

**TERMS AND CONDITIONS
FOR THE CONSOLIDATION OF THE
VICTOR VALLEY WATER DISTRICT
AND THE
BALDY MESA WATER DISTRICT**

1. Effective Date of Consolidation

The effective date of consolidation (“Effective Date”) shall be July 1, 2007.

2. Designation of the Consolidated District

Victor Valley Water District (“VVWD”) and Baldy Mesa Water District (“BMWD”) shall be consolidated into a successor county water district, to be known as the Victorville Water District (“Successor District”), subject to the terms and conditions contained herein (the “Terms and Conditions”).

3. Successor District

The Successor District, the Victorville Water District, shall function under and carry out all authorized duties and responsibilities assigned to a county water district as outlined in the California Water Code Sections 30000 et seq. and other applicable laws. Upon the Effective Date of this reorganization, the members of the “interim” Board of Directors of the Successor District, chosen as outlined in Condition No. 4 below, shall assume office and the legal existence of the VVWD and BMWD shall cease, except as otherwise required by law, and the Successor District shall succeed to all rights, duties, responsibilities, properties (both real and personal), contracts, equipments, assets, liabilities, obligations, functions, executory provisions, entitlements, permits and approvals of VVWD and of BMWD.

4. Governance of Successor District

In accordance with Water Code § 30500.1 (a) and Government Code § 56886, on the Effective Date of this reorganization, the Successor District shall be governed by an “interim” Board of Directors composed of seven (7) members, which shall be determined as follows: three (3) members of the existing VVWD Board of Directors, two (2) members of the existing BMWD Board of Directors and two (2) ex-officio, non-voting members of the City of Victorville. The determination of which members of the existing boards of either the BMWD or the VVWD shall be installed as members of the “interim”

Board of Directors of the Successor District shall be made by the San Bernardino Local Agency Formation Commission (LAFCO). The City Council of the City of Victorville shall select the ex-officio members.

5. Transfer of Employees

The Board of Directors of the Successor District shall file an employee transition plan with LAFCO detailing how the reorganization shall not adversely affect or impair the status of employees of the predecessor VVWD or BMWD. As of the Effective Date of this reorganization, all full-time employees of the VVWD and BMWD shall become full-time employees of the Successor District. Current rates of pay, accrued vacation and sick leave, vacation and sick leave accrual rates, employee rights, seniority rights, insurance, retirement benefits, and all other benefits and programs now provided employees shall continue at a level not less than that currently enjoyed. [56886(1)]

6. Successor District Improvement Districts Nos. 1 and 2

The service area/territory of VVWD, on the Effective Date of this reorganization, shall be formed as the Victorville Water District Improvement District No. 1; and the service area/territory of BMWD, on the Effective Date of this reorganization, shall be formed as the Victorville Water District Improvement District No. 2. The areas proposed to be annexed by this reorganization shall also be included in the Victorville Water District Improvement District No. 1. The Successor District Improvement Districts shall establish and maintain separate accounts for the purpose of keeping separate the existing capital funds, property taxes, assessments and debt obligations of VVWD and BMWD. The operational facilities of VVWD and BMWD shall be transferred to Successor District Improvement Districts Nos. 1 and 2, respectively.

7. Transfer of Assets, Liabilities, Contracts and Obligations

The Successor District shall accept all system facilities transferred from the VVWD and the BMWD in “as is” condition, without any payment or repair obligation from either the VVWD or the BMWD [§56886(h)]. All incidental liabilities, such as accounts payables, contract obligations and customer deposits, shall be transferred to the appropriate Improvement District of the Successor Agency. All assets including, but not limited to, cash reserves, buildings and other real property, water production equipment (pumps, storage tanks, etc.), transmission lines and rights-of-way, rolling stock, tools, and office furniture, fixtures and equipment, all lands, buildings, real and personal property, and appurtenances held by the VVWD and BMWD shall be transferred to the appropriate Improvement District of the Successor District as of the Effective Date of this reorganization. [§56886(h)].

The debt obligations of BMWD (Assessment District #1, Assessment District #2R, Certificates of Participation, Notes Payable) shall remain with the ratepayers obligated to

repay those debts (Successor District Improvement District No.2). The VVWD and BMWD shall file an agreement with LAFCO within 20 days after LAFCO approval and prior to final recordation, which describes the disposition of all assets. Notice that the agreement has been reviewed by the Successor District attorney, City of Victorville attorney and bond counsels shall be submitted to LAFCO by the Successor District [§56886(c)]

8. Rates, Fees, Taxes, Assessments and Charges for Successor District Improvement District Nos. 1 and 2

VVWD's existing rates, fees, taxes, assessments and charges, shall continue as Victorville Water District Improvement District No. 1's existing rates, fees, taxes, assessments and charges; and BMWD's existing rates, fees, taxes, assessments and charges, shall continue as Victorville Water District Improvement District No. 2's existing rates, fees, taxes, assessments and charges. Both sets of rates, fees, taxes, assessments and charges shall remain in effect until the Board of Directors of the Successor District shall have duly adopted a uniform schedule for rates, fees, taxes, assessments and charges, which does not impose upon the customers of either Successor District Improvement District No. 1 or 2 the burdens assumed by the predecessor of the other, for bonds or other burdens of service

9. Adoption of Uniform Schedule for Rates, Fees, Taxes, Assessments and Charges

All previously authorized rates, fees, taxes, assessments, and/or charges currently in effect by the VVWD and BMWD shall be continued for a period of 24 months or until a rate restructuring plan is approved by the Successor District. [§56886(t)]

10. Ordinances, Resolutions, Policies, Procedures and Practices

Until duly revised by the Board of Directors of the Successor District, and unless otherwise expressly provided herein or legally required, VVWD's ordinances, resolutions, policies, procedures and practices existing on the Effective Date shall govern the activities and affairs of the Successor District Improvement District No. 1. Until duly revised by the Board of Directors of the Successor District, and unless otherwise expressly provided herein or legally required, BMWD's ordinances, resolutions, policies, procedures and practices existing on the Effective Date, shall govern the activities and affairs of the Successor District Improvement District No. 2. The Board of Directors of the Successor District shall expeditiously review and ratify the ordinances, resolutions, policies, procedures and practices adopted hereby, making such revisions as it shall deem appropriate.

11. Water and Capacity Rights and Interests

The Successor District shall succeed to all water and capacity rights and interests of VVWD and BMWD, whether wholly or partially owned or held by either or both of them, and shall succeed to the priorities of use or rights of use of water or capacity rights in any public improvements or facilities or any other property, whether real or personal, to which either VVWD or BMWD is entitled to on the Effective Date. The Successor District shall specifically succeed to all rights and interests held or claimed by VVWD and/or BMWD under the Judgment entered (including all documents constituting the Physical Solution, as from time to time existing) in City of Barstow, etc., et al. v. City of Adelanto, etc., et al., and Related Cross Actions, Riverside County Superior Court Case No. 208568 (the “Mojave Basin Area Adjudication”), including those from time to time set forth in Table B-1, to the Judgment.

The Successor District shall also specifically succeed to all rights and interests held or claimed by VVWD and BMWD under all agreements and memoranda of understanding with the Department of the Interior, the Bureau of Land Management, the United States Geological Survey, the California Department of Fish and Game, the California Water Quality Control Board and the Regional Water Quality Control Board for the Lahontan Region, the California Department of Health Services, the Mojave Water Agency, the County of San Bernardino, the City of Adelanto, the City of Hesperia, the City of Victorville, the Town of Apple Valley, the Apple Valley Ranchos Water Company, the Southern California Logistics Airport Authority, the Victor Valley Wastewater Reclamation Authority, the Victor Elementary School District, the Victor Valley Union High School District, the High Desert Power Project (or any of its related entities), Southern California Edison, and any other public agency or private entity with which either the VVWD or the BMWD has an agreement or memorandum of understanding. The Successor District shall also assume all joint use flow agreements and maintenance agreements. [§56886(j) (r)] Amendments of existing agreements shall be completed prior to the Effective Date to address any changes in service. [§56886(r) (v)]

12. Appropriation Limit

The appropriation limit of the consolidated Successor District shall be the aggregate appropriation limit of the two consolidating districts, VVWD and BMWD, estimated to be \$1,554,660.

13. No Impairment of Bondholder Rights

The Successor District and its Improvement Districts shall succeed to all rights, duties and obligations of VVWD and BMWD with respect to the enforcement, performance or payment of any outstanding bonds, including revenue bonds, or other contracts and obligations of VVWD and/or BMWD and/or its community facility districts on the Effective Date. This consolidation shall not impair any rights of any bondholder or creditor of VVWD or BMWD.

14. Restriction on Post Approval Actions by VVWD and BMWD

As of the date of approval of the subject action by LAFCO through the Effective Date and pursuant to the provisions of Government Code §56885.5(a)(4), VVWD and BMWD shall each be prohibited from taking the following actions unless it first finds an emergency situation exists as defined in Government Code §54956.5:

a. No increase in compensation or benefits:

Providing any increase in compensation or benefits for members of the governing board, its officers, staff or the executive officer of VVWD and/or BMWD. Exceptions to this prohibition include planned and budgeted merit and range increases for either District, as identified in the adopted budget.

b. Bound by current budget:

Appropriating, encumbering, expending or otherwise obligating any revenue of VVWD and/or BMWD beyond that provided in the current budget at the time of commission approval.

15. Implementation

a. Implementation Jurisdiction:

LAFCO shall retain jurisdiction, subject to the statutory rights of VVWD and BMWD as set forth in Government Code § 56853, to hear and amend, to the extent necessary and appropriate, any Terms and Conditions to which protests have been duly made; any Terms and Conditions which require the agreement of VVWD and BMWD and/or any other public agency or entity having or claiming rights affected by this consolidation; or which pertain to the proper implementation of the consolidation and its Terms and Conditions.

b. Protest Rights:

The protest period for these Terms and Conditions, shall not be less than thirty (30) calendar days. The protest period for all other aspects of the reorganization to include consolidation under LAFCO 2991 as modified shall be the statutory minimum period plus fifteen (15) calendar days, thirty days.