Title Company as the escrow holder for consummation of the purchase and sale contemplated hereby. Seller and Buyer agree to execute such additional escrow instructions as may be appropriate to enable the escrow holder to comply with the terms of this Agreement; provided, however, that in the event of any conflict between the provisions of this Agreement and any supplementary escrow instructions, the terms of this Agreement shall control.

(b) Escrow shall close (the "Closing Date") within fourteen (14) days after notice by Buyer to Seller that the financing for the acquisition described in ^Δ Section 5(k) has been secured, or such longer period as may be necessary for the Title Company to issue appropriate title insurance coverage insuring against mechanics liens; provided however, in the event the escrow has not closed by March 31, 2002, this Agreement shall terminate at the election of either Party and without the consent of the other Party. In the event the Closing does not occur on or before the Closing Date, the escrow holder shall return to the depositor thereof items which were deposited hereunder, including, without limitation, the return of the Deposit to Buyer.

(c) At or before the Closing, Seller shall deliver or cause to be delivered to Buyer or the Title Company, as appropriate, the following:

(i) a duly executed and acknowledged Grant Deed in the form attached hereto as Exhibit E;

(ii) a duly executed Bill of Sale in the form attached hereto as Exhibit F;

(iii) (1) Certificates from the Secretary of State or other appropriate government official of the State of California indicating that, as of the Closing Date, there are no filings against Buyer or Seller in the office of the Secretary of State or other government official under the Uniform Commercial Code of the State of California which would be a lien on any of the items specified in the Bill of Sale (other than any filings as to which Buyer and/or Seller, as applicable, is given satisfactory evidence that such filings are being released as of the Closing); and (2) filings of Buyer and Seller which are required for Buyer and Seller to be entered into the California Roster of Public Agency;

(iv) originals or certified copies of the Service Contracts not previously delivered to Buyer pursuant to Subsection 5(b) above;

(v) a duly executed Assignment of Intangible Property in the form attached as Exhibit G;

(vi) originals of the plans and specifications, building permits and certificates of occupancy for the Improvements and all tenant-occupied space included within the Improvements not previously delivered to Buyer pursuant to Section 5 above;

(vii) a FIRPTA affidavit (in the form attached as Exhibit I) pursuant to Section 1445(b)(2) of the Internal Revenue Code of 1986 (the "Code"), and on which Buyer is entitled to rely, that Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code and a properly executed California Form 597-W;

(viii) closing statement in form and content satisfactory to Buyer and Seller; and

(ix) any other instruments, records or correspondence called for hereunder which have not previously been delivered.

Buyer may waive compliance on Seller's part under any of the foregoing items by an instrument in writing.

(d) At or before the Closing, Buyer shall deliver to Seller or the Title Company, as appropriate, the following:

(i) a closing statement in form and content satisfactory to Buyer and Seller;

(ii) the Purchase Price; and

(iii) Certificate of Resolution of Acceptance of the Property by Buyer in accordance with Section 27281 of the California Government Code.

(e) Seller and Buyer shall each deposit such other instruments as are reasonably required by the escrow holder or otherwise required to close the escrow and consummate the purchase of the Property in accordance with the terms hereof. Seller and Buyer hereby designate Title Company as the "Reporting Person" for the transaction pursuant to Section 6045(e) of the Code and the regulations promulgated thereunder.

(f) Prior to Closing, the Seller agrees to continue to pay all invoices related to the Property on a current basis. After the Closing Date, the Buyer shall be responsible for the payment of the costs, including any outstanding litigation or third party claims except as provided in Section 10(a), relating to the Property hereto and the Buyer shall indemnify and hold the Seller harmless from any and all liability or claims arising from or related to the payment or nonpayment of all such costs.

(g) Any costs, expenses, claims, damages or fees required to be paid by Seller pursuant to this Agreement will be paid by Seller from the remaining proceeds of the variable rate bonds issued by the Chino Basin Regional Financing Authority in April 2001, the Chino Desalter Financing Agreement, or the Chino Desalter Enterprise Fund as determined by Seller in consultation with the Treasurer of the Buyer.

8. Representations and Warranties of Seller. Seller hereby represents and warrants to Buyer as follows:

(a) To Seller's actual knowledge, the survey, mechanical and structural plans and specifications, soil reports, certificates of occupancy, warranties, operating statements, and income and expense reports, and all other books and records relating to the Property and all other contracts or documents delivered to Buyer in connection with this Agreement (including, without limitation, the Service Contracts) are and at the time of Closing will be true, correct and complete copies of such documents, and the assumed contracts are and at the time of Closing will be in full force and effect (or, if the contract is a construction contract for which a notice of completion has been filed as noted on Schedule 1 to Exhibit G hereto, such contract has not been terminated), without default by (or

notice of default to) any Party, to the best actual knowledge of the Seller. Except as shown on Exhibit G and Exhibit L, there are no other Service Contracts affecting the Property.

(b) To Seller's actual knowledge, except as described on Exhibit J hereto, there are no condemnation, environmental, zoning or other land-use regulation proceedings, either instituted or, to Seller's actual knowledge, planned to be instituted against Seller. Seller shall notify Buyer promptly of any such proceedings against Seller of which Seller becomes aware.

(c) To Seller's actual knowledge, the Property has been and is operating with all licenses, permits, variances, approvals, authorizations, easements and rights of way required from all governmental authorities having jurisdiction over the Property or from private parties for the intended use, operation and occupancy of the Property. Notwithstanding the foregoing, an application is pending for an Air Quality Management District Permit for aqueous ammonia at the Property's Treatment Plant.

(d) Except as disclosed on Exhibit J hereto, to Seller's actual knowledge, there is no litigation pending nor has Seller received any written threats of litigation nor are there written claims known to Seller or threatened in writing against Seller that arise out of the ownership, operation or maintenance of the Property. Seller shall notify Buyer promptly of any such litigation, written threats of litigation or known written or written threatened claims of which Seller becomes aware prior to Closing of which the Seller has actual knowledge.

(e) Seller is a joint exercise of power agency duly organized, validly existing and in good standing under the laws of the State of California; this Agreement and all documents executed by Seller which are to be delivered to Buyer at the Closing are and at the time of Closing will be duly authorized, executed and delivered by Seller, are and at the time of Closing will be legal, valid and binding obligations of Seller enforceable against Seller in accordance with their respective terms, are and at the time of Closing will be sufficient to convey title (if they purport to do so), and do not and at the time of Closing will not violate any provision of any agreement or judicial order to which Seller or the Property is subject.

(f) Except as described on Exhibit L hereto, at the time of Closing there will be no outstanding written or oral contracts made by Seller for any improvements to the Property which have not been fully paid for and Seller shall cause to be discharged all mechanics' and materialmen's liens arising from any labor or materials furnished to the Property prior to the time of Closing.

(g) Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code.

(h) Seller has not granted any option or right of first refusal or first opportunity to any Party to acquire any interest in any of the Property.

(i) Neither Seller nor, to the best of Seller's actual knowledge, any predecessor in interest of Seller has either filed or been the subject of any filing of a petition under any Federal Bankruptcy Law or any federal or state insolvency laws or laws for composition of indebtedness or for the reorganization of debtors.

(j) No property taxes are currently due with respect to the Property.

(k) Except for the design contract with RBF Consulting with respect to the Chino Desalter I Expansion, Chino Desalter II and the Arlington Desalter Enhancement, all of the Intangible Property is used exclusively in the ownership, use or operation of the Real Property, Improvements and Personal Property, and not jointly for any other use.

9. Representations and Warranties of Buyer. Buyer hereby represents and warrants that it is a joint exercise of power agency duly organized, validly existing and in good standing under the laws of the State of California and is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code. This Agreement and all documents executed by Buyer which are to be delivered to Seller at the Closing are and at the time of Closing will be duly authorized, executed and delivered by Buyer, are and at the time of Closing will be legal, valid and binding obligations of Buyer enforceable against Buyer in accordance with their respective terms, and do not and at the time of Closing will not violate any provision of any agreement or judicial order to which Buyer is subject. At closing, Buyer shall have all licenses, permits, variances, approvals, authorizations, easements, and rights or way required from all governmental authorities having jurisdiction over the Property or from private parties necessary for the use, operation and occupancy of the Property.

10. Indemnification.

(a) Seller shall indemnify Buyer and defend and hold Buyer harmless from and against any and all known third-party claims arising out of the groundwater production for the Property and actually known to Seller prior to the Closing Date, and not previously settled by Seller; provided, however, in the event that the Buyer elects to assume liability and control of the Unsettled Claims, the Seller shall have no such duty to indemnify, defend or hold harmless. Personal injury, worker's compensation or negligence actions unrelated to groundwater production from the Property or Chino I Expansion and Chino II Desalter shall not be considered to be a third-party claim.

(b) After the Closing Date, Buyer is responsible for all aspects of design, construction, operations, maintenance, management and control of the Property, including water sales, legal liability and other matters (except as provided in Section 10(a) above) associated with the Property, irrespective of whether such liability arises out of the design, construction, operation, maintenance or control of the Property.

(c) Buyer shall indemnify Seller and defend and hold Seller harmless from any claims, losses, demands, liabilities, costs, expenses, penalties, damages and losses, including, without limitation, attorney's fees, asserted against, incurred or suffered by Seller resulting from an personal injury or property damage occurring in or on the Property or relating thereto after the Closing Date, from any cause whatsoever other than as a consequence of the sole acts or omissions of Seller, its agents, employees or contractors.

(d) The indemnification provisions of this Section 10 shall survive beyond the Closing.

(e) Seller and Buyer shall each secure additional insured endorsements naming the other Party as an additional insureds on their respective general liability insurance policy for any claims by third parties related to groundwater production which claims were not known to the Parties at the Closing Date ("Unknown Claims"). After the Closing Date, should any Unknown Claims be brought against Buyer, Seller or both, Seller shall tender its defense to Buyer, and Seller shall assign

to Buyer all rights, benefits, coverage and indemnity under Seller's general liability insurance policy. Buyer shall accept Seller's tender of defense, and pursuant thereto shall defend, indemnify and hold harmless Seller for any Unknown Claims. Seller shall cooperate with Buyer in the defense of any Unknown Claims, and Buyer shall reimburse Seller for any costs, including administrative and legal costs, incurred by Seller in such defense including, but not limited to, costs relative to complying with discovery requests, gathering information and documents to prepare a defense of the action, attending depositions and other activities which may be necessary to adequately defend the Unknown Claims. Buyer shall reimburse the Seller for such costs within thirty (30) days of receipt of an invoice from Seller.

11. Risk of Loss. If any of the Property is damaged or destroyed prior to the Closing Date, Buyer may terminate this Agreement, or if Buyer does not elect to terminate this Agreement, Seller shall assign to Buyer all of Seller's right, title, and interest in and to all proceeds of insurance, if any, on account of such damage or destruction.

12. Possession. Possession of the Property shall be delivered to Buyer on the Closing Date, provided, however, that prior to the Closing Date Seller shall afford authorized representatives of Buyer reasonable access to the Property as set forth in Section 5(c), above.

13. Maintenance of the Property. Between Seller's execution of this Agreement and the Closing, Seller shall maintain the Property, or cause the Property to be maintained in good order, condition and repair, reasonable wear and tear excepted, and shall make all repairs, maintenance and replacements of the Improvements and any Personal Property and otherwise operate the Property in the same manner as before the making of this Agreement, as if Seller were retaining the Property.

14. Buyer's Consent to Contracts and Leases Affecting the Property: Termination of Existing Contracts. Seller shall not, after the Effective Date, enter into any new leases or contracts, or any amendments thereof, or permit any third party to do so, or waive any rights of Seller under any contract, without in each case obtaining Buyer's prior written consent thereto (which consent may be given or denied in Buyer's sole discretion).

15. Insurance. Through the Closing Date, Seller shall maintain or cause to be maintained, at Seller's sole cost and expense, the existing policy or policies of insurance insuring the Property.

16. Cooperation. Seller and Buyer shall cooperate and do all acts as may be reasonably required or requested by the other with regard to the fulfillment of any Condition Precedent or the consummation of the transactions contemplated hereby including execution of any documents, applications or permits. Seller hereby irrevocably authorizes Buyer and its agents to make all inquiries of any third party, including any governmental authority, as Buyer may reasonably require to complete its due diligence.

17. Miscellaneous.

(a) Notices. Any notices required or permitted to be given hereunder shall be given in writing and shall be delivered (a) in person, (b) by certified mail, postage prepaid, return receipt requested, (c) by Federal Express or another reputable commercial overnight courier that guarantees next day delivery and provides a receipt, or (d) by telefacsimile or telecopy, and such notices shall be addressed as follows:

If to Seller: Santa Ana Watershed Project Authority
11615 Sterling Avenue
Riverside, California 92503

With a copy to: David L. Wysocki
Aklufi and Wysocki
3403 Tenth Street, Suite 610
Riverside, California 92501

If to Buyer: Chino Basin Desalter Authority
c/o Jurupa Community Services District
8621 Jurupa Road
Riverside, California 92509

With a copy to: Mr. John Schatz
P.O. Box 7775
Laguna Niguel, CA 92607-7775

Covington & Crowe LLP
1131 West Sixth Street, Suite 300
P.O. Box 1515
Ontario, CA 91762
Attention: Robert Dougherty

Jackson DeMarco & Peckenpaugh
4 Park Plaza, Suite 1600
Irvine, CA 92614
Attention: Michele Staples

City of Chino Hills
Burke Williams & Sorenson
3403 Tenth Street, Suite 300
Riverside, CA 92501
Attention: Geralyn Skapik

City of Chino – City Attorney
El Central Real Plaza
12616 Central Avenue
Chino, CA 91710
Attention: Jim Erickson

City of Norco – City Attorney
2870 Clark Avenue
P.O. Box 428
Norco, CA 92860-0428

Stradling Yocca Carlson & Rauth
660 Newport Center Drive
Newport Beach, CA 92660
Attention: Douglas S. Brown

or to such other address as either Party may from time to time specify in writing to the other Party. Any notice shall be deemed delivered when actually delivered, if such delivery is in person, upon deposit with the U.S. Postal Service, if such delivery is by certified mail, upon deposit with the overnight courier service, if such delivery is by an overnight courier service, and upon transmission, if such delivery is by telefacsimile or telecopy.

(b) Brokers and Finders. Each Party represents and warrants to the other that no broker or finder was instrumental in arranging or bringing about this transaction and that there are no claims or rights for brokerage commissions or finder's fees in connection with the transactions contemplated by this Agreement. In the event that any other broker or finder perfects a claim for commission or finder's fee based upon such contact, dealings or communication, the Party through whom such other broker or finder makes a claim shall indemnify, save harmless and defend the other Party from said claim and all costs and expenses (including reasonable attorneys' fees) incurred by the other Party in defending against the same. The provisions of this section shall survive the Closing.

(c) Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the Parties hereto and their respective successors, heirs, administrators and assigns.

(d) Amendments. Except as otherwise provided herein, this Agreement may be amended or modified only by a written instrument executed by Seller and Buyer.

(e) Deadlines on Non-Business Days. In the event any deadline specified herein falls on a day which is not a regular business day, then the deadline shall be extended to the end of the next following regular business day.

(f) Continuation and Survival of Representations and Warranties. All representations and warranties by the respective Parties contained herein or made in writing pursuant to this Agreement are intended to and shall remain true and correct as of the time of Closing, shall be deemed to be material, and, together with all conditions, covenants and indemnities made by the respective Parties contained herein or made in writing pursuant to this Agreement (except as otherwise expressly limited or expanded by the terms of this Agreement), shall survive the execution and delivery of this Agreement and the Closing, or, to the extent the context requires, beyond any termination of this Agreement.

(g) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

(h) Relationship of Agreement and Other Documents. This Agreement is intended to satisfy the obligations of the Parties under Section 2(a)(i), Section 2(b)(i) through (iii), Section 2(b)(vi) and (vii), Section 3, Section 4(a), Section 5(a) and Section 5(c) of the Term Sheet relating to the Property executed by Western Municipal Water District of Riverside County, Inland Empire Utilities Agency, Orange County Water District, the cities of Chino, Chino Hills, Norco and

Ontario, Jurupa Community Services District, the Santa Ana River Water Company and the State of California.

(i) Enforcement. If either Party hereto fails to perform any of its obligations under this Agreement or if a dispute arises between the Parties hereto concerning the meaning or interpretation of any provision of this Agreement, such dispute shall first be submitted to non-binding mediation by a mediator mutually acceptable to the Parties hereto. Each Party shall bear such Party's own costs and expenses for such mediation, including attorney's fees and expenses. If such mediation fails to result in a resolution of such dispute, then either Party may file legal action in the Superior Court of San Bernardino County. Each Party shall bear such Party's own costs and expenses, including attorneys' fees and expenses incurred by such Party in connection with such legal action. In such connection, each Party hereby waives, to the fullest extent permitted by law, a jury trial with respect to any legal action brought under this Agreement.

(j) Time of the Essence. Time is of the essence of this Agreement.

(k) Counterparts. This Agreement may be signed in counterparts and all counterparts so executed shall constitute one contract, binding on all Parties hereto, even though all Parties are not signatory to the same counterpart.

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

Buyer: CHINO BASIN DESALTER AUTHORITY,
a joint exercise of powers agency

By: _____

Its: _____

Seller: SANTA ANA WATERSHED PROJECT
AUTHORITY, a joint exercise of powers agency

By: _____

Its: _____

Title Company agrees to act as escrow holder in accordance with the terms of this Agreement, to act as the Reporting Person (as such term is defined in this Agreement) and to execute the Escrow Agreement.

CHICAGO TITLE COMPANY

By: _____

Its: _____

Dated: _____

LIST OF EXHIBITS

Exhibit A-1	Description of Real Property – Fee Interests
Exhibit A-2	Description of Real Property – Leasehold Interests
Exhibit B	Description of Included Personal Property
Exhibit C	Off Site Property
Exhibit D	Contractors, Subcontractors and Consultant Warranties
Exhibit E	Grant Deed
Exhibit F	Warranty Bill of Sale
Exhibit G	Assignment of Service Contracts, Warranties and Guaranties and Other Intangible Property
Exhibit H	Due Diligence Items
Exhibit I	Certificate of Transferor Other Than an Individual (FIRPTA Affidavit)
Exhibit J	Litigation, Threatened Litigation and Known or Threatened Claims
Exhibit K	Purchase Price
Exhibit L	Outstanding Contracts
Exhibit M	Form of MWD Assignment
Exhibit N	Form of Airport Lease Assignment

EXHIBIT A-1

DESCRIPTION OF REAL PROPERTY – FEE INTERESTS

[FROM JC]

EXHIBIT A-2

DESCRIPTION OF REAL PROPERTY – LEASEHOLD INTERESTS

[FROM JC]

EXHIBIT B

DESCRIPTION OF INCLUDED PERSONAL PROPERTY

[FROM JCSD]

EXHIBIT C

OFF SITE PROPERTY

The Offsite Property includes separate radio telemetry links with each of the end users. The radio telemetry link with the city of Chino Hills operates in the 400 MHz range; where as the radio telemetry links for the city of Chino and the Jurupa Community Services District operate in the 800 MHz range. The city of Chino and city of Chino Hills radio telemetry links are approximately 3.0 and 1.5 miles, respectively. The Jurupa Community Services District radio telemetry link is approximately 7.5 miles. The telemetry links are used to transmit treatment system operation status information and alarms to each end user specific to their system operational needs, and to provide an emergency shutdown capability if abnormal operating conditions are experienced in their distribution system.

The groundwater production well startup flows are bypassed to an equalization basin located at the membrane treatment system site. The basin has a storage capacity of approximately 0.8 million gallons. The stored well startup water is pumped from the equalization basin to the brine discharge pipeline for disposal.

The membrane treatment system ancillary facilities include disinfection of blended treated water, a 0.75 million gallon on-site treated water clearwell and separate treated water booster pump stations for each of the end users. The treated water entering the clearwell is disinfected with sodium hypochlorite. The capacity of the clearwell was established to provide a minimum disinfectant contact time comparable with that required for surface water supplies, based on California Department of Health Services concerns for potential pathogen contamination of the groundwater source, and their concurrence for the worst case scenario for the pending Groundwater Disinfection Rule. The final treated water delivered to the end users can be chlorinated or chloraminated water. Provisions have been included in the design of the project disinfection system to allow the addition of aqua ammonia and sodium hypochlorite to the discharge side of the treated water pump station pumps for those end users desiring chloraminated water.

The Offsite Property also includes: eleven groundwater production wells and wellhead facilities; 29,000 feet of extracted groundwater PVC pipelines, ranging in size from 12-inches to 30-inches in diameter, from the wells to the membrane treatment system site; 6,500 feet of 27-inch and 30-inch vitrified clay brine disposal pipeline from the membrane treatment system site to a local regional industrial waste sewer; 96,000 feet of 16-inch and 24-inch cement mortar lined and coated steel treated water delivery pipelines from the membrane treatment system site to the two cities and one water agency that will purchase the project's treated water. The project also includes the construction of one 5 million gallon steel tank reservoir at the point-of-delivery to the Jurupa Community Services District distribution system, and one 3 million gallon storage reservoir and a booster pump station at the point-of-delivery to the city of Chino distribution system. The remote booster pump station for the city of Chino is needed to pump the water into their lower pressure zone.

EXHIBIT D

CONTRACTORS, SUBCONTRACTORS AND CONSULTANT WARRANTIES

1. Warranty on the Construction Contract for the Chino Basin Desalination,
Program City of Chino Offsite Facilities
Kenko, Inc. dba McGrand & Associates
1025 Calimesa Blvd., Suite 4
Calimesa, California 92320
2. Warranty on the Construction Contract for the Chino Basin Desalination,
Program On-Site Treatment System Facilities
C.W. Roen Construction Company
40 Oak Court
P.O. Box 4
Danville, California 94526
3. County of San Bernardino Standard Airport Lease Agreement and Amendments thereto
4. Assignment of Rights, Delegation of Duties and First Amendment to Joint Participation Agreement
5. Letter from Hydranautics, including Membrane Element Warranty No. SAWI4300
6. Warranty from E.G. Meyers

EXHIBIT E

GRANT DEED

[FROM TITLE OFFICER]

EXHIBIT F

WARRANTY BILL OF SALE

For good and valuable consideration the receipt of which is hereby acknowledged, SANTA ANA WATERSHED PROJECT AUTHORITY, a joint exercise of powers agency ("Seller"), does hereby sell, transfer, and convey to the CHINO BASIN DESALTER AUTHORITY, a joint exercise of powers agency ("Buyer"), all personal property owned by Seller and located on or in or used in connection with the Real Property and Improvements (as such terms are defined in that certain Facilities Acquisition Agreement dated as of _____, 2002, between Seller and Buyer, including, without limitation, those items described in Schedule 1 attached hereto.

Seller does hereby represent to Buyer that Seller is the lawful owner of such personal property, that to the Sellers actual knowledge such personal property is free and clear of all encumbrances, and that Seller has good right to sell the same as aforesaid and will warrant and defend the title thereto unto Buyer, its successors and assigns, against the claims and demands of all persons whomsoever.

DATED this ____ day of _____, 2002.

Seller: SANTA ANA WATERSHED PROJECT
AUTHORITY,
a joint exercise of powers agency

By: _____

Its: _____

Schedule 1 to
Warranty Bill of Sale

[JCSD TO PROVIDE]

EXHIBIT G

ASSIGNMENT OF SERVICE CONTRACTS,
WARRANTIES AND GUARANTIES
AND OTHER INTANGIBLE PROPERTY

THIS ASSIGNMENT ("Assignment") is made and entered into as of this _____ day of _____, 2002, by SANTA ANA WATERSHED PROJECT AUTHORITY, a joint exercise of powers agency ("Assignor"), to CHINO BASIN DESALTER AUTHORITY, a joint exercise of powers agency ("Assignee").

FOR GOOD AND VALUABLE CONSIDERATION, the receipt of which is hereby acknowledged, effective as of the Effective Date (as defined below), Assignor hereby assigns and transfers unto Assignee all of its right, title, claim and interest in and under:

(a) all warranties and guaranties made by or received from any third party with respect to that certain real property described in Schedule 1 attached hereto (the "Property"), any building, building component, structure, fixture, machinery, equipment, or material situated on, contained in any building or other improvement situated on, or comprising a part of any building or other improvement situated on, any part of the Property including, without limitation, those warranties and guaranties listed in Schedule 1 attached hereto (collectively, "Warranties");

(b) all of the Service Contracts listed in Schedule 1 attached hereto; and

(c) any Intangible Property (as defined in that certain Facilities Acquisition Agreement (the "Agreement")) dated as of January 15, 2002 between Assignor and Assignee).

ASSIGNOR AND ASSIGNEE FURTHER HEREBY AGREE AND COVENANT AS FOLLOWS:

1. Except as otherwise set forth in the Facilities Acquisition Agreement, effective as of the Effective Date, Assignee hereby assumes all of the owner's obligations under the Service Contracts and agrees to indemnify Assignor against and hold Assignor harmless from any and all cost, liability, loss, damage or expense.

2. If either Party hereto fails to perform any of its obligations under this Assignment or if a dispute arises between the Parties hereto concerning the meaning or interpretation of any provision of this Assignment, such dispute shall be resolved in accordance with Section 17(i) of the Agreement.

3. This Assignment shall be binding on and inure to the benefit of the Parties hereto, their heirs, executors, administrators, successors in interest and assigns.

4. This Assignment shall be governed by and construed and in accordance with the laws of the State of California.

5. For purposes of this Assignment, the "Effective Date" shall be the date of the Closing (as defined in the Facilities Acquisition Agreement).

6. Assignor shall cooperate with the Assignee to acquire any consents which may be needed to effect the assignment and transfer of the Warranties.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment the day and year first above written.

ASSIGNOR: SANTA ANA WATERSHED PROJECT
AUTHORITY
a joint exercise of powers agency

By: _____

Its: _____

ASSIGNEE: CHINO BASIN DESALTER AUTHORITY,
a joint exercise of powers agency

By: _____

Its: _____

Schedule 1 to
Assignment of Service
Contracts Warranties
and Guaranties and
Other Intangible Property

- C.W. Roen Contract including warranty on the Construction Contract for the Chino Basin Desalination, Program On-Site Treatment System Facilities*
- Kenko Contract including warranty on the Construction Contract for the Chino Basin Desalination, Program City of Chino Offsite Facilities*
- Letter from Hydranautics, including Membrane Element Warranty No. SAWI4300
- Agreement for Transfer of SARI Pipeline Capacity from Santa Ana Watershed Project Authority to Chino Basin Desalter Authority
- Agreement for Transfers of SARI System Treatment Disposal Capacity from Santa Ana Watershed Project Authority to Chino Basin Desalter Authority
- RBF Consulting Design Contract
- County of San Bernardino Standard Airport Lease Agreement and Amendments thereto
- Assignment of Rights, Delegation of Duties and First Amendment to Joint Participation Agreement
- Warranty from E.G. Meyers

* Notice of completion has been filed.

EXHIBIT H

DUE DILIGENCE ITEMS

1. Notes or written agreements affecting the Property, including all rental agreements.
2. All plat maps, surveys, construction plans and any other plans or documentation relating to the Property.
3. All inspection reports, letters, test results, advisories and/or similar documents that pertain to the Property, including, without limitation, written inspection reports, soils and engineering reports, Phase I and Phase II reports, documentation regarding the existence or nonexistence of asbestos, PCB's or other Hazardous Materials.
4. Information regarding any underground storage tanks in, on, or about the Property.
5. Copies of invoices for the preceding six months relating to the operation and maintenance of the Property.
6. The most recent Fire Department inspection report.
7. Written releases or other documents relating to third party claims settled prior to the Closing Date or remaining unsettled at Closing Date.

EXHIBIT I

CERTIFICATE OF TRANSFEROR
OTHER THAN AN INDIVIDUAL
(FIRPTA Affidavit)

Section 1445 of the Internal Revenue Code provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. To inform CHINO BASIN DESALTER AUTHORITY, a joint exercise of powers agency, the transferee of certain real property located in _____, that withholding of tax is not required upon the disposition of such U.S. real property interest by SANTA ANA WATERSHED PROJECT AUTHORITY, a joint exercise of powers agency ("Transferor"), the undersigned hereby certifies the following on behalf of Transferor:

1. Transferor is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);
2. Transferor's U.S. employer identification number is _____; and
3. Transferor's office address is _____.

Transferor understands that this certification may be disclosed to the Internal Revenue Service by the transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalty of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Transferor.

Dated: _____, 2002.

SANTA ANA WATERSHED PROJECT AUTHORITY,
a joint exercise of powers agency

By: _____
Its: _____

EXHIBIT J

LITIGATION, THREATENED LITIGATION AND KNOWN OR THREATENED CLAIMS

[ATTACH SPREADSHEET FROM DAVE WYSOCKI]

EXHIBIT K

PURCHASE PRICE

Acquisition Price	\$
Payoff of CBRFA Bonds (Net of CBRFA Δ <u>funds on hand and subject to Section 5 of</u> <u>the Facilities Acquisition Agreement)</u>	
SAWPA Related Project Costs	_____
	\$

EXHIBIT L

OUTSTANDING CONTRACTS

- C.W. Roen Contract including warranty on the Construction Contract for the Chino Basin Desalination, Program On-Site Treatment System Facilities
- Kenko Contract including warranty on the Construction Contract for the Chino Basin Desalination, Program City of Chino Offsite Facilities
- Letter from Hydranautics, including Membrane Element Warranty No. SAWI4300
- Agreement for Transfer of SARI Pipeline Capacity from Santa Ana Watershed Project Authority to Chino Basin Desalter Authority
- Agreement for Transfers of SARI System Treatment Disposal Capacity from Santa Ana Watershed Project Authority to Chino Basin Desalter Authority
- RBF Agreement for Services by Independent Contractor and Related Task Orders
- Hargis Agreement for Services by Independent Contractor and Related Task Orders
- County of San Bernardino Standard Airport Lease Agreement and Amendments thereto
- Assignment of Rights, Delegation of Duties and First Amendment to Joint Participation Agreement
- Warranty from E.G. Meyers

EXHIBIT M
FORM OF MWD ASSIGNMENT

EXHIBIT N

FORM OF AIRPORT LEASE ASSIGNMENT

CHINO BASIN WATERMASTER
Case No. RCV 51010
Chino Basin Municipal Water District v. The City of Chino

PROOF OF SERVICE

I declare that:

I am employed in the County of San Bernardino, California. I am over the age of 18 years and not a party to the within action. My business address is Chino Basin Watermaster, 8632 Archibald Avenue, Suite 109, Rancho Cucamonga, California 91730; telephone (909) 484-3888.

On January 31, 2002, I served the document(s) identified below

DATE OF HEARING: FEBRUARY 20, 2002 AT 11:00 A.M.

1. MOTION FOR A DECLARATION REGARDING DISCHARGE OF OBLIGATIONS UNDER ARTICLE VII OF THE PEACE AGREEMENT

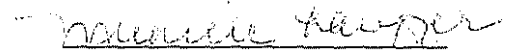
by placing a true copy of same in sealed envelopes for delivery by United States Postal Service mail at Rancho Cucamonga, California, to each of the addresses shown on the attached service lists.

See attached Service Lists

Attorney Service List

Mailing List 1

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed at Rancho Cucamonga, California, on January 31, 2002.


Michelle Lauffer
Michelle Lauffer

Attorney Service List

Updated 1/31/02

RICHARD ADAMS II
DEPUTY COUNSEL - POMONA
ALVAREZ-GLASMAN & CLOVEN
505 S GAREY AVE
POMONA CA 91766

DAVID B. ANDERSON
DEPARTMENT OF WATER RESOURCES
1416 NINTH ST
P.O. BOX 94236
SACRAMENTO CA 94236-0001

WILLIAM J. BRUNICK ESQ.
BRUNICK ALVAREZ & BATTERSBY
P O BOX 6425
SAN BERNARDINO CA 92412

THOMAS S. BUNN III
LAGERLOF SENEAL BRADLEY
GOSNEY & KRUSE
301 N LAKE AVE 10TH FL
PASADENA CA 91101-4108

CHINO BASIN WATERMASTER
8632 ARCHIBALD AVE STE 109
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GENERAL COUNSEL-IEUA
CIHIGOYENETCHE GROSSBERG &
CLOUSE
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COVINGTON & CROWE
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ONTARIO CA 91762

JIM ERICKSON
LAW OFFICES OF JIMMY GUTIERREZ
EL CENTRAL REAL PLAZA
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CHINO CA 91710

FREDERIC FUDACZ
NOSSAMAN GUTHNER KNOX & ELLIOTT LLP
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LOS ANGELES CA 90071-1672

ERIC GARNER
BEST BEST & KRIEGER LLP
P O BOX 1028
RIVERSIDE CA 92502-1028

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ATTORNEY-CITY OF CHINO
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12616 CENTRAL AVE
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MC PETERS MC ALEARNEY SHIMFF &
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HATCH & PARENT
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