

**County Department of Special
Districts Response to Application
submitted by Bighorn and
Questions of LAFCO Staff:**

- b. August 27, 2014 Response to DRC
Request for Information**

Attachment 4b

INTEROFFICE MEMO



DATE: August 27, 2014
FROM: JEFFREY O. RIGNEY, Director
Special Districts Department
TO: KATHLEEN ROLLINGS-MCDONALD
Executive Officer
Local Agency Formation Commission

PHONE: 387-5967

MAIL CODE: 0450

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SEP 02 2014

LAFCO
San Bernardino County

SUBJECT: REQUEST FOR INFORMATION - 3181

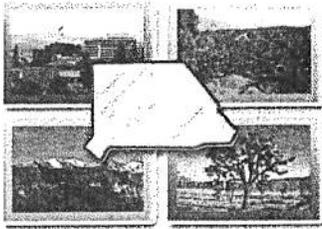
Attached is the information requested by LAFCo in its letter dated August 4, 2014 to the Special Districts Department. Specifically the following information was requested:

- **BUDGET INFORMATION** - Budgetary data and supporting documents for FY 2014-2015 and year-end unaudited documents for FY 2013-2014 for County Service Area 70 Zone W-1.
- **W-1 RATE STUDY** - A copy of the water rate study illustrating the projected rate increases within the W-1 service area.
- **MWA LOAN** - A copy of all documentations relating to the debt service obligation for the Morongo Basin pipeline referred to as the "MWA Loan."

Additionally, we were asked if the County is in support or in opposition of the proposal. The County has not taken a position either way and will rely on the LAFCo process to determine if the proposal is in the best interest of all affected.

Please contact me if you have any questions or require additional information.

Attachments



LAFCO

Local Agency Formation Commission for San Bernardino County

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San Bernardino, CA 92415-0490
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www.sbclafco.org

Established by the State of California
to serve the Citizens, Cities, Special Districts
and the County of San Bernardino

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KIMBERLY COX, Vice Chair
Special District

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Special District

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STEVEN FARRELL
Special District

JANICE RUTHERFORD
Board of Supervisors

SUNIL SETHI
Public Member

ACQUANETTA WARREN
City Member

STAFF

KATHLEEN ROLLINGS-McDONALD
Executive Officer

SAMUEL MARTINEZ
Assistant Executive Officer

MICHAEL TUERPE
Project Manager

REBECCA LOWERY
Clerk to the Commission

LEGAL COUNSEL

CLARK H. ALSOP

August 4, 2014

Jeff Rigney, Director
San Bernardino County, Special Districts Department
157 West 5th Street, 2nd Floor
San Bernardino, CA 92415-0450

Dear Mr. Rigney:

During the July 30, 2014 Departmental Review Committee for LAFCO 3181, your interoffice memo dated July 25, 2014 was discussed with the applicant, affected parties and Michael Wildes, Principal Budget Officer representing the Special Districts Department. After review of the information provided, it was determined that several items must be submitted by the Special Districts Department to move forward with the LAFCO process.

The following items are required:

1. **Budget Information** – Budgetary data and supporting documents for FY 2014-2015 and year-end unaudited documents for FY 2013-2014 for County Service Area 70 Zone W-1 ("W-1").
2. **W-1 Rate Study** – A copy of the water rate study illustrating the projected rate increases within the W-1 service area.
3. **MWA Loan** – A copy of all documentations relating to the debt service obligation for the Morongo Basin pipeline referred to as the "MWA Loan."
4. **County's Position** – Please indicate whether the County is in support or in opposition of the proposal.

During our discussion, Michael Wildes indicated that this information was available and reiterated your current efforts with the County Executive Officer to provide an additional response letter. We look forward to the additional information, including the requested data listed above.

No tentative date for Commission consideration for this proposal has been scheduled. However, the materials requested and additional information identified in this letter is requested to be provided no later than September 8, 2014.

If you have any questions on this correspondence, please do not hesitate to contact me at the address listed above or by email at kmcdonald@lafco.sbcounty.gov.

Sincerely,

Kathleen Rollings-McDonald
Executive Officer

cc: Michael Wildes, Principal Budget Officer, Special Districts Dept.

BUDGET

Special Revenue Summary

Appr Unit	Description	2013 Actual	2014 Adopted	2014 Q2 Budget	2014 Q4 Budget	2014 Estimated	2014 Actual	2015 Requested	2015 Recommended	2015 Adopted	Change
APPROPRIATION											
Staffing Expenses											
100	Salaries And Benefits	0	0	0	0	0	0	0	0	0	0
140	Earned Leave	0	0	0	0	0	0	0	0	0	0
	Subtotal	0	0	0	0	0	0	0	0	0	0
Operating Expenses											
200	Services And Supplies	67,095	96,124	96,124	96,124	72,583	0	87,892	87,892	87,892	-8,232
241	Central Services	0	0	0	0	0	0	0	0	0	0
294	Travel and Related Costs	0	0	0	0	0	0	0	0	0	0
300	Other Charges	8,141	0	0	8,500	8,141	0	8,200	8,200	8,200	-300
540	Transfers	316,594	153,988	173,557	173,557	173,557	0	191,848	191,848	191,848	18,291
	Subtotal	391,830	250,112	269,681	278,181	254,281	0	287,940	287,940	287,940	9,759
Capital Expenditures											
400	Land	0	0	0	0	0	0	0	0	0	0
410	Improvements To Land	439	72,500	72,500	72,500	0	0	172,500	172,500	172,500	100,000
420	Easements/Right of Ways	0	0	0	0	0	0	0	0	0	0
430	Struct & Improv To	0	0	0	0	0	0	0	0	0	0
440	Equipment	0	0	0	0	0	0	0	0	0	0
450	Vehicles	0	0	0	0	0	0	0	0	0	0
460	Lease	0	0	0	0	0	0	0	0	0	0
465	Lease	0	0	0	0	0	0	0	0	0	0
470	Lease Purchase-Vehicles	0	0	0	0	0	0	0	0	0	0
480	Construction In Progress	0	0	0	0	0	0	0	0	0	0
490	Capitalized Software	0	0	0	0	0	0	0	0	0	0
	Subtotal	439	72,500	72,500	72,500	0	0	172,500	172,500	172,500	100,000
Reimbursements											
541	Reimbursements	0	0	0	0	0	0	0	0	0	0
	Subtotal	0	0	0	0	0	0	0	0	0	0
Contingencies											
600	Contingencies and	0	55,211	55,211	46,711	0	0	96,665	96,665	96,665	49,954
	Subtotal	0	55,211	55,211	46,711	0	0	96,665	96,665	96,665	49,954
	TOTAL	392,268	377,823	397,392	397,392	254,281	0	557,105	557,105	557,105	159,713

Special Revenue Summary

Appr Unit	Description	2013 Actual	2014 Adopted	2014 Q2 Budget	2014 Q4 Budget	2014 Estimated	2014 Actual	2015 Requested	2015 Recommended	2015 Adopted	Change
Operating Transfers Out											
530	Operating Transfers Out	112,000	207,982	188,413	188,413	180,000	0	60,048	60,048	60,048	-128,365
	Subtotal	112,000	207,982	188,413	188,413	180,000	0	60,048	60,048	60,048	-128,365
	TOTAL REQUIREMENTS	504,268	585,805	585,805	585,805	434,281	0	617,153	617,153	617,153	31,348
REVENUE											
Taxes											
00	Taxes	5,173	3,701	3,701	3,701	4,911	0	4,911	4,911	4,911	1,210
	Subtotal	5,173	3,701	3,701	3,701	4,911	0	4,911	4,911	4,911	1,210
State/Federal/Other Govt											
40	State Aid	0	0	0	0	0	0	0	0	0	0
50	Federal Aid	0	0	0	0	0	0	0	0	0	0
60	Other Governmental Aid	0	0	0	0	0	0	0	0	0	0
	Subtotal	0	0	0	0	0	0	0	0	0	0
Fee/Rate											
10	Licenses, Permits &	0	0	0	0	0	0	0	0	0	0
20	Fines, Forfeitures &	6,767	7,161	7,161	7,161	8,208	0	8,208	8,208	8,208	1,047
70	Charges For Current	355,903	365,499	365,499	365,499	403,826	0	404,294	404,294	404,294	38,795
	Subtotal	362,670	372,660	372,660	372,660	412,034	0	412,502	412,502	412,502	39,842
Other Revenue											
30	Rev From Use of	918	1,007	1,007	1,007	719	0	719	719	719	-288
80	Other Revenue	8,901	7,349	7,349	7,349	7,275	0	7,275	7,275	7,275	-74
90	Other Financing Sources	119	0	0	0	0	0	0	0	0	0
	Subtotal	9,938	8,356	8,356	8,356	7,994	0	7,994	7,994	7,994	-362
	TOTAL REVENUE	377,782	384,717	384,717	384,717	424,939	0	425,407	425,407	425,407	40,690
Operating Transfers In											
98	Operating Transfers In	0	0	0	0	0	0	0	0	0	0
	Subtotal	0	0	0	0	0	0	0	0	0	0
	TOTAL FINANCING	377,782	384,717	384,717	384,717	424,939	0	425,407	425,407	425,407	40,690
	FUND BALANCE	126,487	201,088	201,088	201,088	9,342	0	191,746	191,746	191,746	-9,342
	TARGET FUND	0	201,088	0	0	201,088	0	191,746	191,746	191,746	191,746
	FUND BALANCE	-126,487	0	0	0	191,746	0	0	0	0	0

Special Revenue Summary

Appr Unit	Description	2013 Actual	2014 Adopted	2014 Q2 Budget	2014 Q4 Budget	2014 Estimated	2014 Actual	2015 Requested	2015 Recommended	2015 Adopted	Change
	Budgeted Staffing		0					0	0	0	0

FEES

CSA 70 W1 Landers Water	ECS-345			Cost of Service	
	FY13	FY14	FY15	Actual	Projected
Services/Supplies	67,095	93,520	96,326		
Transfers/IndirectCosts	315,594	173,557	196,857		
Mitigation	0	0	0		
Total Operating Costs	382,689	267,077	293,183		
Debt Service	8,141	8,141	8,142		
Depreciation	0	180,000	117,273		

1/6/2014

Target goal is 40% of op costs

Total Requirements 382,689 447,077 418,598

Contingencies	96,951	55,211	96,665	Target is 25% of Op Costs
Water Sales/Services	155,446	127,437	166,077	
Meter Revenue	200,457	245,094	245,094	
Penalties	6,767	30,525	20,000	
Interest	918	562	563	
Use of fund balance		0	-20,555	
Other(Other Serv/Grants/etc.)	9,020	7,419	7,419	

Revenues

Meter Usage	0%
	0%

Total Revenue 372,608 411,037 418,598

Beginning Fund Balance			
Operating Fund (ECS-345)	327372	201,088	98,309
Replacement Reserve (EFQ-345)	446,454	540,279	458,506
Expansion Reserve (EDY-345)	315,715	316,744	318,294

*Current valuation of system = \$1,255,499

CSA 70 W-1

From file CSA70W1 Tier Detail under usage folder

\$ 195,309.00

Tier 1	Tier 2	Tier 3	1,063 2012 usage
18,038	13,368		

\$ 4.77 \$ 5.49 \$ 6.31 Proposed

\$ 86,041.26 \$ 73,330.16 \$ 6,705.75 \$ 166,077.17 Revenue

Base 15% over base 15% over tier 2

\$ 4.77 \$ 5.49 \$ 6.31 Current

0% 0% 0% Increase

CSA 70 W-1 Landers Meter Revenue

2012

Size	Number	Cost/Month	Annual Revenue
3/4	414	\$ 23.87	\$ 118,586.16
1	48	\$ 34.62	\$ 19,941.12
1 1/2	0	\$ 60.62	\$ -
2	1	\$ 88.76	\$ 1,065.12
3	0	\$ 152.45	\$ -
4	0	\$ 234.29	\$ -
6	0	\$ 434.61	\$ -
8	0	\$ 642.56	\$ -
Total	463		\$ 139,592.40

2013

Size	Number	Cost/Month	Annual Revenue
3/4	577	\$ 24.59	\$ 170,261.16
1	68	\$ 35.66	\$ 29,098.56
1 1/2	0	\$ 62.44	\$ -
2	1	\$ 91.42	\$ 1,097.04
3	0	\$ 157.02	\$ -
4	0	\$ 241.32	\$ -
6	0	\$ 447.65	\$ -
8	0	\$ 661.84	\$ -
Total	646		\$ 200,456.76

2014

Size	Number	Cost/Month	Annual Revenue
3/4	577	\$ 29.36	\$ 203,288.64
1	68	\$ 48.93	\$ 39,926.88
1 1/2	0	\$ 97.87	\$ -
2	1	\$ 156.59	\$ 1,879.08
3	0	\$ 313.17	\$ -
4	0	\$ 489.33	\$ -
6	0	\$ 978.67	\$ -
8	0	\$ 1,565.87	\$ -
Total	646		\$ 245,094.60

LOAN

COUNTY SERVICE AREA 70 - No. W-1

1979 Bonds Series A - \$750M Dated 6/20/79

Bonds \$790M " 10/17/79

COLUMNS WRITE	MATY	BAL. BEFORE	PRINCIPAL	INT DUE	TOTAL	INT DUE	WAR. NO.
	YR.	MATY	DUE 6/1	ON 6/1	(PR. + INT)	12/1	
			YRLY		6/1		
1	1980	1,540,000	—	6011370	6011370	38500	
2	81	1,540,000	10,000	38500	48500	37250	
3	82	1,530,000	15	38250	53250	37875	
4	83	1,515,000	15	37875	52875	37500	
5	84	1,500,000	15	37500	52500	37125	
6	85	1,485,000	15	37125	52125	36750	
7	86	1,470,000	15	36750	51750	36375	
8	87	1,455,000	15	36375	51375	36000	
9	88	1,440,000	20	36000	56000	35500	
10	89	1,420,000	20	35500	55500	35000	
11	90	1,400,000	20	35000	55000	34500	
12	91	1,380,000	20	34500	54500	34000	
13	92	1,360,000	20	34000	54000	33500	
14	93	1,340,000	25	33500	58500	32875	
15	94	1,315,000	25	32875	57875	32250	
16	95	1,290,000	25	32250	57250	31625	
17	96	1,265,000	25	31625	56625	31000	
18	97	1,240,000	30	31000	61000	30250	
19	98	1,210,000	30	30250	60250	29500	
20	99	1,180,000	30	29500	59500	28750	
21	2000	1,150,000	35	28750	63750	27875	
22	01	1,115,000	35	27875	62875	27000	
23	02	1,080,000	30	27000	62000	26125	
24	03	1,045,000	40	26125	66125	25125	
25	04	1,005,000	40	25125	65125	24125	
26	05	965,000	45	24125	69125	23000	
27	06	920,000	45	23000	68000	21875	
28	07	875,000	50	21875	71875	20625	
29	08	825,000	50	20625	70625	19375	
30	09	775,000	55	19375	74375	18000	
31	10	720,000	55	18000	73000	16625	
32	11	665,000	60	16625	76625	15125	
33	12	605,000	65	15125	80125	13500	
34	13	540,000	65	13500	78500	11875	
35	14	475,000	70	11875	81875	10125	
36	15	405,000	70	10125	80125	8375	
37	16	335,000	75	8375	83375	6500	
38	17	260,000	80	6500	86500	4500	
39	18	180,000	85	4500	89500	2375	

AGREEMENT FOR CONSTRUCTION, OPERATION AND FINANCING
OF THE MORONGO BASIN PIPELINE PROJECT

Dated as of March 15, 1991

By and Between

MOJAVE WATER AGENCY

and

COUNTY OF SAN BERNARDINO
With Respect To
COUNTY SERVICE AREA NO. 70,
IMPROVEMENT ZONE W-1 and
IMPROVEMENT ZONE W-4

TABLE OF CONTENTS

<u>SECTION</u>	<u>TITLE</u>	<u>Page</u>
Section 1.	Definitions.....	2
Section 2.	Purpose.....	9
Section 3.	Construction and Operation.....	10
Section 4.	Delivery of Water From the State Water Project.....	10
Section 5.	Rates and Charges.....	13
Section 6.	Measurement of Water Delivered.....	16
Section 7.	Responsibilities for Delivery and Distribution of Water.....	16
Section 8.	Curtailment of Delivery for Maintenance Purposes.....	16
Section 9.	Area Served By Project Participant.....	17
Section 10.	Construction of the Project.....	17
Section 11.	Shortage In Water Supply.....	19
Section 12.	Annual Budget and Billing Statement.....	20
Section 13.	Allocation of Costs and Expenses...	20
Section 14.	Determination of Costs and Expenses.....	24
Section 15.	Time and Method of Payment.....	24
Section 16.	Obligation in the Event of Default.....	26
Section 17.	Unutilized Project Allotment.....	29
Section 18.	Transfers, Sales and Assignments of Project Allotment Percentage.....	30

TABLE OF CONTENTS

<u>SECTION</u>	<u>TITLE</u>	<u>Page</u>
Section 19.	Rights with respect to Additional Water Purveyors or Annexation of Property.....	31
Section 20.	Covenants of the Project Participant.....	33
Section 21.	Insurance and Indemnification; Accounting Records; Financial Statements and Other Reports.....	37
Section 22.	Direction and Review.....	39
Section 23.	Term.....	40
Section 24.	Option for Continued Use of the Project.....	41
Section 25.	Termination and Amendments.....	42
Section 26.	Miscellaneous.....	43

EXHIBITS

Exhibit A.		
Part I	Schedule of Project Participants, Project Allotment Percentages of Project Capacity and of Fixed O&M Costs and Peak Delivery Rates.....	A-1
Part II	Schedule of Project Participants and Allocation of Debt Service..	A-2
Exhibit B.	Water Supply Costs	B-1
Exhibit C.	Designation of Authorized Representatives and Initial Morongo Basin Pipeline Commission Representatives	C-1
Exhibit D.	Morongo Basin Pipeline Project Organizational Chart	D-1

TABLE OF CONTENTS

<u>SECTION</u>	<u>TITLE</u>	
Exhibit E.	Form of Opinion of Project Participant's Counsel	E-1
Exhibit F.	Map of Improvement District M	F-1

TABLES

Table I.	List of notes, bonds or other obligations of the Project Participant as of March 15, 1991 to which Revenues of the Project Participant are pledged	
Table II.	Schedule of Fixed O&M Costs by Project Reach	

AGREEMENT FOR CONSTRUCTION, OPERATION
AND FINANCING OF THE MORONGO BASIN PIPELINE PROJECT

This Agreement, dated as of March 15, 1991, by and between the Mojave Water Agency (the "Agency"), a body politic and corporate created pursuant to the Mojave Water Agency Law, California Water Code Appendix Section 97-1 et seq. and County of San Bernardino with respect to County Service Area No. 70, Improvement Zone W-1 and Improvement Zone W-4 (the "Project Participant"), established pursuant to Government Code Section 25210 and following.

WITNESSETH:

WHEREAS, the Agency proposes to acquire and construct or cause to be acquired and constructed and to operate or cause to be operated the Project (capitalized terms used herein and not otherwise defined shall have the meanings set forth below); and

WHEREAS, on June 5, 1990, the voters in Improvement District M (defined below) within the Agency authorized the Agency to issue \$66,500,000 aggregate principal amount of general obligation bonds to finance the acquisition and construction of the Project; and

WHEREAS, the Agency and the Project Participant are each public agencies within the meaning of the Joint Exercise of Powers Act (the "Joint Exercise of Powers Act"), commencing with California Government Code Section 6500; and

WHEREAS, the Agency and the Project Participant are each empowered to construct water pipelines and to supply water under the provisions of California statutes applicable to each of them; and

WHEREAS, the Joint Exercise of Powers Act authorizes two or more public agencies to exercise any power common to them; and

WHEREAS, the Agency and the Project Participant now wish to enter into this Agreement to provide for the construction, operation and financing of the Project, the sale by the Agency to the Project Participant of the Project Participant's Project Allotment Percentage of Project Capacity and of the Project Participant's Project Allotment Percentage of the Agency's State Water Project Allotment;

NOW THEREFORE, the parties hereto do agree as follows:

Section 1. Definitions.

The following terms shall, for all purposes of this Agreement have the following meanings:

"Accountant's Report" means a report signed by an Independent Certified Public Accountant.

"Additional Water Purveyor" means any public district, agency or entity or private water company to which the Project Participant shall transfer ownership of all or any substantial portion of its Water System pursuant to Section 18 hereof or which shall be formed to serve areas within the Improvement District M not served by the Project Participants in accordance with Section 19 hereof.

"Authorized Representative" when used with respect to the Agency means the director and General Manager identified in Exhibit C hereof as a Commission member or alternate Commission member or any other officer or employee of the Agency authorized to perform the specific acts or duties to be performed by resolution duly adopted by the Agency, and when used with respect to the Project Participant means the director, officer or employee identified in Exhibit C hereof as a Commission member or alternate Commission member or any other officer or employee of the Project Participant authorized by resolution of the Project Participant to perform the specific acts or duties to be performed by the Project Participant.

"Bonds" means bonds, notes or other evidences of indebtedness of the Agency issued to finance or refinance the Project and includes additional Bonds to complete the Project.

"Bond Resolution" means the resolution or resolutions providing for the issuance of Bonds and the terms thereof.

"CEQA" means the California Environmental Quality Act, Public Resources Code Section 21000 et seq. and the guidelines promulgated thereunder.

"Commission" means the Morongo Basin Pipeline Commission consisting of two members from the Agency and one member from each Project Participant, together with alternate members for each of the Commission members.

"Contract Payments" means the Fixed Project Costs, Fixed O&M Costs and the Variable O&M Costs payable by the Project Participant hereunder together with the installment payments of interest and principal or lease payments scheduled

to be paid by the Project Participant under and pursuant to the Contracts and provided that the term Contract Payments shall include for any Fiscal Year, the sum of (1) the interest accruing during such Fiscal Year on all outstanding bonds of the Project Participant, assuming that all outstanding serial bonds are retired as scheduled and that all outstanding term bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any bonds), (2) that portion of the principal amount of all outstanding serial bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the preceding twelve (12) calendar month period preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the Year preceding the first redemption date, as the case may be, and (4) that portion of the Contract Payments required to be made at the times provided in the Contracts that would have accrued during such Fiscal Year if such Contract Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Contract Payment Date of interest or principal or the date of the pertinent Contract, as the case may be; provided further that, as to any such bonds or Contract Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be one hundred ten percent (110%) of the greater of (a) the daily average interest rate on such bonds or Contract Payments during the twelve (12) calendar months preceding the date of calculation (or the portion of the then current Fiscal Year that such bonds or the principal amount of such Contract Payments have borne interest) or (b) the most recent effective interest rate on such bonds or Contract Payments prior to the date of calculation; and provided further that, as to any such bonds or Contract Payments or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such bonds or Contract Payments or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the bonds and Contracts for which such debt service reserve fund was established and in each preceding Year until such amount is exhausted.

"Contracts" means this Agreement and all contracts, resolutions and indentures of the Project Participant authorized and executed by the Project Participant under and pursuant to the applicable laws of the State, the payments under which are secured by a pledge of and lien on the Net Water System Revenues and which are on a parity with the obligations of the Project Participant under this Agreement; provided that Contracts shall not include contracts, resolutions or indentures with respect to (i) assessment bonds of a Project Participant secured by and payable solely from assessments levied upon property within the Project Participant, (ii) special revenue bonds secured by and payable solely from special taxes levied upon property within the Project Participant, or (iii) general obligation bonds of a Project Participant secured by ad valorem property taxes.

"Debt Service" means, as of the date of calculation and with respect to each series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of such series, except to the extent that such interest is to be paid from deposits made from Bond proceeds or the investment earnings thereon and (ii) that portion of each principal installment for such series of Bonds which would accrue during such period if such principal installment were deemed to accrue daily in equal amounts from the next preceding principal installment due date for such series (or, if there shall be no such preceding principal installment due date, from a date one Year preceding the date of such principal installment or from the date of issuance of the Bonds of such series, whichever date is later). Such interest and principal installments for such series shall be calculated on the assumption that no Bonds of such series outstanding at the date of calculation will cease to be outstanding except by reason of the payment of each principal installment on the due date thereof.

"Fiscal Agent" means the entity or entities designated by the Agency pursuant to any Bond Resolution to administer any funds or accounts required by such Bond Resolution or otherwise.

"Fiscal Year" means the twelve month period commencing at 12:01 a.m. on July 1 of each Year and ending at the time immediately preceding 12:01 a.m. on the following July 1.

"Fixed O&M Costs" means operation, maintenance, power, replacement and other costs incurred irrespective of the amount of water delivered to the Project Participants.

"Fixed Project Costs" means capital costs, including Debt Service, of the Project incurred irrespective of the amount of water delivered to the Project Participants.

"Independent Certified Public Accountant" means any firm of certified public accountants appointed by the Project Participant, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

"Improvement District M" means Improvement District M of the Agency formed by Resolution No. 477-90 adopted by the Board of Directors on January 26, 1990, which Improvement District M is described in the map attached hereto as Exhibit F.

"Initial Operation Date" means the first date when the Project is available to provide transmission service, as shall be determined by the Board of Directors of the Agency in accordance with prudent utility practices.

"Maintenance and Operation Costs" means the reasonable and necessary costs spent or incurred by the Agency or the Project Participant, as the case may be, for maintaining and operating the Project or the Water System, respectively, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Project or the Water System, respectively, in good repair and working order, and including administrative costs of the Agency or the Project Participant, respectively, salaries and wages of employees, payments to the Public Employees Retirement System (to the extent paid from moneys derived by the Agency with respect to the Project or Water System Revenues, respectively), overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the Agency or the Project Participant, respectively, or charges required to be paid by it to comply with the terms of the Bonds or of this Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Project or the Water System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, and (iv) with respect to the Agency, charges for the payment or principal and interest on the Bonds and with respect to the Project Participant, charges for the payment of principal and

interest on any general obligation bond heretofore or hereafter issued for Water System purposes.

"Net Proceeds" means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

"Net Water System Revenues" means, for any Fiscal Year, the Water System Revenues for such Fiscal Year less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

"Project" means the Morongo Basin Pipeline Project which will provide water to the Improvement District M area of the Agency, including the following: (i) a turnout structure on the California Aqueduct; (ii) a pipeline from the turnout to the Improvement District M terminus with a minimum delivery capacity of 15 cubic feet per second; (iii) a booster pumping station in Johnson Valley; (iv) a terminal facility (which may include a reservoir of a minimum of five million gallons); (v) turnout and metering facilities in Improvement District M; and (vi) all other associated facilities, rights, properties and improvements appurtenant thereto as provided and necessary therefor. The Project may be amended by the Project Participant in accordance with Section 25 hereof by amendment of the definition of the term "Project" as set forth in this Agreement and each of the Project Agreements; provided that any such amendment shall not cause the Project to differ from the Project approved by the electorate which authorized the levy of ad valorem taxes to pay Debt Service on the Bonds.

"Project Agreement" or "Project Agreements" means each Agreement for Construction, Operation and Financing of the Morongo Basin Pipeline Project by and between the Agency and each Project Participant, as the same may be amended or supplemented from time to time.

"Project Allotment" means the maximum amount of water a Project Participant may request which is determined by multiplication of such Project Participant's Project Allotment Percentage by the amount which is determined in accordance with Section 4(b) hereof.

"Project Allotment Percentage" means, with respect to the Project Participant, the percentage set forth opposite the name of the Project Participant in Exhibit A hereto as such Project Allotment Percentage may be revised pursuant to Section 17, 18 and 19 hereof.

"Project Capacity" means the transmission delivery capacity of the Project which, as of the date hereof is estimated to be 10,900 acre feet annually, which capacity shall be determined upon the date of the Initial Operation Date of the Project.

"Project Participants" means those entities listed in Part I of Appendix A hereto executing Project Agreements with the Agency, together in each case with their respective successors or assigns together with any Additional Water Purveyors.

"Proportional Use of Facilities Method of Cost Allocation" means an allocation based on the ratio of Project Capacity provided in the Reach for the transport and delivery of water to the Project Participant to the total Project Capacity provided in the Reach for the transport and delivery of water to all Project Participants served from or through the Reach as more specifically set forth in Section 13(d) hereof.

"Prudent Utility Practice" means those practices, methods and procedures, so modified from time to time, that are currently and commonly used by water utilities to design, engineer, select, construct, operate, and maintain water facilities and equipment dependably, reliably, safely, efficiently, and economically, with due regard to the state of the art in the water utility industry.

"Reaches" means the segments of the Project from which Project Participants receive water which will be determined in accordance with Section 10(a) hereof.

"Report" means a written report signed by an Authorized Representative of the Project Participant setting forth the amount of water desired by the Project Participant during each month of the succeeding six Years.

"Request" means with respect to the Project Participant, a written certificate of an Authorized Representative of the Project Participant specifying the portion of the Project Participant's Project Allotment Percentage of the Agency's State Water Project Allotment which the Project Participant requests be delivered by the Agency to the Project Participant in each month of a Year in accordance with Section 4(b) hereof.

"Revenues" means all income, rents, rates, fees, charges, and other moneys derived by the Project Participant after the date of execution of this Agreement from the ownership or operation of its Water System, including, without

limiting the generality of the foregoing, (i) all income, rents, rates, fees, charges or other moneys derived from the sale, furnishing, and supplying of water and other services, facilities, and commodities sold, furnished, or supplied through the facilities of its Water System, (ii) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to law to its Water System and (iii) the proceeds derived by the Project Participant directly or indirectly from the sale, lease or other disposition of all or a part of the Water System as permitted hereby, but the term "Revenues" shall not include (v) customers' deposits or any other deposits subject to refund until such deposits have become the property of the Project Participant, (w) contributions from customers for the payment of costs of construction of facilities to serve them, (x) moneys held in self-insurance funds, which self-insurance funds are in the amounts and manner usually maintained in connection with water systems similar to the Water System and as are, in the opinion of an accredited actuary, actuarially sound, (y) reserves, taxes or assessments specifically pledged to the payment of debt service with respect to notes, bonds or other obligations of the Project Participant and which reserves, taxes or assessments are not available for any other purposes of the Project Participant or (z) amounts required to be paid into reserves or reserve funds with respect to notes, bonds or other obligations of the Project Participant existing prior to March 15, 1991 which are identified in Table I hereto, and which reserves or reserve funds are not available for any other purpose of the Project Participant.

"State" means the State of California, including applicable departments and agencies thereof.

"State Water Project" means those portions of the State Water Resources Development System (as defined in Section 12931 of the California Water Code) which provide water to the Agency pursuant to the State Water Supply Contract.

"State Water Project Allotment" means the amount of water which the Agency is entitled to receive during the applicable period under the State Water Supply Contract.

"State Water Resources Control Board" means the Water Resources Control Board of the State of California, and any successor thereto.

"State Water Supply Contract" means the Water Supply Contract between the State of California Department of Water Resources and the Agency executed as of June 22, 1963 as the

same has been amended and supplemented in accordance with its terms to the date hereof, and as the same may hereafter be amended and supplemented.

"Variable O & M Costs" means the operation, maintenance, power, replacement and other costs incurred in an amount which is dependant upon and varies with the amount of water delivered to the Project Participant.

"Water Service" means the water distribution service made available or provided by the Water System.

"Water System" means all properties and assets, real and personal, tangible and intangible, of the Project Participant now or hereafter existing, used or pertaining to the acquisition, transmission, distribution and sale of water, including all additions, extensions, expansions, improvements and betterments thereto and equipment relating thereto [and in the case of the County of San Bernardino shall be limited to properties and assets relating to the Water System in County Service Area No. 70, Improvement Zone W-1 or in County Service Area No. 70, Improvement Zone W-4, as the case may be]; provided, however, that to the extent the Project Participant is not the sole owner of an asset or property or to the extent that an asset or property is used in part for the above described water purposes, only the Project Participant's ownership interest in such asset or property or only the part of the asset or property so used for water purposes shall be considered to be part of the Water System.

"Year" means the twelve-month period from January 1, through December 31, both dates inclusive.

"Year of Initial Water Delivery" means the Year when Project water will first be available for delivery to a Project Participant pursuant to its contract with the Agency.

Section 2. Purpose.

The purpose of this Agreement is to sell and deliver water available to the Agency pursuant to the State Water Supply Contract to the Project Participant, to sell Project Capacity available from the Project to the Project Participant, to sell Project Allotment and Project Capacity among the Project Participants, to provide the terms and conditions of such delivery and sale and to provide for a portion of the financing of the Project; provided that the rights to water available to the Agency pursuant to the State Water Supply Contract are subject to the terms of the State Water Supply Contract which includes the limitation that such supply of water is interruptible in accordance with the State Water Supply Contract; and provided further, that no provision

of this Agreement shall preclude the Agency from the exercise of its powers to develop and implement management and master plans and all deliveries of water will be consistent with the Agency's water service policy.

Section 3. Construction and Operation.

The Agency will use its best efforts to cause or accomplish the construction, operation and financing of the Project, the obtaining of all necessary authority and rights, and the performance of all things necessary and convenient therefor. Upon completion of the Project, the Agency may contract with any public agency or private company for the operation and maintenance of the Project or any Reach thereof; provided that execution of such contract shall not affect the exclusion of interest on Bonds issued by the Agency from gross income for federal income tax purposes. The Project Participant will cooperate with the Agency to that end, and will give any and all clarifying assurances by supplemental agreements that may be reasonably necessary in the opinion of the Agency's legal counsel to make the obligations herein more specific and to satisfy legal requirements and provide security for the Bonds.

The Agency may pledge and assign to any Fiscal Agent for any Bonds, all or any portion of the payments received hereunder from the Project Participant and its other rights and interests under this contract. Such pledge and assignment by the Agency shall be made effective for such time as the Agency shall determine and provide and the Fiscal Agent shall have the power to enforce this Agreement in the event of a default by the Agency under a Bond Resolution.

Section 4. Delivery of Water From the State Water Project.

(a) Request by Project Participant. Pursuant to the terms of this Agreement, the Agency shall provide to the Project Participant, and the Project Participant shall take, or cause to be taken, the portion of such Project Participant's Project Allotment Percentage of the Agency's State Water Project Allotment as set forth in a Request of the Project Participant; provided, however, that the Agency's obligation to provide State Water Project water to the Project Participant shall be subject to the terms and conditions of the Agency's State Water Supply Contract and the Agency makes no representations to the Project Participant with respect to the quality of water delivered to the Agency pursuant to the State Water Supply Contract.

(b) Maximum Project Allotment. Under the State Water Supply Contract, the Agency is entitled to a

maximum annual State Water Project Allotment of 50,800 acre-feet and pursuant to the terms of this Agreement, the Agency shall make available to the Project Participant its Project Allotment Percentage of the one-seventh of the portion of such State Water Project Allotment to which the Agency is entitled under the State Water Supply Contract, subject to the availability of water and the interruption of water supply by the State in accordance with the State Water Supply Contract. In addition, so long as the Agency shall have its portion of the State Water Project Allotment for which it has not entered into contractual commitments with other water purveyors or has not otherwise committed water from its State Water Project Allotment for use, the Agency shall make such surplus portion of the State Water Project Allotment available to the Project Participants, in the same proportions as the respective Project Allotment Percentages. The Project Participant may specify in its Request that it desires additional water from the State Water Project, subject to Project Capacity. In the event the State Water Supply Contract is amended to increase the State Water Project Allotment of the Agency, the obligations of the parties hereto shall be based upon a maximum annual State Water Project Allotment of 50,800 acre-feet. If pursuant to an amendment to the State Water Supply Contract, the Agency has a maximum annual State Water Project Allotment of more than 50,800 acre-feet and if the Agency has not entered into contractual commitments with other water purveyors or has not otherwise committed water from its State Water Project Allotment for use, upon request of a Project Participant, the Agency may deliver additional water to the Project Participant, subject to Project Capability.

(c) Points of Delivery. The Agency will remain available to do all things necessary and possible to deliver or cause to be delivered to or for the Project Participant, in accordance with its Project Allotment Percentage and as specified in each Request, water received by the Agency from the State Water Project, subject to the ability of the Agency to receive water under the State Water Supply Contract. Such delivery shall be at a point along the Project mutually agreed upon by the Agency and the Project Participant. Such agreement shall not be unreasonably withheld by either the Agency or the Project Participant. The Agency will remain available to make or cause to be made all necessary and possible arrangements for transmission and delivery of such water in accordance with this Agreement.

(d) Procedure for Determining Water Delivery Schedule. The amounts, times and rates of deliver of water to the Project Participant during any Year shall be in accordance with a water deliver schedule for that Year, such schedule to be determined in the following manner:

(1) On or before the date which is six weeks prior to the date the Agency must submit water delivery schedules to the State under the State Water Supply Contract, the Project Participant shall submit in writing to the Agency a preliminary water delivery schedule (subject to the provisions of the State Water Supply Contract) indicating the amounts of water desired by the Project Participant during each month of the succeeding six (6) Years or such lesser or greater period as the Agency shall be required under the State Water Supply Contract to submit the Agency's preliminary water delivery schedule.

(2) Upon receipt of a preliminary schedule the Agency shall review it and, after consultation with the Project Participant, shall make such modifications in it as are necessary to insure that the amounts, times, and rates of delivery to the Project Participant will be consistent with the Agency's overall delivery ability pursuant to the State Water Supply Contract, considering the then current delivery schedules of all Project Participants. Each Year, within 15 business days following receipt by the Agency from the State of the water delivery schedule, which is expected to be received by December 1 of each Year, the Agency shall determine and furnish to the Project Participant the water delivery schedule for the next succeeding Year which shall show the amounts of water to be delivered to the Project Participant during each month of that Year.

(3) To the extent the Agency may amend its water delivery schedule with the State, a water delivery schedule may be amended by the Agency upon the Project Participant's written request. Proposed amendments shall be submitted by the Project Participant within a reasonable time before the desired change is to become effective, and shall be subject to review and modification by the Agency in like manner as the schedule itself.

(e) Limit on Peak Deliveries of Water. In no event shall the Agency contract to deliver to any Project Participant from the Project in any one month of any Year a total amount of water greater than such Project Participant's annual entitlement for that Year multiplied by the percentage of water which the Agency is authorized to receive in any one month of any Year under the State Water Supply Contract; provided that to the extent that in any one month other Project Participants shall request less than the applicable percentage of their annual entitlement for any Year, the Agency shall deliver on a pro rata basis a greater percentage of the annual entitlement to those Project Participants who shall Request such delivery in their water delivery schedule for such month; and provided further that the percentage

provided for above may be revised for a particular Project Participant after submission to the Agency of that Project Participant's Requests with respect to maximum monthly deliveries, such revisions being subject to approval by the Agency.

(f) Limit on Rate of Delivery to Project Participant. In no event shall the Agency be obligated to deliver water to the Project Participant through all delivery structures at a total combined instantaneous rate of flow exceeding the cubic feet per second which is determined upon the date of the Initial Operation Date of the Project which delivery rate is estimated to be as set forth in Exhibit A, except as this rate of flow may be revised by amendment of this section by mutual agreement of the Agency and the Project Participant.

(g) Delivery of Water Not Delivered in Accordance with Schedule. If in any Year the Agency, as a result of causes beyond its control, is unable to deliver any portion of the Project Participant's Project Allotment for such Year as provided for in the delivery schedule established for that Year, the Project Participant may elect to receive the amount of water which otherwise would have been delivered to it during such period at other times during the Year or succeeding Years, to the extent that such water is then available under the State Water Supply Contract and such election is consistent with the Agency's overall delivery ability, considering the then current delivery schedules of all Project Participants.

Section 5. Rates and Charges.

(a) Establishment of Rates and Charges. Commencing on June 1, 1991, the Agency shall fix charges to the Project Participant under this Agreement to produce revenues to the Agency from the Project equal to the amounts anticipated to be needed by the Agency to meet the costs of the Agency to provide the Project Participant's Project Allotment Percentage of Project Capacity and to deliver water to the Project Participant through the Project, including but not limited to (i) Fixed Project Costs, including Debt Service on Bonds, reserves for the payment of Debt Service on Bonds and other payments required under Bond Resolutions other than payments described in (ii) or (iii) below, (ii) Fixed O&M Costs of the Project, a reasonable reserve for contingencies, and all other Fixed O&M Costs of the Project, including costs for reservation of the Project Participant's portion of the Agency's State Water Project Allotment, at a cost per acre-foot established in accordance with Exhibit B hereto, and (iii) Variable O&M Costs of the Project for delivering State

Water Project water pursuant to Section 4(d) of this Agreement, including costs and expenses to the Agency under the State Water Supply Contract and water supply costs at a cost per acre-foot established in accordance with Exhibit B hereto; provided that the charges for Fixed Project Costs shall take into account the collection of property taxes as set forth in Section 5(b) hereof. The Agency shall fix charges to the Project Participant to produce revenues to the Agency from the Project to meet the costs described in (i) and (ii) above as set forth in Section 13 hereof and to meet the cost described in (iii) above based on Requests of the Project Participant for water and the amount of water received by the Agency from the State Water Project as set forth in Section 13 hereof. If the Agency delivers water to or for the Project Participant pursuant to Section 4(d) of this Agreement, the Agency shall fix charges to the Project Participant so as to pay the costs of such delivery without liability to any Project Participant for whom water is not so delivered by the Agency.

(b) Commencement of Payment Obligation.

Commencing July 1, 1991, and on June 1, of each Year thereafter, the Project Participant shall pay its Project Allotment Percentage of estimated Fixed Project Costs for the then current Fiscal Year in the case of the July 1, 1991 payment and for the Fiscal Year commencing the next July 1 with respect to the June 1, 1992 payment and each June 1 payment thereafter; provided that estimated Fixed Project Costs shall include an amount based on the amount of Debt Service on the Bonds which are payable in the next calendar Year so that the Agency shall have on deposit the portion of such Debt Service payable from amounts billed to the Project Participant when calculating the amount of the tax levy to be imposed for the current Fiscal Year in the case of the July 1, 1991 payment and for the Fiscal Year commencing the next July 1 with respect to the June 1, 1992 payment and each June 1 payment thereafter; provided further that (i) that the aggregate amount of Fixed Project Costs paid by all Project Participants shall not exceed \$1,400,000 on July 1, 1991, \$1,400,000 on June 1, 1992 and \$2,400,000 on June 1, 1993, (ii) that the Agency shall levy property taxes on property subject to tax in Improvement District M in Fiscal Years 1991-92, 1992-93 and 1993-94 in the amount by which Debt Service exceeds the amounts specified in clause (i) above so as to provide moneys sufficient to pay Debt Service on Bonds at the times and in the amounts that such payments are due, and (iii) commencing with Fiscal Year 1993-94 the Agency shall levy property taxes in the amount of forty percent (40%) of Debt Service on the Bonds and each Project Participant shall pay on the preceding June 1 (commencing June 1, 1994) its Project Allotment Percentage of estimated Fixed Project Costs,

including an amount equal to sixty percent (60%) of Debt Service on the Bonds.

(c) Insufficiency of Funds. Because the funds provided under Section 5(a) and 5(b) of this Agreement are based on estimates if such funds are not sufficient for such purposes, the Project Participant shall pay to the Agency an amount equal to such Project Participant's share of the total cost to pay Fixed Project Costs, including Debt Service, reserves for the payment of Debt Service and other payments required under the Bond Resolutions and all other payments required to be made by the Agency relating to the Project under the State Water Supply Contract in the proportions established in accordance with Section 13 hereof. The obligation of this Section 5(c) is incurred by the Project Participant for the benefit of future owners of Bonds, and shall commence and continue to exist and be honored by Project Participant whether or not water is furnished to it from the Project at all times or at all (which provision may be characterized as an obligation to pay all costs on a take-or-pay basis whether or not water is delivered or provided and whether or not the Project is completed or is operable.)

(d) Source of Payments. The Project Participant shall make payments under this Agreement solely from the Revenues of, and as an operating expense of its Water System or other lawfully available funds. Nothing herein shall be construed as prohibiting the Project Participant from using any other funds and revenues for purposes of satisfying any provisions of this Agreement.

(e) Obligation Is Not Subject To Reduction. The Project Participant shall make payments under this Agreement whether or not the Project is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the Project or of the Project Capacity or of water contracted for in whole or in part for any reason whatsoever. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditioned upon performance by the Agency or any other Project Participant under this Agreement or any other agreement.

(f) Several Obligation. The Project Participant shall not be liable under this Agreement for the obligations of any other Project Participant. The Project Participant shall be solely responsible and liable for performance of its obligations under this Agreement, including the obligation pursuant to Section 16(d) hereof, and for the maintenance and operation of its respective properties not

included as part of the Project. The obligation of the Project Participant to make payments under this Agreement is a several obligation and not a joint obligation with those of the other Project Participants.

Section 6. Measurement of Water Delivered.

The Agency shall measure, or cause to be measured, all water delivered to the Project Participant and shall keep and maintain accurate and complete records thereof. For this purpose, the Agency shall install, operate, and maintain, or cause to be installed, operated and maintained, at all delivery structures for delivery of water to the Project Participant such measuring devices and equipment as are satisfactory and acceptable to both parties. Said devices and equipment shall be examined, tested, and serviced regularly to insure their accuracy. At any time or times, the Project Participant may inspect such measuring devices and equipment, and the measurements and records taken therefrom.

Section 7. Responsibilities for Delivery and Distribution of Water.

To the extent permitted by law, neither the Agency nor any of its officers, agents, or employees shall be liable for the control, carriage, handling, use, disposal, or distribution of water supplied to the Project Participant after such water has passed the delivery structures established in accordance with Section 4(c) hereof; nor for claim of damage of any nature whatsoever, including but not limited to property damage, personal injury or death, arising out of or connected with the control, carriage, handling, use, disposal or distribution of such water beyond said delivery structures; the Project Participant shall indemnify and hold harmless the Agency and its officers, agents, and employees from any such damages or claims of damages.

Section 8. Curtailment of Delivery for Maintenance Purposes.

(a) Agency May Curtail Deliveries. The Agency may temporarily discontinue or reduce the delivery of water to the Project Participant hereunder for the purposes of necessary investigation, inspection, maintenance, repair, or replacement of any of the Project facilities necessary for the delivery of water to the Project Participant. The Agency shall notify the Project Participant as far in advance as possible of any such discontinuance or reduction, except in cases of emergency, in which case notice need not be given.

(b) Project Participant May Receive Later Delivery of Water Not Delivered. In the event of any discontinuance or reduction of delivery of water pursuant to subsection (a) of this section, the Project Participant may elect to receive the amount of water which otherwise would have been delivered to it during such period under the water delivery schedule for that Year at other times during the Year or succeeding Years to the extent that such water is then available under the State Water Supply Contract and such election is consistent with the Agency's overall delivery ability, considering the then current delivery schedules of all Project Participants.

Section 9. Area Served By Project Participant.

Water delivered to the Project Participant pursuant to this Agreement shall not be sold or otherwise disposed of by the Project Participant for use outside the boundaries of the Agency.

Section 10. Construction of the Project.

(a) Determination of Capacities of Reaches. The Reaches of the Project will consist of the segments of the Project as identified upon completion of design of the Project, with a turnout for the Project Participant as determined by the Agency, upon consultation with the Project Participant, to best serve the interests of the Project Participant.

Subject to the rights of the Project Participant under subdivision (b) of this Section and the other provisions of this Agreement, the Agency shall provide in each Reach of the Project such maximum monthly delivery capability for the transport and delivery of water to the Project Participant as, in the judgment of the Agency, will best serve the interests of the Project Participant and all other Project Participants entitled to delivery of water from or through said Project facilities; provided, that prior to the effective date of this Agreement the Project Participant has previously furnished to the Agency a written request specifying such maximum monthly delivery capabilities, and the Agency shall give full consideration to such request in planning and designing said Project facilities.

(b) Criteria for Determining Capacity of Project. Subject to the State Water Supply Contract, the Agency shall design and construct the Project with the Reaches determined as set forth in Section 10(a) hereof, including reservoirs, the capacity necessary to enable delivery of water in each Year to the Project Participant and to other Project Participants in the maximum monthly amounts and at the

locations, times, and maximum rates specified or provided for in the respective Project Agreements for such Year, and shall include in each such Reach such capacity determined as is set forth in Section 10(a) hereof which capacity is estimated to compensate for scheduled outages for purposes of necessary investigation, inspection, maintenance, repair or replacement of Project facilities, and for losses of water due to evaporation, leakage, seepage, or other causes; provided, that regulatory storage reservoirs included in the Project transportation facilities may be utilized in conjunction with conveyance capacity provided in said Project facilities for delivery to the Project Participant of the foregoing monthly amounts.

(c) Inspection of Project Plans and Specifications; Preparation of Bid Materials; Award of Contracts. The Project Participant shall have a reasonable opportunity to inspect and study the Agency's plans and specifications for all Project facilities and may make comments and recommendations thereon to the Agency. The Agency shall prepare and put out to public bid a single set of bid materials (which may include multiple schedules) relating to construction and acquisition of the complete Project facilities, which facilities shall include the total length of the pipeline. The pipeline, as referenced in the preceding sentence, shall commence at a turnout structure on the California Aqueduct and shall terminate in Improvement District "M." Prior to the simultaneous award of a contract or contracts for the complete Project, the Agency shall determine whether the total amount of such contract or contracts, together with a reasonable contingency, can be funded totally from the proceeds derived from Bonds. Unless consented to in writing by all Project Participants, which consent shall not be unreasonably withheld, the Agency agrees it shall not award any contract or contracts other than simultaneously for the entire Project. The Agency shall not award any contracts which would cause the Agency to be obligated for an amount which is in excess of the proceeds (including interest income) to be derived from Bonds or other identified moneys then on deposit with the Agency and legally available for the Project. The Agency further agrees not to issue any change orders or contract amendments which would result in construction of a pipeline which does not traverse the full distance from the California aqueduct to Improvement District M.

(d) Failure to Complete the Project. In the event that the Agency fails or is unable to complete construction of any portion or portions of the Project necessary to deliver water to the Project Participant, and gives the Project Participant written notice thereof, or by reason of such failure or inability construction of said facilities has

ceased for a period of one (1) Year, the Project Participant, if it is not then in default and without exclusion of such other rights as it may have under this Agreement, shall exercise one of following options:

(1) The Project Participant may, together with the other Project Participants, provide funds to the Agency in such amounts and at such times as may be necessary to enable the Agency to complete construction of such incompleeted portion or portions of the Project to the extent necessary for the transport and delivery of water to the Project Participant and such other Project Participants; provided that the Agency shall be and remain the owner of such Project facilities or portions thereof constructed in whole or in part with funds provided by the Project Participant, and shall be and remain obligated to operate, maintain, repair and replace such Project facilities to the full extent contemplated in this Agreement; provided further, that the Project Participant shall be and remain obligated to pay its share of any Fixed Project Costs of the above-described Project facilities not paid for with such funds, together with its proportionate share of the costs and expenses relating to the Project, including Variable O&M Costs and Fixed O&M Costs.

(2) The Project Participant may at its own expense, and on a joint venture basis if such an arrangement is made with other Project Participants having similar options, connect to the Project for the purpose of receiving water to which it is entitled under this Agreement. In such event and notwithstanding any other provisions of this Agreement, the structures for delivery of water to the Project Participant pursuant hereto shall thereafter be deemed to be located at such point of connection. Specific arrangements for acquiring, constructing, operating, maintaining and replacing the Project Participant's facilities at the point of connection thereof with the Agency's Project facilities shall be in accordance with terms and conditions mutually agreed upon by the parties; provided, that the Agency shall be and remain the owner of all facilities constructed by it to said point of connection, and the Project Participant shall be and remain obligated to pay its proportionate share of the costs thereof.

Section 11. Shortage in Water Supply.

(a) Temporary Shortages; Delivery Priorities. In any Year in which there may occur a shortage or interruption due to drought or other temporary cause in the supply of water available for delivery to the Project Participant, with the result that such supply is less than the total of the annual Project Allotment of all Project Participants for that Year,

the Agency shall reduce the delivery of water to the Project Participant based upon water use for agricultural, commercial or residential use in accordance with the State Water Supply Contract.

(b) Permanent Shortage Entitlements. In the event that the State is unable to construct sufficient additional conservation facilities to prevent a reduction in the minimum State Water Project yield, or if for any other reason there is a reduction in the minimum State Water Project yield, which, notwithstanding preventive or remedial measures taken or to be taken by the State, threatens a permanent shortage in the supply of State Water Project water to be made available to the Agency under the State Water Supply Contract, the annual Project Allotment of the Project Participant shall be reduced in accordance with the State Water Supply Contract.

(c) No Liability for Shortages. Neither the Agency nor any of its officers, agents, or employees shall be liable for any damage, direct or indirect, arising from the shortages in the amount of water to be made available for delivery to the Project Participant under this Agreement caused by non-availability of water to the Agency under the State Water Supply Contract or caused by drought, operation of area of origin statutes, or any other cause beyond its control.

Section 12. Annual Budget and Billing Statement.

Following receipt by the Agency from the State of a written statement of the credits and charges to the Agency under the State Water Supply Contract, the Board of Directors of the Agency will adopt an annual budget for the applicable Year for credits, costs and expenses relating to the Project, including Fixed Project Costs, Variable O&M Costs and Fixed O&M Costs and shall promptly give notice to each Project Participant of its projected share of such credits, costs and expenses; provided that in the event that the Agency shall not receive the written statement of credits and charges from the State by May 15 of any Year, the Board of Directors of the Agency shall adopt an annual budget by June 15 of such Year based upon its best estimates of credits, costs and expenses relating to the Project so that the Project Participant may incorporate the applicable portion of such estimated credits, costs and expenses in its budget.

Section 13. Allocation of Costs and Expenses.

For the purpose of allocations of costs and expenses pursuant to this Agreement, the Project shall be segregated into such Reaches as are determined by the Agency to be necessary for such allocations of costs. Subject to such

modifications as are determined by the Agency to be required by reason of any Request furnished by the Project Participant to the Agency pursuant to Section 4 of this Agreement, or by reason of Project Agreements entered into by the Agency with other Project Participants, the Reaches of the Project are to be established as set forth in Section 10 of this Agreement.

(a) Method of Computation of Fixed Project Costs. The Fixed Project Costs shall be sufficient to return to the Agency those capital costs of the Project necessary to deliver water to the Project Participant which are allocated to the Project Participant pursuant to subdivision (b) of this Section.

(b) Allocation of Fixed Project Costs Among Project Participants. The total amount of Fixed Project Costs of the Project shall be allocated among all Project Participants based upon Project Allotment Percentage of each Project Participant.

(c) Method of Computation of Fixed O&M Costs. The Fixed O&M Costs shall return to the Agency those costs of the Project necessary to deliver water to the Project Participants which constitute Fixed O&M Costs incurred irrespective of the amount of water delivered to the Project Participants and which are allocated to the Project Participant pursuant to (d) below; provided that to the extent permitted by law, the Agency may establish reserve funds to meet anticipated minimum replacement costs; and provided further deposits in such reserve funds by the Agency (1) shall be made in such amounts so that such reserve funds will be adequate to meet such anticipated costs as they are incurred, and (2) shall be deemed to be a part of the Fixed O&M Costs for the Year in which such deposits are made.

(d) Allocation of Fixed O&M Costs. The total amount of Fixed O&M Costs of each Reach of the Project for the respective Year shall be allocated among all Project Participants entitled to delivery of water from said facilities by the Proportionate Use of Facilities Method of Cost Allocation, in accordance with (1) and (2) below; provided that such Fixed O&M Costs as are incurred generally for the Project first shall be allocated to each Reach in an amount which bears the same proportion to the total amount of such general costs that the amount of the costs incurred directly for the Reach bears to the total of all direct costs for all Reaches. The measure of the proportionate use of each Project Participant of each Reach shall be the ratio of the Project Capacity provided in the Reach for the transport and delivery of water to the Project Participant to the total Project Capacity provided in the Reach for the transport and

delivery of water to all Project Participants served from or through the Reach. Allocations of Project Allotments to the Project Participant pursuant hereto shall be on the basis of relevant values which will be set forth in Table II of this Agreement by the Agency as soon as designs and cost estimates are prepared by it subsequent to the effective date of this Agreement as to the maximum monthly delivery capability to be provided in each Reach of the Project for the transport and delivery of water to the Project Participant pursuant to Section 10 hereof; provided further that the principles and procedures set forth in this subsection shall be controlling as to allocations of Fixed O&M Costs to the Project Participant.

- (1) The total amount of Fixed O&M Costs allocated to a Project Participant shall be the sum of the products obtained when there is multiplied, for each Reach necessary to deliver water to the Project Participant, the total amount of the Fixed O&M Costs of the Reach to be returned to the Agency by the foregoing ratios for such Reach as said average is set forth in the appropriate table included this Agreement.
- (2) Where additional capacity is provided in any Reach to compensate for loss of water due to evaporation, leakage, seepage, or other causes, or to compensate for scheduled outages for purposes of necessary investigation, inspection, maintenance, repair or replacement of the facilities of the Project then, for the purpose of any allocation of costs pursuant to this subsection: (i) the maximum annual Project Allotment to be delivered from or through the Reach of each Project Participant entitled to delivery of water from or through the Reach shall be increased by an amount which bears the same proportion to the maximum annual delivery capability provided by such additional capacity that the Project Participant's maximum annual Project Allotment to be delivered from or through the Reach bears to the total of the maximum annual entitlements to be delivered from or through the Reach under all Project Agreements and (ii) the capacity provided in the Reach for each Project Participant entitled to delivery of water from or through the Reach shall be increased in the same proportion that such Project Participant's maximum annual Project Allotment to be delivered from or through the Reach is increased pursuant to (i) above.

- (3) The projected amounts of Fixed O&M Costs to be allocated annually to the Project Participant shall be determined by the Agency in accordance with the cost allocation principles and procedures set forth in this Section, which principles and procedures shall be controlling as to allocations of Fixed O&M Costs to the Project Participant. Such amounts will be set forth in Table II of this contract by the Agency as soon as designs and cost estimates are prepared by it subsequent to receipt of requests from the Project Participant as to the maximum monthly delivery capability to be provided in each Reach for transport and delivery of water to the Project Participant.

(e) Method of Computation of Variable O&M Costs.

The Variable O&M Costs shall return to the Agency those costs of the Project transportation facilities necessary to deliver water to the Project Participant which constitute Variable O&M Costs incurred in an amount which is dependent upon and varies with the amount of water delivered to the Project Participant and which are allocated to the Project Participant pursuant to (1) and (2) below; provided that to the extent permitted by law, the Agency may establish reserve funds to meet anticipated Variable O&M Costs; and provided further deposits in such reserve funds by the Agency: (1) shall be made in such amounts so that such reserve funds will be adequate to meet such anticipated costs as they are incurred, and (2) shall be deemed to be a part of the Variable O&M Costs for the Year in which such deposits are made. The amount of this component shall be determined as follows:

- (1) There shall be computed for each Reach of the Project a charge per acre-foot of water which will return to the Agency the total projected Variable O&M Costs of the Reach for the respective Year. This computation shall be made by dividing said total by the number of acre-feet of water estimated to be delivered from or through the Reach to all Project Participants during the Year.
- (2) The amount of the Variable O&M Costs shall be the sum of the products obtained when the charges per acre-foot of water, determined under (1) above, for each Reach necessary to deliver water to the Project Participant are multiplied by the number of acre-feet of water delivered to the Project Participant from or through that Reach during the Year; provided,

that when water has been requested by a Project Participant and delivery thereof has been commenced by the Agency, and, through no fault of the Agency, such water is wasted as a result of failure or refusal by the Project Participant to accept delivery thereof, the amount of said Variable O&M Costs to be paid by such Project Participant during such period shall be the product of the above sum and the sum of the number of acre-feet of water delivered to the Project Participant and the number of acre-feet wasted.

(f) Revenue From Power Recovery Plants. There shall be credited against the amount of the Variable O&M Costs to be paid by the Project Participant, as determined pursuant to subdivision (e) of this Section, a portion of the projected net value of any power recovered during the respective Year at Project power recovery plants located upstream on the particular Reach from the delivery structures for delivery of water to the Project Participant. Such portion shall be in an amount which bears the same proportion to said projected net value that the number of acre-feet of water delivered to the Project Participant through said plants during the Year bears to the number of acre-feet of water delivered to all Project Participants through said plants during the Year.

Section 14. Determination of Costs and Expenses.

The Agency shall determine the values and amounts of Fixed Project Costs, Fixed O&M Costs and Variable O&M Costs in order that the costs and expenses to the Project Participant may accurately reflect increases or decreases from Year to Year in projected costs, outstanding indebtedness of the Agency incurred to construct the Project, annual Project Allotments, estimated deliveries, and all other factors which are determinative of such charges. In addition, each such determination shall include an adjustment to be paid by the Project Participant for succeeding Years which shall account for the differences, if any, between projections of costs used by the Agency in determining the amounts of said costs and expenses for all preceding Years and actual costs incurred by the Agency during such Years.

Section 15. Time and Method of Payment.

(a) Initial Payment - Fixed Project Costs. Payments by the Project Participants of the Fixed Project Costs shall commence July 1, 1991 and shall occur on June 1 of each Year thereafter.

(b) Initial Payment - Fixed O&M Costs. Payments by the Project Participant of the Fixed O&M Costs shall commence for each Reach on the June 1 preceding the estimated Year of the Initial Operation Date.

(c) Initial Payment - Variable O&M Costs. Payments by the Project Participant of the Variable O&M Costs shall commence on the January 1, April 1, July 1 or October 1 which is at least three months immediately preceding the date on which initial water delivery is estimated to be made to the Project Participant.

(d) Statement of Charges. The Agency shall within 30 days of the receipt from the State of the written statement of the charges to be paid by the Agency and credits to be received by the Agency under the State Water Supply Contract (but in no event later than June 15 of each Year), furnish the Project Participant with a written statement of the estimated Fixed Project Costs and Fixed O&M Costs of the Project Participant for the next succeeding Fiscal Year, taking into account applicable credits received by the Agency and estimated investment earnings on moneys related to the Project held by the Agency; provided, that amounts paid to the Agency for Fixed Project Costs shall not be invested at a yield or in any manner which would result in interest on any Bonds being includable in gross income for federal income tax purposes. The Agency shall, on or before March 15, June 15, September 15 and December 15 of each Year, commencing with the Fiscal Year in which the Initial Operation Date is estimated to occur furnish the Project Participant with a statement of the charges to the Project Participant for the Variable O&M Costs for the three-month period commencing on the July 1, October 1, January 1 or April 1, commencing three and one-half months subsequent to such date.

(e) Times of Payment - Fixed Project Costs. The Project Participant shall pay to the Agency, on or before June 1 of each Year, commencing as set forth in Section 15(a) hereof, 100% of the charge to the Project Participant for the next succeeding Fiscal Year of the Fixed Project Costs.

(f) Times of Payment - Fixed O&M Costs. The Project Participant shall pay to the Agency, on or before June 1 of the Year preceding the Year of anticipated initial water delivery to the Project Participant, the sum of the charges to the Project Participant for the Year or partial Year for the Fixed O&M Costs.

(g) Times of Payment - Variable O&M Costs. The Project Participant shall pay to the Agency the charges to the Project Participant for the Variable O&M Costs for the

three-month period commencing on the next succeeding January 1, April 1, July 1 or October 1 so that the Agency receives quarterly payments of Variable O&M Costs three months in advance of the time when such Variable O&M Costs will begin to be incurred by the Agency.

(h) Contest of Accuracy of Charges. If a Project Participant questions or disputes the correctness of any billing statement by the Agency, it shall pay the Agency the amount claimed when due and shall within thirty (30) days of receipt of such billing statement request an explanation from the Agency. If the bill is determined to be incorrect, the Agency will adjust the bill to such Project Participant in the next Fiscal Year. If the Agency and the Project Participant fail to agree on the correctness of a bill within thirty (30) days after the Project Participant has requested an explanation, the parties shall promptly submit the dispute to arbitration under Section 1280 et seq. of the Code of Civil Procedure.

Section 16. Obligation in the Event of Default.

(a) Written Demand Upon Failure to Make Payment. Upon failure of the Project Participant to make any payment in full when due under this Agreement or to perform any other obligation hereunder, the Agency shall make written demand upon the Project Participant, and if said failure is not remedied within thirty (30) days from the date of such demand or for such additional time as is reasonably required, to correct the same, such failure shall constitute a default at the expiration of such period. Notice of such demand shall be provided to each other Project Participant by the Agency. Upon failure of the Agency to perform any obligation of the Agency hereunder, the Project Participant shall make written demand upon the Agency, and if said failure is not remedied within thirty (30) days from the date of such demand or for such additional time as is reasonably required, to correct the same, such failure shall constitute a default at the expiration of such period. Notice of such demand shall be provided to each Project Participant by the Project Participant making such written demand.

In addition to any default resulting from breach by the Agency or the Project Participant of any agreement, condition, covenant or term hereof, if the Agency or the Project Participant shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity,

wherein or whereby the Agency or the Project Participant asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the Agency or the Project Participant shall make a general or any assignment for the benefit of its creditors; then in each and every such case the Agency, or the Project Participant, shall be deemed to be in default hereunder.

(b) Transfer for Defaulting Project Participant's Account. Upon the failure of the Project Participant to make any payment which failure constitutes a default under this Agreement, the Agency shall use its best efforts to transfer for the defaulting Project Participant's account all or a portion of such Project Participant's Project Allotment Percentage of Project Capacity and of such Project Participant's Project Allotment Percentage of the Agency's State Water Project Allotment for all or a portion of the remainder of the term of the Agreement. Notwithstanding that all or any portion of the Project Participant's Project Allotment Percentage of Project Capacity and of such Project Participant's Project Allotment Percentage of the Agency's State Water Project Allotment is so transferred, the Project Participant shall remain liable to the Agency to pay the full amount of its share of costs as if such sale or transfer has not been made, except that such liability shall be discharged to the extent that the Agency shall receive payment from the transferee thereof.

(c) Termination of Entitlement to Project Allotment Percentage; Continuing Obligations. Upon the failure of the Project Participant to make any payment which failure constitutes a default under this Agreement and causes the Agency to be in default under the State Water Supply Contract or any Bond Resolution, the Agency may (in addition to the remedy provided by subsection (b) of this Section) terminate the provisions of this Agreement insofar as the same entitle the defaulting Project Participant to its Project Allotment Percentage of Project Capacity and of such Project Participant's Project Allotment Percentage of the Agency's State Water Project Allotment. Irrespective of such termination, the obligations of the Project Participant under this Agreement shall continue in full force and effect.

(d) Increase in Allotment Percentage of Nondefaulting Project Participant. Upon the failure of any Project Participant to make any payment which failure constitutes a default under the applicable Project Agreement,

and except as transfers are made pursuant to subsection (b) of Section 16 of the applicable Project Agreement, (i) the Project Allotment Percentage of each nondefaulting Project Participant shall be automatically increased for each Year of the remaining term of the applicable Project Agreement pro rata with those of the other nondefaulting Project Participants and (ii) the defaulting Project Participant's Project Allotment Percentage shall (but only for purposes of computing the respective Project Allotment Percentages of the nondefaulting Project Participants) be reduced correspondingly; provided, however, that the sum of such increases for any nondefaulting Project Participant in any Year shall not exceed, without written consent of such nondefaulting Project Participant, an accumulated maximum of 25% of the nondefaulting Project Participant's Project Allotment Percentage in such Year determined as nearly as practicable under the circumstances as if the defaulting Project Participant were not in default.

(e) Right of Recovery From Defaulting Project Participant. If a Project Participant shall fail or refuse to pay any amounts due to the Agency, the fact that the Project Participant has increased its obligation to make such payments shall not relieve the defaulting Project Participant of its liability for such payments, and the Project Participant shall have a right of recovery from the defaulting Project Participant to the extent of such respective increase in obligation caused by the defaulting Project Participant.

(f) Enforcement of Remedies. In addition to the remedies set forth in this Section, upon the occurrence of an Event of Default as defined herein, the Agency or the Project Participant, as the case may be, shall be entitled to proceed to protect and enforce the rights vested in such party by this Agreement by such appropriate judicial proceeding as such party shall deem most effectual, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained herein or to enforce any other legal or equitable right vested in such party by this Agreement or by law. The provisions of this Agreement and the duties of each party hereof, their respective boards, officers or employees shall be enforceable by the other party hereto by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Agency or the Project Participant, as the case may be, shall have the right to bring the following actions:

(1) Accounting. By action or suit in equity to require the board of the Agency or the Project Participant, its officers and employees and its assigns to account as the trustee of an express trust.

(2) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Agency or the Project Participant, as the case may be.

(3) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce its rights against the other party hereto (and its board, officers and employees) and to compel the other party hereto to perform and carry out its duties and obligations under the law and its covenants and agreements as provided herein.

In addition, in the event of a dispute between the Agency or the Project Participant with respect to the terms of the Agreement or any Project Agreement, the Agency and the Project Participant agree to submit such matter to arbitration under Section 1280 et seq. of the Code of Civil Procedure with the losing party paying all costs and attorney fees.

(g) Waiver. The waiver by the Agency or the Fiscal Agent of any breach by the Project Participant of any agreement, condition, covenant or term hereof shall not operate as a waiver of any subsequent breach of the same or any other agreement, condition, covenant or term hereof.

(h) Fiscal Agent is Third Party Beneficiary. Any Fiscal Agent for Bonds shall have the right, as a third party beneficiary, to initiate and maintain suit to enforce this Agreement to the extent provided in any Bond Resolution.

Section 17. Unutilized Project Allotment.

When a Project Participant has a Project Allotment or Project Capacity that exceeds that Project Participant's needs or demands in any one Year, the Agency shall, if requested by such Project Participant to do so, transfer unutilized Project Allotment or Project Capacity in the following manner:

(a) The Agency shall use its best efforts to transfer such unutilized Project Allotment or Project Capacity at a cost at least equal to the Project Participant's Fixed Project Costs, Fixed O&M Costs, Variable O&M Costs, and any other reasonable identifiable costs therefor and credit such payments received therefor to the Project Participants which have requested the Agency to transfer unutilized Project Allotment or Project Capacity on a pro rata basis based upon their respective Project Allotment Percentages.

(b) Other Project Participants shall have a first option to take delivery of such unutilized Project

Allotment or Project Capacity, at the costs set forth in subsection (a) of this Section.

In the event the Agency is unable to transfer unutilized Project Allotment or Project Capacity, the provisions of Section 5 hereof shall apply. To the extent that Project Participants have not requested the Agency to transfer unutilized Project Allotment or to the extent the Agency is unable to transfer unutilized Project Allotment, the Agency may make water represented by such unutilized Project Allotment available to other water purveyors within the Agency in accordance with the Agency's policy for water allocation, as in effect from time to time, and the Project Participant shall not be relieved of any of its obligations hereunder as a result of such water being made available to other water purveyors.

Section 18. Transfers, Sales and Assignments of Project Allotment Percentage.

The Project Participant has rights to make transfers, sales, assignments and exchanges (collectively "transfers") of its Project Allotment Percentages only as expressly provided in this Agreement.

(a) Transfer of Ownership. The Project Participant shall not transfer ownership of all or any substantial portion of its Water System to another entity until it has first complied with the provisions of this subsection (a). An annexation, consolidation, merger or reorganization with another governmental entity or a change in governmental form in accordance with the Cortese-Knox Local Government Reorganization Act of 1985, as amended (commencing with California Government Code Section 56000, et seq.), in which the surviving entity or entities assume in the aggregate all obligations of the Project Participant under this Agreement, and in which the rights under this Agreement may be enforced as provided in Government Code Section 56121 is not deemed a transfer of ownership.

(1) Such disposition or transfer shall be under terms and conditions that provide assurance that the obligations of the Project Participant under this Agreement, and that the Agency's obligations under this Agreement, and any Bond Resolution, and under other agreements made or to be made by the Agency to carry out the Project, will be promptly and adequately met. The Agency may require that sufficient moneys of the Project Participant to discharge such obligations be irrevocably set aside and maintained in a trust account, as a condition to the transfer of the Water System, if no

other adequate assurance is available. In the event that the Project Participant transfers a substantial portion of its Water System to another entity in accordance with this Agreement, a portion of the Project Allotment Percentage of the Project Participant shall be transferred from the Project Participant to such entity based upon the respective ratios of the water pumped or delivered during the preceding Year by the Project Participant with respect to the area to be served by the Project Participant and with respect to the area to be served by such entity to the aggregate amount of water pumped or delivered during the preceding Year by the Project Participant or on such other basis as the Commission shall determine to be fair and reasonable.

(2) The Project Participant shall give ninety (90) days advance written notice to the Agency of any proposed transfer pursuant to this subsection (a). Appendix A to this Agreement shall be amended as appropriate to reflect any transaction pursuant to this subsection (a).

(b) Maintenance of Tax-Exempt Status of Bonds. Notwithstanding any other provision of this Agreement, the Project Participant shall not transfer, assign, sell or exchange any portion of the Project Allotment Percentage, directly or indirectly, in any manner, and shall not take or permit to be taken any other action or actions, which would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Internal Revenue Code of 1986, as amended, by reason of classification of such Bond as a "private activity bond" within the meaning of Section 141 of said Code or for any other reason.

Section 19. Rights with Respect to Additional Water Purveyors or Annexation of Property.

(a) Formation of Additional Water Purveyor. The Project Participant acknowledges that a portion of the Debt Service on the Bonds is being provided from property taxes levied upon property located within Improvement District M of the Agency and which property is not served by any of the Project Participants. Upon formation of an Additional Water Purveyor serving areas within Improvement District M not served by Project Participants or the annexation to a Project Participant of property which is not then served by any of the Project Participants but which will then be served by such Project Participant, the Project Allotment Percentage of the Project Participant may be transferred such that an Additional Water Purveyor or a Project Participant shall, upon entering into a Project Agreement with the Agency or an amendment to a Project Agreement, be entitled to a Project Allotment

Percentage to be determined based upon the amount of water pumped or delivered during the preceding Year within the boundaries of the area served by such Additional Water Purveyors or annexed to such Project Participant and the amount of water pumped and delivered during the preceding Year by the Project Participants or on such other basis as the Commission shall determine to be fair and reasonable. The Project Agreement shall establish a price (which may be \$0) to be paid by the Additional Water Purveyor or such Project Participant to the Project Participant for the transfer of a portion of the Project Allotment Percentage such that the Project Participant shall receive an amount which reasonably compensates the Project Participant for Fixed Project Costs and Fixed O&M Costs previously paid by the Project Participant which are fairly allocable to the Project Allotment Percentage transferred to the Additional Water Purveyor or such Project Participant. Such transfer of Project Allotment Percentages of the Project Participants shall be under terms and conditions that provide assurance that the obligations of the Project Participants under the Project Agreements, and that the Agency's obligations under the Project Agreements, and any Bond Resolution, and under other agreements made or to be made by the Agency to carry out the Project, will be promptly and adequately met. The Agency may require that sufficient moneys of the Additional Water Purveyor or such Project Participant to discharge such obligations be irrevocably set aside and maintained in a trust account, as a condition to the transfer of Project Allotment Percentages of the Project Participants, if no other adequate assurance is available.

The Additional Water Purveyor or Project Participant shall give written notice to the Agency of any proposed transfer pursuant to this subsection (a) and the Project Participant agrees to cooperate with the Agency to accomplish such transfer. Appendix A to this Agreement shall be amended as appropriate to reflect any transaction pursuant to this subsection (a).

(b) Maintenance of Tax-Exempt Status of Bonds. Notwithstanding any other provision of this Agreement, no transfer of any portion of the Project Allotment Percentage shall be made in any manner, whether directly or indirectly, and no action or actions shall be made, which would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Internal Revenue Code of 1986, as amended, by reason of classification of such Bond as a "private activity bond" within the meaning of Section 141 of said Code.

Section 20. Covenants of the Project Participant.

(a) Amount of Rates and Charges. The Project Participant will fix, prescribe and collect rates and charges for the Water System which are reasonably fair and nondiscriminatory and which, together with other unrestricted moneys available therefor, will be at least sufficient to yield during each Fiscal Year Net Water System Revenues equal to one hundred twenty-five percent (125%) of the Contract Payments for such Fiscal Year. The Project Participant may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Water System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section.

The Project Participant will establish and at all times maintain and collect rates and charges for the Water System sufficient to permit the Project Participant to issue and sell bonds or enter into Contracts to finance the cost of such additions, betterments, extensions and improvements to the Water System as may be reasonably necessary to enable the Project Participant to satisfy its then projected demand upon the Water System. The Project Participant will proceed with all reasonable diligence to construct to completion all such additions, betterments, extensions and improvements, and will issue and sell such bonds or enter into such Contracts at the earliest practicable time.

(b) Against Sale or Other Disposition of Property. The Project Participant will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Water System Revenues except as provided in Section 18 hereof. The Project Participant will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Net Water System Revenues for the payment of the obligations imposed under this Agreement or which would otherwise impair the rights of the Agency with respect to the Water System Revenues or the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold at not less than the market value thereof if such sale will not materially reduce the Net Water System Revenues and if the proceeds of such sale are deposited in a special water fund of the Project Participant and used for the payment of expenses relating to the Water System.

(c) Against Competitive Facilities. The Project Participant will not, to the extent permitted by existing law, acquire, construct, maintain or operate and will not, to the extent permitted by existing law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the boundaries of the Project Participant any water system competitive with the Water System.

(d) Maintenance and Operation of the Water System: Budgets. The Project Participant will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Water System as they become due and payable. The Project Participant will adopt and file with the Agency, on or before the effective date hereof, a budget approved by the legislative body of the Project Participant, including therein the estimated Maintenance and Operation Costs of the Water System for the period from such date until the close of the then current Fiscal Year. On or before the first day of each Fiscal Year thereafter, the Project Participant will adopt and file with the Agency a budget approved by the legislative body of the Project Participant, including therein in the estimated Maintenance and Operation Costs of the Water System for such Fiscal Year the estimated Fixed Costs, Fixed O&M Costs and Variable O&M Costs payable. Any budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the Project Participant with the Agency.

(e) Payment of Claims. The Project Participant will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Water System Revenues or any part thereof or on any funds in the hands of the Project Participant or the Fiscal Agent prior or superior to the lien of the payments to be made under this Agreement or which might impair the security of the payments to be made under this Agreement, but the Project Participant shall not be required to pay such claims if the validity thereof shall be contested in good faith.

(f) Compliance with Contracts. The Project Participant will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the Project Participant is a party thereto.

(g) Insurance.

(i) The Project Participant shall procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers so long as such insurance is available from reputable insurance companies, or, alternatively, shall establish a program of self-insurance, or participate in a joint powers agency providing insurance or other pooled insurance program, in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with water systems similar to the Water System; provided that earthquake insurance shall be acquired only if both (a) required by any rating agency rating the Bonds as a condition precedent to obtaining or maintaining a rating on the Bonds and (b) available on the open market from reputable insurance companies at reasonable cost. Such insurance shall be in an amount no less than the lesser of (a) one hundred percent (100%) of the replacement cost (without deduction for depreciation) of all structures constituting any part of the Water System (except that such insurance may be subject to deductible clauses of not to exceed \$250,000 or, in the case of earthquake insurance, ten percent (10%) of the insured amount). In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The Project Participant shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens.

If the Net Proceeds are insufficient to pay in full the cost of reconstruction, repair or replacement of the damaged or destroyed portion of the Water System, then the Project Participant shall complete the work and pay any costs in excess of the amount of the Net Proceeds from Net Water System Revenues.

(ii) The Project Participant will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Agency, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with water systems similar to the Water System; provided that any such insurance may be maintained under a

self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained herein shall, to extent reasonably obtainable, provide that the Agency and the Fiscal Agent shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

(h) Accounting Records; Financial Statements and Other Reports.

(i) The Project Participant will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System, which records shall be available for inspection by the Agency and the Fiscal Agent at reasonable hours and under reasonable conditions.

(ii) The Project Participant will prepare and file with the Agency annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1991) --

(1) financial statements of the Project Participant for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon and a special report prepared by the Independent Certified Public Accountant who examined such financial statements stating that nothing came to his attention in connection with such examination that caused him to believe that the Project Participant was not in compliance with any of the financial agreements or financial covenants contained herein; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the Project Participant with respect to the Water System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

(c) The Project Participant will prepare annually not more than one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1991) a summary report showing in reasonable

detail the Water System Revenues and the Maintenance and Operation Costs of the Water System for such Fiscal Year and containing a general statement of the physical condition of the Water System. The Project Participant will furnish a copy of such summary report to the Agency and to the Fiscal Agent.

(i) Protection of Security and Rights of the Agency. The Project Participant will preserve and protect the rights of the Agency and the Fiscal Agent to the obligations of the Project Participant hereunder and will warrant and defend such rights against all claims and demands of all persons.

(j) Payment of Taxes and Compliance with Governmental Regulations. The Project Participant will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof or upon the Water System Revenues when the same shall become due. The Project Participant will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the Project Participant shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

(k) Further Assurances. The Project Participant will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carryout the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Agency and the Fiscal Agent of the rights and benefits provided to them herein.

Section 21. Insurance and Indemnification;
Accounting Records; Financial Statements and Other Reports.

The Agency shall procure and maintain or cause to be procured and maintained insurance on the Project with responsible insurers so long as such insurance is available from reputable insurance companies, or, alternatively, shall establish a program of self-insurance, or participate in a joint powers agency providing insurance or other pooled insurance program, covering such risks (including earthquakes), in such amounts and with such deductibles as shall be determined by the Agency; provided that earthquake insurance shall only be acquired if both (a) required by any rating agency rating the Bonds as a condition precedent to obtaining or maintaining a rating on the Bonds and (b) available on the open market from reputable insurance companies at reasonable cost. Such insurance shall be in an

amount no less than the lesser of (a) one hundred percent (100%) of the replacement cost (without deduction for depreciation) of all structures constituting any part of the Project (except that such insurance may be subject to deductible clauses of not to exceed \$250,000 or, in the case of earthquake insurance, ten percent (10%) of the insured amount. The Agency shall indemnify and hold harmless the Project Participant from any liability for personal injury or property damage resulting from any accident or occurrence arising out of or in any way related to the construction or operation of the Project; provided, however, that such liability of the Agency shall be limited to the extent the proceeds of insurance and other moneys available to the Agency hereunder are available therefore.

(b) Accounting Records; Financial Statements and Other Reports.

(i) The Agency will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Project, which records shall be available for inspection by the Project Participant and the Fiscal Agent at reasonable hours and under reasonable conditions.

(ii) The Agency will prepare annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1991) --

(1) financial statements of the Agency for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereof and a special report prepared by the Independent Certified Public Accountant who examined such financial statements stating that nothing came to his attention in connection with such examination that caused him to believe that the Agency was not in compliance with any of the financial agreements or financial covenants contained herein; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the Agency with respect to the Project as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

(c) The Agency will prepare annually not more than one hundred eighty (180) days after the close of each Fiscal

Year (commencing with the Fiscal Year ending June 30, 1991) a summary report showing in reasonable detail the revenues of the Agency for the Project and the Fixed Project Costs, the Fixed O&M Costs and the Variable O&M Costs of the Project for such Fiscal Year and containing a general statement of the physical condition of the Project. The Agency will make available for inspection by the Project Participant a copy of such summary report to the Agency and will furnish a copy thereof to the Fiscal Agent.

Section 22. Direction and Review.

(a) General. The Agency and the Project Participant hereby establish the "Morongo Basin Pipeline Commission" for purposes of meeting to review, evaluate and approve items related to the acquisition, construction, financing, operation and maintenance of the Project. The Commission shall consist of two members from the Agency and one member from each Project Participant, together with alternate members for each Commission member. The Agency, the Project Participant and each Commission member shall act in good faith and in a reasonable and prudent manner to accomplish the purposes of the Project Agreements.

The primary purpose of the Commission shall be to represent the interests of the residents and taxpayers within Improvement District M, including the interests of residents and taxpayers within areas not served by the Project Participants, whether such residents and taxpayers are impacted by the Project directly or indirectly.

A Project Organizational Chart setting forth the relationship of the Agency, the Commission, the Project Participants and Project contractors and consultants is set forth in Exhibit D hereto.

The Agency shall comply with all lawful directions of the Commission with respect to the applicable Project Agreements, while not stayed or nullified by a court action, to the fullest extent authorized by law.

All contractors and consultants with respect to the Project will work under contract with the Agency and all directions to the contractors and consultants shall be through the Agency.

(b) Compliance with Agency Agreements. No action by the Commission pursuant to the Project Agreements or otherwise shall require the Agency to act in a manner inconsistent with, or refrain from acting as required by, any Bond Resolution, any agreement entered into by the Agency for

the construction or operation of the Project or any applicable licenses, permits or regulatory provisions and the Agency shall be responsible for executing contracts relating to construction and operation of the Project and fulfilling the obligations of the Agency thereunder. If the Commission is unable to, or fails to, agree with respect to any matter or dispute which it is authorized to determine, resolve, approve or otherwise act upon after a reasonable opportunity to do so, the Agency may, upon written notice to each member of the Commission, pending action by the Commission, take such action, consistent with Prudent Utility Practice, as it determines is necessary for the timely performance of its obligations under any Bond Resolution or any agreement entered into by the Agency for the construction or operation of the Project.

(c) Meetings. Actions of the Commission will be taken only at meetings of the Commission duly called and held pursuant to the Ralph M. Brown Act or other laws applicable to such meetings. Regular meetings of the Commission to act only on matters relating to the Project shall be held once per month at such time and place as shall be established by resolution of the Commission. The Agency shall prepare an agenda for meetings of the Commission and any Project Participant may request that any item relating to the Project be included on the agenda. Copies of the agenda and supporting information shall be provided to the Authorized Representatives in accordance with the time requirements and procedures established by the Ralph M. Brown Act.

Meetings of the Commission to act only on matters relating to the Project may be called by a majority of the members of the Commission upon notice as required by the Ralph M. Brown Act for special meetings of public entities or other laws applicable to such meetings, in effect from time to time.

Section 23. Term.

(a) This Agreement shall not take effect until it and Project Agreements of other Project Participants have been duly executed and delivered to the Agency by Project Participants the Project Allotment Percentage of which, in the aggregate, equal 100% of the Project Capacity and accompanied by an opinion for each Project Participant of an attorney or firm of attorneys in substantially the form attached hereto as Exhibit E.

(b) Notwithstanding the delay in effective date of this Agreement until the Project Allotment Percentages in the aggregate equal 100% and the other provisions of subsection

(a) of this Section have been complied with, it is agreed by the Project Participant that in consideration for the Agency's signature hereto, and for its commitment to use its best efforts to obtain the commitment for Project Allotment Percentages in the aggregate equal to 100% of Project Capacity, the Project Participant upon its execution and delivery of this Agreement to the Agency along with the required opinion and any required evidence of compliance as required by subsection (a) of this Section shall be immediately bound not to withdraw its respective offer herein made to enter into this Agreement as executed and/or supplemented or to decrease or terminate its Project Allotment Percentage before June 1, 1991. Such a decrease or termination by the Project Participant may be made only if this Agreement has not taken effect before June 1, 1991 and only by giving written notice thereof to the Agency between June 1, and June 15, 1991.

(c) Notwithstanding the foregoing, the Project Participant shall be entitled to decrease or terminate its Project Allotment Percentage upon giving written notice hereof to the Agency within fifteen (15) days after July 1, 1991, if by July 1, 1991 the Agency shall not have issued any Bonds secured by this Agreement.

The term of this Agreement shall continue until the earlier of (i) the date on which all Bonds issued have been retired, or full provision made for their retirement, including interest until their retirement date, or (ii) fifty (50) years.

Section 24. Option for Continued Use of the Project.

By written notice to the Agency at least six (6) months prior to the expiration of the term of this Agreement, the Project Participant may elect to receive continued use of the Project after expiration of said term under the following conditions unless otherwise agreed to:

- (1) Service of water, subject to the Agency's agency-wide policy for the sale of water, as in effect from time to time; and
- (2) Use of the Project at no greater cost to the Project Participant than would have been the case had this Agreement continued in effect, subject, in the case of the cost of the water, to the Agency's agency-wide policy for the sale of water, as in effect from time to time.

Other terms and conditions of the continued use of the Project shall be reasonable and equitable and shall be mutually agreed upon. In the event that said terms and conditions provide for continued use of the Project for a limited number of years only, the Project Participant shall have the same option to receive continued use of the Project here provided for upon the expiration of that and each succeeding period of continued use of the Project.

Section 25. Termination and Amendments.

This Agreement shall not be subject to termination by any party under any circumstances, whether based upon the default of any other party under this Agreement, or any other instrument, or otherwise, except as specifically provided herein.

Except as otherwise provided in this Agreement, so long as any Bonds are outstanding and unpaid and funds are not set aside for the payment or retirement thereof in accordance with the applicable Bond Resolution, this Agreement shall not be amended, modified or otherwise changed or rescinded by agreement of the parties without the consent of each Fiscal Agent for Bonds whose consent is required under the applicable Bond Resolution. This Agreement may only be amended, modified or otherwise changed or rescinded in writing by each of the parties hereto.

Notwithstanding the foregoing, this Agreement may be amended without the consent of the owners of the Bonds for any of the following purposes:

(a) to add to the agreements, conditions, covenants and terms contained herein required to be observed or performed by the Agency or the Project Participant other agreements, conditions, covenants and terms hereafter to be observed or performed by the Agency or the Project Participant, or to surrender any right reserved herein to or conferred herein on the Agency or the Project Participant, and which in either case shall not adversely affect the interests of the owners of any Bonds;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the Agency or the Project Participant may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the owners of any Bonds;

(c) to make any modifications or changes necessary or appropriate in the opinion of a firm of nationally recognized standing in the field of law relating to municipal bonds to preserve or protect the exclusion from gross income of interest on the Bonds for federal income tax purposes;

(d) to make any modifications or changes to this Agreement in order to enable the execution and delivery of Bonds on a parity with any Bonds previously issued and to make any modifications or changes necessary or appropriate in connection with the execution and delivery of Bonds; or

(e) to make any other modification or change to the provisions of this Agreement which does not materially adversely affect the interests of the owners of any Bonds.

Section 26. Miscellaneous.

The headings of the sections hereof are inserted for convenience only and shall not be deemed a part of this Agreement.

If any one or more of the covenants or agreements provided in this Agreement to be performed should be determined to be invalid or contrary to law, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

IN WITNESS WHEREOF the Project Participant has executed this Agreement with the approval of its governing body, and caused its official seal to be affixed and the Agency has executed this Agreement in accordance with the authorization of its Board of Directors.

MOJAVE WATER AGENCY

[SEAL]

Attest:

By: Thomas H. Irwin
Thomas H. Irwin,
Secretary

By: John H. Russell
John H. Russell, President

By: Elayne Joy Gaines
Elayne Joy Gaines, Director
Division No. 2

COUNTY OF SAN BERNARDINO with respect to
COUNTY SERVICE AREA NO. 70,
IMPROVEMENT ZONE W-1 and
IMPROVEMENT ZONE W-4

By: Larry Walker
Larry Walker, Chairman
Board of Supervisors

MAR 11 1991

SIGNED AND CERTIFIED THAT A COPY OF THIS DOCUMENT HAS BEEN DELIVERED TO THE CHAIRMAN OF THE BOARD.



EXHIBIT A

PART I: SCHEDULE OF PROJECT PARTICIPANTS,
PROJECT ALLOTMENT PERCENTAGES OF
PROJECT CAPACITY AND OF FIXED O&M
COSTS AND PEAK DELIVERY RATES*

<u>Water Purveyor</u>	<u>Project Allotment Percentage of Project Capacity and of Fixed O&M Costs</u>	<u>Peak Delivery Rate Based on 10,900 Acre-Feet/Year</u>	<u>Peak Delivery Rate Based on 7,257 Acre-Feet/Year</u>
1. Bighorn-Desert View Water Agency	9%	1.35 cfs	1.19 cfs
2. a. County Service Area No. 70, Improvement Zone W-1	4%	.60 cfs	.53 cfs
b. County Service Area No. 70, Improvement Zone W-4	1%	.15 cfs	.13 cfs
3. Hi-Desert Water District	59%	8.85 cfs	7.83 cfs
4. Joshua Basin Water District	27%	4.05 cfs	3.58 cfs
Total	100%	15.00 cfs	13.26 cfs

* These percentages shall be revised in accordance with
Section 19 hereof.

PART II: SCHEDULE OF PROJECT PARTICIPANTS AND
ALLOCATION OF DEBT SERVICE*

<u>Water Purveyor</u>	<u>Allocation of Debt Service Costs</u>
1. Bighorn-Desert View Water Agency	5.4% ^{1/}
2. a. County Service Area No. 70, Improvement Zone W-1	2.4% ^{1/}
b. County Service Area No. 70, Improvement Zone W-4	0.6% ^{1/}
3. Hi-Desert Water District	35.4% ^{1/}
4. Joshua Basin Water District	16.2% ^{1/}
5. Mojave Water Agency	40.0% ^{2/}
Total	<u>100%</u>

^{1/} Commencing Fiscal Year 1993-94. Prior to Fiscal Year 1993-94, the Project Participants shall pay an amount of Fixed Project Costs for Debt Service based upon the amounts set forth in Section 5(b) hereof. These percentages shall be revised in accordance with Section 19 hereof.

^{2/} The debt service costs allocated to the Mojave Water Agency are being derived from property taxes levied in Improvement District M.

EXHIBIT B

WATER SUPPLY COSTS

The costs to a Project Participant for supply of a portion of the Agency's annual State Water Project Allotment in an amount equal to or less than the Project Allotment Percentage, shall be determined in accordance with the Policy of the Agency regarding State Water Delivery Costs (the "Policy").

Under the Policy, the Agency's incurred costs shall be separated into two categories:

- 1) Fixed Costs, independent of water deliveries to the Agency.
- 2) Variable Costs, which are dependent upon actual deliveries of water.

Fixed Costs (independent of water deliveries)

Water System Revenue Bond Surcharge (WSR)

Capital Cost Component (CCC)

- Delta Water Charge
- Transportation Charge

Minimum OMP&R Component (MOC)

- Facilities Transportation Charge
Minimum Operation, Maintenance,
Power and Replacement ("OMP&R")
Component

East Branch Enlargement (EBE)

- Facilities Transportation Charge
Minimum OMP&R Component

Variable Costs (dependent upon actual delivery of water)

Variable Transportation Component (VTC)

Off-Aqueduct Power Costs (OAP)

Replacement Account (RA)

* Use-of-Facilities Fee (UFF)

* The Use-of-Facilities Fee will only apply to water delivered via Lake Silverwood, or the Las Flores Turnout prior to the completion of the East Branch Enlargement.

In accordance with the Policy, Fixed Costs shall be offset by MWA #1 and #2 revenues, and Variable Costs shall be paid by the Project Participant as follows:

Variable Costs

Cost of Delivery [VTC + OAP + RA + UFF*] X **1.15
Per Acre-Foot

* If applicable
** 15% administration and overhead
relating to the State Water Supply
Contract

NOTES

1. All Costs Components are variable and are adjusted annually by the State of California Department of Water Resources (DWR).
2. The costs of delivery described above do not include any costs for the Project. Any OMP&R costs associated with the Project shall be in addition to the cost of delivery as defined in the Policy and as set forth in this Exhibit B.

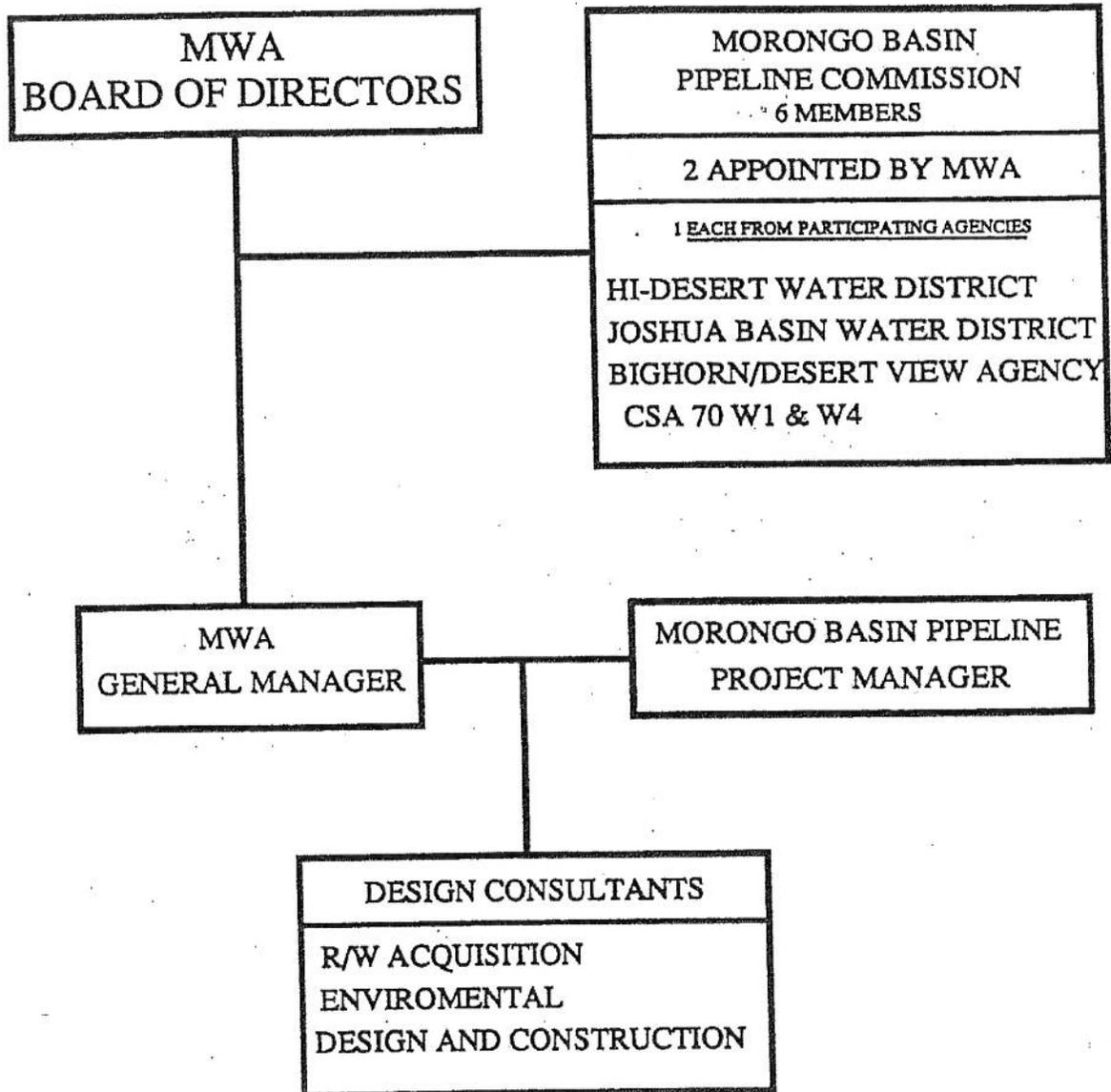
EXHIBIT C

DESIGNATION OF AUTHORIZED REPRESENTATIVES
AND INITIAL MORONGO BASIN PIPELINE
COMMISSION REPRESENTATIVES

	<u>Designated Authorized Representative</u>	<u>Alternative</u>
1. Bighorn-Desert View Water Agency	Ruth Reiman, Director	Michael Maline, Manager
2. County Service Area No. 70, Improvement Zone W-1 and Improvement Zone W-4	Vern Knourek, Assistant Administrative Officer for Special Districts	Ronald L. Bangert, Supervisor - Water and Sanitation Operations
3. Hi-Desert Water District	Carl Dalton, Director	Marsh Goldblatt, Manager
4. Joshua Basin Water District	George Becker, Director	Bill Avery, Manager
5. Mojave Water Agency	Joy Gaines, Director Larry Rowe, General Manager	Thomas Irwin, Director (first alternate) John Russell, Director (second alternate)

* This Exhibit is for illustration purposes. The Agency and each Project Participant will designate who their respective Authorized Representative and alternative for the Commission will be.

MORONGO BASIN PIPELINE PROJECT ORGANIZATIONAL CHART



THE PIPELINE PROJECT MANAGER WILL ATTEND MEETINGS OF THE MWA AND THE COMMISSION

EXHIBIT E

[This opinion shall be delivered upon execution of the Project Agreement and a second opinion encompassing the same matters, as well as language relating to the Project Participant in each official statement shall be delivered at the time of issuance of each Series of Bonds]

_____, 199_

Mojave Water Agency
22450 Headquarters Way
Apple Valley, California 92308

[Project Participant]
[Fiscal Agent]
Prudential-Bache Capital Funding

Ladies and Gentlemen:

I am acting as counsel to the [Project Participant] (the "Project Participant") under the Agreement for Construction, Operation and Financing of Morongo Basin Pipeline Project, dated as of _____, 1991 (the "Agreement"), between the Mojave Water Agency (the "Agency") and the Project Participant, and I have acted as counsel to the Project Participant in connection with the matters referred to herein. As such counsel I have examined and am familiar with (i) documents relating to the existence, organization and operation of the Project Participant provided to me by the Project Participant, (ii) certifications by officers of the Project Participant, (iii) all necessary documentation of the Project Participant relating to the authorization, execution and delivery of the Agreement, and (iv) an executed counterpart of the Agreement. Terms used herein and not otherwise defined have the respective meanings set forth in the Agreement.

Based upon the foregoing and such examination of law and such other information, papers and documents as I deem necessary or advisable to enable me to render this opinion, including the Constitution and laws of the State of California, together with the resolutions, ordinances and public proceedings of the Project Participant, I am of the opinion that:

1. The Project Participant is a _____, duly created, organized and existing under the laws of the State of California and duly qualified to furnish water service within said State.

2. The Project Participant has legal right, power and authority to enter into the Agreement and to carry out and consummate all transactions reasonably contemplated thereby, and the Project Participant has complied with the provisions of applicable law relating to such transactions.

3. The Agreement has been duly authorized, executed and delivered by the Project Participant, is in full force and effect as to the Project Participant in accordance with its terms and, subject to the qualifications set forth in the second to the last paragraph hereof, and assuming that the Agency has all requisite power and authority, and has taken all necessary action, to authorize, execute and deliver such Agreement, the Agreement constitutes the valid and binding obligation of the Project Participant.

4. Payments by the Project Participant under the Agreement will constitute an operating expense of the Project Participant and are to be made solely from the Revenues of its Water System or other lawfully available funds as provided in Section 5(d) of the Agreement.

5. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by the Project Participant of the Agreement or the performance by the Project Participant of its obligations thereunder, other than permits or approvals required in construction or operation of the Project which cannot yet be acquired.

6. The authorization, execution and delivery of the Agreement and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of the Project Participant, any commitment, agreement or other instrument to which the Project Participant is a party or by which it or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order or decree to which the Project Participant (or any of its officers in their respective capacities as such) is subject or any provision of the laws of the State of California relating to the Project Participant and its affairs.

_____, 199_

7. There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before any court, public board or body, pending or, to my knowledge, threatened against or affecting the Project Participant or any entity affiliated with the Project Participant or any of its officers in their respective capacities as such (nor to the best of my knowledge is there any basis therefor), which questions the powers of the Project Participant referred to in paragraph 2 above or the validity of the proceedings taken by the Project Participant in connection with the authorization, execution or delivery of the Agreement, or wherein any unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by the Agreement, or which, in any way, would adversely affect the validity or enforceability of the Agreement.

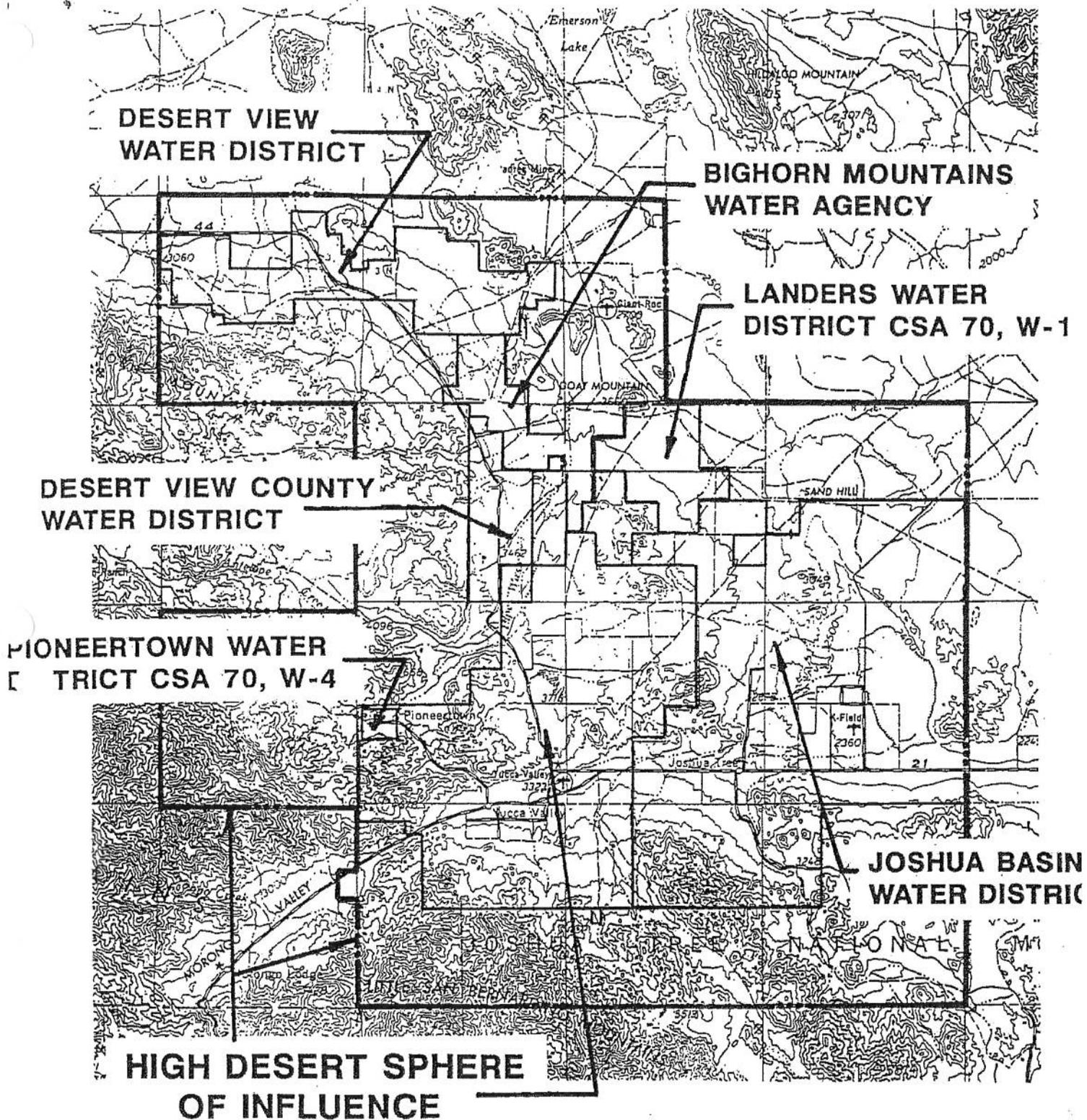
8. [Language to the effect that the disclosure in the official statements relating to the Project Participant is not in violation of Rule 10b-5 of the Securities Exchange Act will be included in the opinion delivered at the time of issuance of each series of Bonds.]

The opinion expressed in paragraph 3 above is qualified to the extent that the enforceability of the Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, or other laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against water agencies in the State of California and provided that no opinion is expressed with respect to any indemnification or contribution provisions contained therein.

This opinion is rendered only with respect to the laws of the State of California and the United States of America and is addressed only to the Mojave Water Agency, the Project Participant, the [Fiscal Agent] and Prudential-Bache Capital Funding. No other person is entitled to rely on this opinion, nor may you rely on it in connection with any transactions other than those described herein.

Very truly yours,

EXHIBIT F



**DIVISION NO. 2 AND
IMPROVEMENT DISTRICT "M" BOUNDARY**

TABLE I

COUNTY SERVICE AREA NO. 70

LIST OF NOTES, BONDS OR OTHER OBLIGATIONS
OF THE PROJECT PARTICIPANT AS OF
MARCH 15, 1991 TO WHICH REVENUES OF THE
PROJECT PARTICIPANT ARE PLEDGED

<u>DESCRIPTION</u>	<u>DEBT SERVICE</u>		<u>RESERVE FUND (as of 3/15/91)</u>	<u>REQUIRED RESERVE FUND DEPOSITS</u>
	<u>INTEREST</u>	<u>PRINCIPAL</u>		
A. Improvement Zone W-1				
1. \$1,540,000 General Obligation to Farmers Home Admin- istration				[Ad valorem property taxes collected for the payment of debt service on general obligation bonds are excluded from the definition of Revenues.]
B. Improvement Zone W-4				
1. \$536,115 Loan payable from assessments payable to Department Of Water Resources				[Assessments collected for the payment of debt service on these bonds are excluded from the definition of Revenues; no Revenues are pledged for the payment of these bonds.]

TABLE II

SCHEDULE OF FIXED O&M COSTS BY PROJECT REACH

PERCENTAGE

Reach 1

1. Bighorn - Desert View Water Agency
2. a. County Service Area 70 (W-1)
b. County Service Area 70 (W-4)
3. Hi-Desert Water District
4. Joshua Basin Water District

Reach 2

1. Bighorn - Desert View Water Agency
2. a. County Service Area 70 (W-1)
b. County Service Area 70 (W-4)
3. Hi-Desert Water District
4. Joshua Basin Water District

Reach 3

1. Bighorn - Desert View Water Agency
2. a. County Service Area 70 (W-1)
b. County Service Area 70 (W-4)
3. Hi-Desert Water District
4. Joshua Basin Water District

Reach 4

1. Bighorn - Desert View Water Agency
2. a. County Service Area 70 (W-1)
b. County Service Area 70 (W-4)
3. Hi-Desert Water District
4. Joshua Basin Water District