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WASTEWATER RECLAMATION PROJECT
CONSTRUCTION AND OPERATION AGREEMENT
among the
MONTEREY PENINSULA WATER MANAGEMENT DISTRICT,
CARMEL AREA WASTEWATER DISTRICT, PEBBLE BEACH
COMMUNITY SERVICES DISTRICT
and
PEBBLE BEACH COMPANY
DATED AS OF NOVEMBER 1, 1990

TABLE OF CONTENTS

	<u>Page(s)</u>
<u>Recitals</u>	1
<u>Agreement</u>	2
1. Definitions	2
1.1 Bonds.	2
1.2 Business Day	2
1.3 Cal-Am	2
1.4 Capital Costs.	2
1.5 Commercial Operation Date.	4
1.6 CAWD/PBCSD	4
1.7 Distribution System.	4
1.8 Facility	4
1.9 Fiscal Sponsorship Agreement	4
1.10 General Manager.	4
1.11 Irrigation Systems	4
1.12 Management Agreement	4
1.13 Management Committee	4
1.14 Open Spaces.	5
1.15 Operating Revenues	5
1.16 Operation and Maintenance Expenses	5
1.17 Project.	5
1.18 Public Participant	5
1.19 Reclaimed Water.	6
1.20 Reclamation Project.	6
1.21 Related Agreements	6
1.22 Service Agreement.	6
2. The Reclamation Project	6
2.1 Description.	6
2.2 Role of Public Participants.	7
2.3 Use of Reclaimed Water	8
3. Financing of Construction of Reclamation Project	8
4. Construction of Project	9
5. Operation of Project.	12
5.1 Management of Project.	12
5.2 Budgeting and Financial Accounting for Project.	12
5.3 Standards of Operation.	15

TABLE OF CONTENTS
(Continued)

	<u>Page(s)</u>
5.4 Insurance	15
5.5 Payment of Operation and Maintenance Expenses	16
6. Management of Project	18
6.1 Role of Management Committee	18
6.2 General Manager and Staff.	19
6.3 Management Agreement	19
7. Investment of Operating Revenues.	19
8. Certain Rights of PBC	20
9. Representations and Warranties and Covenants.	20
9.1 Mutual Representations and Warranties.	20
9.2 Covenants of CAWD and PBCSD Concerning Operation of Project	21
9.3 Covenants of CAWD Concerning Personnel	22
9.4 Effect of Agreement and Project on Existing Plant	22
10. Term	22
11. Remedies for Breach	23
11.1 Termination and Damages	23
11.2 Remedies under Fiscal Sponsorship Agreement	23
11.3 Equitable Remedies	23
12. Indemnification	24
12.1 Protection of Parties.	24
12.2 Procedure For Indemnification.	24
12.3 Payment of Indemnified Claims.	25
12.4 Securities Law Indemnification	25
13. Miscellaneous	25
13.1 Further Assurances.	25
13.2 Relationship of the Parties.	26
13.3 Notices.	26
13.4 Exhibits	26
13.5 Assignment	26
13.6 Cumulative Remedies.	27
13.7 Severability	27

TABLE OF CONTENTS
(Continued)

	<u>Page(s)</u>
13.8 Waiver	27
13.9 Headings and Titles	27
13.10 Presumptions	27
13.11 Amendment or Modification	27
13.12 Counterparts	28
13.13 Entire Agreement	28
13.14 Limitation on Liability of Partners	28
13.15 No Third-Party Beneficiary Rights	28
13.16 Security Interest	28
13.17 Expanded or Additional Facilities	29
Exhibit "A" Open Spaces	
Exhibit "B" Description of Reclamation Project	

WASTEWATER RECLAMATION PROJECT
CONSTRUCTION AND OPERATION AGREEMENT

This Wastewater Reclamation Project Construction and Operation Agreement is entered into as of November 1, 1990, by and among the Monterey Peninsula Water Management District, a California public agency ("WMD"), Carmel Area Wastewater District (formerly Carmel Sanitary District), a California public agency ("CAWD"), Pebble Beach Community Services District, a California public agency ("PBCSD"), and Pebble Beach Company, a California general partnership ("PBC").

Recitals

A. WMD was created to manage and regulate the use, reuse, reclamation and conservation of water on the Monterey Peninsula and the bond financing of related public works projects. WMD is desirous of implementing methods of conserving potable water consumption, and making available existing potable water, on the Monterey Peninsula for uses and purposes other than the uses and purposes for which it is presently being utilized.

B. CAWD owns and operates, and PBCSD has a contractual right for one third of the capacity of, a wastewater treatment plant which is located on the Monterey Peninsula.

C. WMD and PBC have entered into a Wastewater Reclamation Project Fiscal Sponsorship Agreement, dated as of October 3, 1989, pursuant to which PBC has agreed to provide financial guarantees for financing of a wastewater reclamation project, which will utilize wastewater from the CAWD plant, in return for entitlements of potable water which assure future potable water service to property owned by PBC and others.

D. The parties hereto desire to cause a wastewater reclamation facility, capable of producing at least 800 acre feet per year of subpotable water suitable for irrigation of existing golf courses and other open spaces on the Monterey Peninsula, and related distribution system and irrigation systems (the "Reclamation Project"), to be financed and constructed on the Monterey Peninsula, with the understanding that such open spaces will utilize such subpotable water for irrigation, thereby conserving potable water consumption and making available existing potable water for other uses and purposes on the Monterey Peninsula.

E. The parties hereto further desire that such wastewater reclamation facility be located at the CAWD plant

site and that CAWD and PBCSD, with the participation of PBC, manage the construction of such facility and distribution system portions of the Reclamation Project and the operation of such portions thereof, and CAWD and PBCSD are willing to jointly perform such services, with CAWD acting as the lead agency.

Agreement

NOW, THEREFORE, in consideration of the foregoing, and the covenants and representations and warranties set forth in this Agreement, the parties have agreed as follows:

1. Definitions. As used in this Agreement, the following terms shall have the following meanings:

1.1 "Bonds" means the bonds or certificates of participation issued by any Public Participant to finance the Capital Costs of the Reclamation Project, as more fully described in the Fiscal Sponsorship Agreement.

1.2 "Business Day" means any weekday which is not a Federal or California state holiday.

1.3 "Cal-Am" means the California American Water Company, a California corporation, and its successors and assigns.

1.4 "Capital Costs", as applied to the Reclamation Project or any portion thereof, means all or any part of:

(a) the cost of acquisition of all lands, structures, real or Personal property, rights, rights-of-way, franchises, easements, and interests acquired or used for the Reclamation Project, inclusive of fees and commissions for acquisition;

(b) the cost of construction of the Reclamation Project, including, without limitation, demolition, modification, replacement or renovation of existing structures, facilities, fixtures or equipment essential to the construction and operation of the Reclamation Project; cost of improvements and materials; direct and indirect construction and administration expenses of each of the Public Participants properly allocable to the Reclamation Project in accordance with generally accepted accounting principles; cost of painting, decorating, furnishing and landscaping; contractor and subcontractor profit; and costs related, by reason of the Reclamation Project, to plumbing, mains, tanks, or pipes which are modified, replaced or renovated, whether owned by any of the Public Participants or others;

(c) the cost of demolishing or removing any buildings, fixtures, equipment, or structures on land so acquired, including, without limitation, the cost of acquiring any lands to which such buildings or structures may be moved;

(d) the cost of all new machinery, piping, equipment and furnishings, and the lesser of (i) the fair market value, or (ii) depreciated value for the purpose of the applicable rate base, of machinery, piping, equipment and furnishings made obsolete or unusable to Cal-Am or any of the Public Participants by reason of the Reclamation Project to the extent not replaced by the Reclamation Project;

(e) costs of selling and issuing the Bonds, including, without limitation, the underwriter's discount;

(f) interest on any funds advanced to permit payment of any of the Capital Costs prior to, during, and for a reasonable period after completion of the construction of the Reclamation Project as determined by PBC and WMD, including, without limitation, capitalized interest on the Bonds;

(g) the Operating Reserve, as defined in the Fiscal Sponsorship Agreement;

(h) the Bond Carrying Costs, as that term is defined in the Fiscal Sponsorship Agreement, to the extent reasonably determinable by the commencement of the offering of the Bonds and payable within one year of the closing of such offering; and

(i) the cost of architectural, engineering, planning, environmental analysis, financial, accounting, auditing and legal services, plans, specifications, estimates, administrative expenses, permits, fees, adverse claims, personnel and overhead costs (both direct and indirect, to the extent properly allocable to the Reclamation Project in accordance with generally accepted accounting principles), and other expenses necessary or incident to determining the feasibility of construction of the Reclamation Project or incident to the planning, construction, acquisition, or financing of the Reclamation Project, including, without limitation:

(1) payment during the construction period of the premiums for all title and other insurance, bonds, or undertakings required to be obtained and maintained with respect to any part of the Reclamation Project, to the extent such amounts are not paid by any contractor who constructs or installs any portion of the Reclamation Project;

(2) payment of the taxes, assessments and other fees or charges, if any, that may become payable during the construction period with respect to the Reclamation Project, or reimbursements thereof; and

(3) payment of expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the acquisition, construction or installation of any portion of the Reclamation Project.

1.5 "Commercial Operation Date" means the date on which the Project is capable of operating at its designed capacity on a continuing basis, as determined by the Management Committee, in good faith and on any reasonable basis, after all required testing of the Project is completed, as evidenced by the issuance by the Management Committee of a certificate setting forth its determination of such date.

1.6 "CAWD/PBCSD" means the combination of CAWD and PBCSD, which entities, pursuant to the Management Agreement, will own the Project and, through the Management Committee, manage the design, construction, operation and maintenance of the Project.

1.7 "Distribution System" has the meaning given to it in Section 2.1 hereof.

1.8 "Facility" has the meaning given to it in Section 2.1 hereof.

1.9 "Fiscal Sponsorship Agreement" means the Wastewater Reclamation Project Fiscal Sponsorship Agreement, dated as of October 3, 1989, between WMD and PBC.

1.10 "General Manager" means the General Manager of CAWD.

1.11 "Irrigation Systems" has the meaning given to it in Section 2.1 hereof.

1.12 "Management Agreement" means the agreement between CAWD and PBCSD, which has been executed and delivered concurrently with this Agreement, which establishes and allocates the rights and responsibilities of CAWD and PBCSD with respect to the construction, ownership and operation of the Project.

1.13 "Management Committee" means a committee composed of (a) two representatives of CAWD, (b) two representatives of PBCSD, and (c) one representative of PBC,

until such time as PBC resigns from such committee or provides notice to WMD that, pursuant to Section 3.6 of the Fiscal Sponsorship Agreement, it will cease providing the Bond Letter of Credit and the NOD Letter of Credit, both as defined in the Fiscal Sponsorship Agreement, which committee will, pursuant to this Agreement, direct budgeting for, and the management, construction and operation of, the Project.

1.14 "Open Spaces" means the golf courses and other open spaces named on Exhibit "A" hereto.

1.15 "Operating Revenues", as applied to the Project, means all income, rents, rates, fees, charges and other moneys derived by any of the Public Participants from the ownership or operation of the Project, including, without limitation, (a) all income, rents, rates, fees, charges or other moneys derived from the sale, furnishing and supplying of Reclaimed Water or from potable water supplied in lieu thereof, (b) insurance and condemnation proceeds payable to any Public Participant, resulting from damage to or destruction of any of the Project's facilities or the Existing Facilities, as defined in Section 5.4(a) hereof, or from the condemnation of any of such facilities, and (c) interest earned on all revenues referenced in (a) or (b) above, on the Operating Reserve or on any other fund or account relating to the Project (excluding any amounts required to be rebated to the United States pursuant to Section 148 of the Internal Revenue Code); provided, however, that such term shall not include customers' deposits or any other deposits subject to refund until such deposits are no longer subject to refund and have become the property of one of the Public Participants.

1.16 "Operation and Maintenance Expenses", as applied to the Project, means all expenses and costs of management, operation, maintenance and repair of the Project, including, without limitation, payments to be made by any of the Public Participants under agreements with Cal-Am for the purchase of potable water, and all incidental costs, fees and expenses incurred for such purpose properly chargeable to the Project in accordance with generally acceptable accounting principles, subject, however, to the limitation with respect to depreciation, amortization and obsolescence described in Section 5.2(b) hereof.

1.17 "Project" means the Facility and the Distribution System, but shall not include any of the Irrigation Systems.

1.18 "Public Participant" means any one or more of the following: WMD, CAWD, PBCSD, or any successor public agency, including, without limitation, any joint powers agency formed by one or more of such agencies.

1.19 "Reclaimed Water" has the meaning given to it in Section 2.1 hereof.

1.20 "Reclamation Project" means the Facility, Distribution System and Irrigation Systems (including, without limitation, lands, facilities, equipment, furniture and fixtures).

1.21 "Related Agreements" means the agreements, in form and substance satisfactory to each of the parties to such agreements and PBC, between or among two or more of CAWD, PBCSD, WMD, Cal-Am, an owner of one or more of the Open Spaces, and PBC, as the case may be, reasonably necessary to implement the Reclamation Project and addressing all matters related to the Reclamation Project as PBC deems necessary or advisable, including, without limitation, the following agreements:

(a) Service Agreement;

(b) Sale Agreement among WMD, Cal-Am and Owners of Open Spaces - the long-term sale agreement with respect to the sale and delivery of the Reclaimed Water to the Open Spaces; and

(c) Delivery Agreement among CAWD or CAWD/PBCSD, WMD, and Cal-Am - the agreement which will define the rights and responsibilities of each of such parties with respect to the operation and maintenance of all distribution systems for Reclaimed Water, distribution of the Reclaimed Water to the users thereof and the billing and collecting of the charges for use of the Reclaimed Water.

1.22 "Service Agreement" means the agreement between Cal-Am and PBC pursuant to which Cal-Am agrees to reserve the necessary water supply and to serve the Benefitted Properties, as defined in the Fiscal Sponsorship Agreement, and PBC agrees to pay the Ancillary Project Costs, as defined in the Fiscal Sponsorship Agreement.

2. The Reclamation Project

2.1 Description. Each of the parties desire to cause the financing and construction of (a) a wastewater reclamation facility at the present CAWD treatment plant site, capable of producing at least 800 acre feet per year of subpotable water suitable for irrigation of the Open Spaces (the "Reclaimed Water"), as more specifically described on Exhibit "B" hereto (the "Facility"), (b) a distribution system which is capable of distributing the Reclaimed Water from the Facility to the water meter connections on each of the Open Spaces, as more specifically described on Exhibit "B" hereto

(the "Distribution System"), and (c) irrigation systems on each of the Open Spaces, beginning at the water meter on each of the Open Spaces, which, in combination with the present irrigation systems on such Open Space, are capable of accepting and dispensing the Reclaimed Water for irrigation, as more specifically described on Exhibit "B" hereto (collectively, the "Irrigation Systems").

2.2 Role of Public Participants.

(a) WMD shall, during the term of this Agreement, (i) cause the funds necessary to construct and operate the Reclamation Project to be provided and utilized for such purpose, as further described in this Agreement, (ii) as consideration for providing such funding, have the right to sell the Reclaimed Water pursuant to the terms and conditions of this Agreement and the Sales Agreements referenced in Section 1.21 hereof (the "Sales Agreements"), (iii) cause the Reclaimed Water to be sold and distributed to the owners of the Open Spaces and other users, as further described in this Agreement and the Sales Agreements, (iv) own the Reclaimed Water solely for the purpose of selling and distributing such water to the owners of the Open Spaces and other users pursuant to the terms and conditions of the Fiscal Sponsorship Agreement, with such ownership to be effective only during the period commencing with the distribution of such water from the Facility and ending with the payment for such water by the user thereof, (v) cause the owners of the Open Spaces and other users of the Reclaimed Water to be billed for the purchase price of such water and such bills to be collected, as described in the Delivery Agreement referenced in Section 1.21 hereof, (vi) cause all Operating Revenues to be applied to payment of Operation and Maintenance Expenses and to payment of the Bonds, and (vii) as consideration for providing such funding, have the right to retain all of the Operating Revenues, including, without limitation, the proceeds which result from the above-referenced sales of Reclaimed Water. As consideration for providing the funding referenced above and performing the services it is obligated to perform pursuant to this Agreement, including, without limitation, this Section 2.2, WMD shall, after the later to occur of the expiration of the term of this Agreement and the term of the Sales Agreements, have the right to sell the Reclaimed Water and to retain all of the proceeds which result from such sales.

(b) In consideration of producing the Reclaimed Water, CAWD/PBCSD shall (i) own the Project in the manner set forth in the Management Agreement, (ii) under the direction of the Management Committee, be responsible for the construction, operation and maintenance of the Project, including, without limitation, the production of the Reclaimed

Water, as further described herein and in the Management Agreement, and (iii) own the Reclaimed Water, subject to the rights of WMD with respect to the Reclaimed Water set forth above and the rights of the users of the Reclaimed Water to own and use such water. Each of the parties acknowledge that the Project and the Reclamation Project are for the purpose of treating, reclaiming and disposing of sewage and consent to the performance of this Agreement, by each of the other parties to this Agreement, pursuant to the terms of this Agreement.

(c) At the request of PBC, WMD and CAWD/PBCSD shall execute and deliver a water use agreement or another similar financing instrument in order to facilitate the issuance of the Bonds for the purpose of financing the Capital Costs of the Reclamation Project, as contemplated by Section 3 hereof.

2.3 Use of Reclaimed Water.

(a) WMD shall sell the Reclaimed Water to each of the owners of the Open Spaces in such quantities as each such owner shall require for irrigation purposes, from time to time, on such Open Space in lieu of the potable water historically utilized by such Open Space for irrigation purposes, all as more fully described in the Sale Agreement, as described in Section 1.21(b) hereof, between WMD and such owner. In addition, the owner of each Open Space shall have such further rights with respect to the purchase of Reclaimed Water, for use on its Open Spaces or other similar properties owned by such owner, as may be described in such Sale Agreement. All Reclaimed Water sold for use on the Open Spaces, or for use on other similar properties owned, from time to time, by the owners of the Open Spaces, shall be sold at charges which are not in excess of Cal-Am's charges for potable water, in similar quantities for similar uses and to similar users, from time to time.

(b) After the Commercial Operation Date, CAWD/PBCSD shall produce the Reclaimed Water from the Facility in quantities necessary for WMD to meet its obligations under each of the Sale Agreements and any other agreement pursuant to which it is obligated, from time to time, to sell Reclaimed Water; provided, however, notwithstanding the foregoing, in no event shall CAWD/PBCSD be obligated to produce Reclaimed Water in amounts in excess of the then currently designed capacity of the Facility.

3. Financing of Construction of Reclamation Project. WMD shall issue bonds or certificates of participation (the interest on which, at the election of PBC, is excludable from income for Federal income tax purposes, to the extent permitted under applicable law) for the purpose of financing the estimated Capital Costs of the Reclamation Project, including, without limitation, the contingency for

change orders contemplated by Section 4(a) hereof. WMD will engage in best efforts to cause the Bonds to be offered for sale within 30 days after the final design and construction budget for the Reclamation Project have been approved and all of the construction contracts for the Reclamation Project have been approved and become effective, subject to closing of the sale of the Bonds; provided, however, the Bonds shall not be offered for sale prior to 30 days after WMD or the issuer of the Bonds gives PBC written notice of its intent to commence such offering.

4. Construction of Project. CAWD/PBCSD shall have responsibility for design and construction of the Project, subject to the Management Committee's right to approve decisions relating to the design and construction thereof, including, without limitation, with respect to the matters described in this Section 4.

(a) With respect to design and construction of the Project, each member of the Management Committee shall be given advance written notice, in reasonable detail, and a reasonable period of time after its receipt of such notice to comment on, and make suggestions with respect to, each of the following actions prior, as applicable, to such action becoming effective or complete: (i) initial design plans, and preliminary construction cost estimates, for the Project; (ii) a construction cost estimate for the Project, as set forth in a construction budget and other writings, and a contingency for change orders not contemplated by the construction budget in the amount of 5% of such cost estimate (collectively, the "Cost Estimate"); (iii) the approval of final design plans for the Project; (iv) the establishment of bid criteria for all construction contracts and subcontracts for the Project; (v) the preparation of all design and construction contracts for the Project; (vi) the approval and letting of all such contracts and the related subcontracts; (vii) the establishment of the construction schedule; (viii) all construction disbursements; and (ix) the adequacy of all payment and performance bonds and insurance requirements. The right to comment on, and make suggestions with respect to, the construction disbursements shall be provided, in part, by a designated representative of each member of the Management Committee being given the opportunity to participate in the periodic (but at least monthly) meetings, between the general contractor(s) for the Project and the construction engineer retained by CAWD/PBCSD to supervise the construction of the Project, with respect to the status of construction of the Project and the approval of the payment of each construction disbursement. The General Manager shall give WMD notice of such meetings and one representative of WMD may attend each such meeting. The Cost Estimate shall be determined only after

the approval and letting of all of the contracts and subcontracts described above. The Management Committee shall engage in best efforts to complete such approval and letting process by June 30, 1991.

(b) After the Management Committee has approved the design and scope of, and construction schedule for, the Project (upon which the Capital Costs have been determined), (i) no material change to such design, scope or construction schedule shall be made by the Management Committee, without the written approval of PBC, which shall not be unreasonably withheld or delayed, and (ii) if the net effect of all change orders when aggregated together will exceed 5% of the construction budget, excluding any contingency reserves, for the Project, as a whole, no additional change order in excess of \$5,000 may be approved by other than the unanimous vote of the Management Committee. Each entity with representation on the Management Committee and WMD shall be designated a third party beneficiary of all construction contracts, and all payment and performance bonds, with respect to the construction of the Project.

(c) All Capital Costs incurred and approved, in the manner described in subsections (a) and (b) above, with respect to construction of the Project shall be paid by WMD from the proceeds of the Bonds. WMD shall arrange for such payment by providing to CAWD/PBCSD, promptly after the closing of the sale of the Bonds, an amount equal to the Cost Estimate. CAWD/PBCSD shall deposit such amount in an interest bearing account, and shall invest the portion thereof which is not, at the time, required to make construction disbursements pursuant to the criteria described in Section 7 hereof. The interest earned on such amount shall be deposited in such account. Upon the approval of a construction disbursement pursuant to subsections (a) and (b) hereof, the General Manager shall have the right to pay such disbursement from such account. On or before the 15th day of each calendar month, or portion thereof, during the period beginning with the construction of the Project and ending with the last payment of a construction disbursement, CAWD/PBCSD shall submit to WMD and PBC an accounting, in such format and with such detail as shall be acceptable to WMD and PBC, of the construction disbursements made during such month. Upon payment of all the required construction disbursements, CAWD/PBCSD shall promptly return to WMD the balance in such account.

(d) Each owner of an Open Space shall have responsibility for the design and construction of the Irrigation System on such Open Space, except as hereinafter provided. All expenses of the design and construction of an Irrigation System on an Open Space, which qualify as Capital

Costs pursuant to Section 1.4 above and are approved as provided below in this subsection (d), shall be deemed to be Capital Costs of the Reclamation Project and shall be paid by WMD to the owner of such Open Space in a manner similar to the manner in which Capital Costs are to be paid to CAWD/PBCSD, as described in subsection (c) above. The Sale Agreement with each owner of an Open Space shall provide that (i) the owner of such Open Space shall be obligated to obtain the approvals of WMD and PBC, and, if the Management Committee elects to require its approval, the approval of the Management Committee, with respect to the design (including selection of the design engineer) and construction of such Irrigation System in a manner similar to the manner described in subsections (a) and (b) above, (ii) the Management Committee may require that the design engineer for the Project manage and coordinate the design of such Irrigation System and that the construction contractor for the Project manage and coordinate the construction of such Irrigation System, and (iii) to the extent required by applicable law, such owner shall be obligated to follow the same bid procedures with respect to the selection of persons to perform the design and construction of such Irrigation System as California public agencies would be obligated to follow for the design and construction of similar projects for their benefit. In the event that an owner of an Open Space requests CAWD/PBCSD to perform the design and/or construction of its Irrigation System and CAWD/PBCSD agrees to do so (but CAWD/PBCSD shall have no obligation to agree to do so), or in the event that CAWD/PBCSD is required to do so pursuant to applicable law, then CAWD/PBCSD shall assume the responsibility for the design and/or construction of such Irrigation System, as the case may be, and such design and/or construction shall be performed by CAWD/PBCSD in accordance with the requirements of this Agreement for the Project.

(e) Without regard to the entity that has responsibility for or performs design and/or construction of the Irrigation System, each such owner of an Open Space shall be the owner of the Irrigation System constructed on the Open Space it owns and shall operate and maintain such Irrigation System and be responsible for all expenses related to the operation, maintenance and repair of such Irrigation System.

(f) CAWD/PBCSD shall (i) timely file and diligently prosecute all applications for all permits and governmental approvals and authorizations necessary to construct and operate the Project in the manner contemplated or required by this Agreement, (ii) timely satisfy and comply with all terms and conditions of all such permits, approvals and authorizations, and (iii) at all times maintain such permits, approvals and authorizations in full force and effect. Such permits, approvals and authorizations shall include, without

limitation, those required by the California Coastal Commission, the County of Monterey, the California Regional Water Quality Control Board, the Monterey Bay Unified Air Pollution Control District and the City of Carmel-by-the-Sea. CAWD/PBCSD shall also timely obtain, comply with all of the terms and conditions of, and maintain in full force and effect all private rights and consents necessary to construct and operate the Project in the manner contemplated or required by this Agreement.

5. Operation of Project.

5.1 Management of Project. CAWD/PBCSD shall have responsibility for management, operation and maintenance of the Project, subject to the rights of each member of the Management Committee to receive financial data (both projected and historical) concerning the Project, and to review, and comment upon, decisions related to such financial data and the management, operation and maintenance of the Project, including, without limitation, with respect to the matters described in this Section 5.

5.2 Budgeting and Financial Accounting for Project.

(a) The Management Committee shall cause to be developed, and shall approve, an annual budget for the Project for each year, whether partial or full, after the occurrence of the Commercial Operation Date, at least 30 days prior to the commencement of such year. The annual budget for the Project shall be prepared based upon projections of Operating Revenues to be received and Operation and Maintenance Expenses to be incurred by WMD and CAWD/PBCSD. WMD shall cooperate with the Management Committee in its budgeting efforts by expeditiously providing to the Management Committee, at its request, a projection of Operating Revenues that WMD expects to receive, and Operation and Maintenance Expenses that WMD expects to incur, during the applicable year. The annual budget for the first partial and the first full fiscal year of the Project shall be submitted to WMD for its approval, which shall not be unreasonably withheld or delayed, promptly after it has been approved by the Management Committee.

(b) In calculating the projected and actual Operation and Maintenance Expenses for any year: (i) no item of administrative or other overhead expense of any of the Public Participants, other than such reasonable expenses which relate to the Project, shall be included in the calculation of Operation and Maintenance Expenses without the prior written consent of each of the members of the Management Committee who is not a representative of such Public Participant, with the

exact amount of any such includable expenses to be determined by the Management Committee; (ii) Operation and Maintenance Expenses shall only include an allowance for depreciation, amortization and obsolescence (established in the first annual budget for the Project) which is determined pursuant to generally accepted utility practices, but is limited to an amount sufficient to create, over the original term of the Bonds, a sinking fund for replacement and renovation which shall not exceed \$1,000,000, and such allowance shall not be modified if the Bonds are prepaid for any reason; and (iii) no debt service obligation on the Bonds shall be included.

(c) Each of the members of the Management Committee shall have the right to participate in the development of the annual budget for the Project. Only expenses provided in a budget for the Project, or approved in writing by each member of the Management Committee, shall be deemed to constitute Operation and Maintenance Expenses. CAWD shall submit to each member of the Management Committee (i) with respect to the first partial and the first full fiscal year of the Project, and for each fiscal year thereafter, if, during the immediately prior fiscal year, the results of operations (i.e. difference between Operation and Maintenance Expenses and Operating Revenues) of the Project reflect a negative difference from the results of operations projected in the budget for such fiscal year (an "Operating Short-Fall"), unaudited monthly financial statements of the Project, accompanied by an unqualified certificate of the chief financial officer of CAWD (an "Officer's Certificate"), on or before the 15th day after each such month, (ii) with respect to each fiscal year for the Project not described in clause (i) above, unaudited quarterly financial statements of the Project, accompanied by an Officer's Certificate, on or before the 30th day after each such quarter, (iii) with respect to each fiscal year of the Project, audited annual financial statements of the Project, accompanied by an unqualified certificate of the auditing firm approved by the Management Committee, on or before the 45th day after the end of each fiscal year, and (iv) such other written information with respect to the Project as may be reasonably requested by such person, including, without limitation, such information as may be necessary to make a proper accounting to PBC with respect to its obligations in connection with the Financial Commitment, as defined in the Fiscal Sponsorship Agreement, within a reasonable period of time after it is requested. Each of such financial statements shall consist of a balance sheet, as of the end of the applicable period, and an income statement and statement of changes in financial position, for such applicable period, and shall be prepared in accordance with generally accepted accounting principles consistently applied.

(d) Each of the members of the Management Committee shall have the right to (i) receive initial drafts of each annual budget with respect to the Project at the same time such draft is first made available to the General Manager or Board of Directors of CAWD or PBCSD, (ii) receive the proposed final draft of each such annual budget at least 30 days before it is submitted to the Management Committee for its approval, (iii) make comments to such General Manager and the Management Committee with respect to each such draft of the annual budget and each of the financial statements for the Project which it has the right to receive, and (iv) review and audit, or cause its designated representatives to review and audit, the books and records with respect to the Project, at its own expense, during the business hours of CAWD, upon reasonable advance notice of its intention to do so having been given to the General Manager.

(e) Any member of the Management Committee may request, from time to time, the General Manager to prepare projections of the operating results of the Project through the end of the then fiscal year of the Project. Upon receiving such request, the General Manager shall engage in best efforts to prepare and deliver such projections to each member of the Management Committee within 30 days of receiving such request. In the event that any such projections reveal that it is likely that the results of operations of the Project for such year will involve an Operating Short-Fall, at the request of any member of the Management Committee, the Management Committee shall retain a consulting engineer to review the operation and maintenance of the Project and to make recommendations with respect thereto. If requested by PBC, the Management Committee shall cause the Project to promptly comply with all such recommendations which are reasonable. The charges of such consulting engineer shall be paid by CAWD/PBCSD and shall be deemed to be an Operation and Maintenance Expense.

(f) Notwithstanding subsections (a) and (c) above, in the event the results of operations for any fiscal year of the Project, based upon the results of operations of the Project through the first nine months of such year projected through the end of such year, reflects a \$100,000, or greater, Operating Short-Fall, each of PBC and WMD shall have the right to approve the budget for the immediately succeeding fiscal year of the Project.

(g) In addition to the preparation of the annual budget for the Project described above, CAWD/PBCSD and WMD shall each maintain separate accounts and budgets with respect to the Operating Revenues it receives and the Operation and Maintenance Expenses it incurs.

(h) The budgeting process described in this Section 5.2 shall be utilized as the basis for determining the projected and actual Net Operating Deficiency (as such term is defined in the Fiscal Sponsorship Agreement) for purposes of the Fiscal Sponsorship Agreement.

5.3 Standards of Operation.

(a) The Project shall be owned, operated, maintained and serviced in accordance with applicable regulations, good engineering practice and prudent business practices. Reclaimed Water produced by the Facility shall be suitable for irrigation of greenbelt areas (including golf courses) and otherwise meet all regulatory and health standards for such usage, including, without limitation, the standards set forth in Section 60313(b) of Title 22, Article 4, of the California Administrative Code.

(b) The General Manager shall cause an annual inspection of the Project to be performed, during the last month of each fiscal year of the Project, by a consulting engineer acceptable to the Management Committee, and a report of such engineer to be delivered to each member of the Management Committee, on or before the 45th day of the ensuing year. In the event that operating or other deficiencies are disclosed in any such report, at the request of PBC, CAWD/PBCSD shall promptly cause measures necessary to correct such deficiencies to be implemented. The charges of such consulting engineer shall be paid by CAWD/PBCSD and shall be deemed to be an Operation and Maintenance Expense.

5.4 Insurance.

(a) CAWD/PBCSD shall obtain and maintain in effect insurance with respect to the Project and the operation of the Project, with such coverages (including with respect to risks, amounts and deductibles) as may be available in the marketplace, and placed through such brokers and with such insurance companies, as all members of the Management Committee may agree, or in the absence of such agreement, as PBC may request, from time to time, be obtained and maintained, including, without limitation, business interruption or similar insurance. In recognition that the Project is dependent upon the continued operation of the existing facilities, owned by CAWD and PBCSD, involved with the treatment of effluent (the "Existing Facilities"), each of CAWD and PBCSD shall (i) make all reasonable efforts to maintain in place its present insurance coverages (including with respect to risks, amounts and deductibles) for such facilities, (ii) promptly provide to all members of the Management Committee and WMD such information concerning the insurance in place with respect to

such facilities, including, without limitation, a copy of each policy evidencing such insurance, and the risks of operating such facilities, as may be reasonably requested, from time to time, by any member of the Management Committee or WMD, and (iii) purchase such additional insurance with respect to such facilities and the operation of the Project, including, without limitation, business interruption or similar insurance, as may be available in the marketplace, and is placed through such brokers and with such insurance companies, as is requested by PBC, from time to time, with the incremental additional cost for such additional insurance to be reimbursed to CAWD and PBCSD from the revenues generated by the Project and deemed to be an Operation and Maintenance Expense. Each insurance policy in place with respect to the Project or the Existing Facilities, or the operation of either, shall (i) name CAWD/PBCSD, CAWD, PBCSD, PBC and WMD as an additional insured thereunder, and (ii) shall provide that it may not be terminated or amended or otherwise modified, in any material respect, without each additional insured thereunder being given at least 30 days prior written notice of such termination, amendment or modification. Upon the initial placement and the renewal of each such insurance policy, the Public Participant which has obtained such policy shall provide each member of the Management Committee and WMD with a copy of such policy. Upon the request, from time to time, of any member of the Management Committee or WMD, the Public Participant which has obtained any such insurance policy shall provide to such person or entity a certificate of insurance with respect to such policy.

(b) In the event that a casualty should occur to any improvement constituting all or a portion of the Project or the Existing Facilities, CAWD/PBCSD, CAWD or PBCSD, as the case may be, shall use the proceeds of any of the insurance described in Section 5.4(a) above, which is available as a result of such casualty, to expeditiously repair or rebuild such improvement.

5.5 Payment of Operation and Maintenance Expenses.

(a) WMD shall be responsible for paying all of the Operation and Maintenance Expenses of the Project and shall pay such expenses of CAWD/PBCSD in the manner provided in this subsection; provided, however, any Operating Revenues received by CAWD/PBCSD, CAWD or PBCSD shall be devoted to Operation and Maintenance Expenses and shall reduce any corresponding obligation of WMD for the payment thereof. Within five Business Days of WMD's receipt of the budget (as approved pursuant to this Agreement) for any fiscal year of the Project, but in no event earlier than the 20th day of such fiscal year, WMD shall pay to CAWD/PBCSD an amount equal to 35%

of the Operation and Maintenance Expenses of CAWD/PBCSD which are projected in such budget. On or before the 20th day of each of the second, third and fourth quarters of each fiscal year of the Project, WMD shall pay to CAWD/PBCSD an amount equal to 25%, 25% and 15%, respectively, of such Operation and Maintenance Expenses. The amount of each such payment with respect to a quarter shall be reduced by the difference, as of the last day of the immediately preceding quarter, between the aggregate of such payments made to CAWD/PBCSD by WMD and the aggregate of the Operation and Maintenance Expenses actually and properly incurred by CAWD/PBCSD pursuant to this Agreement. To the extent such difference, as of the last day of any quarter, less any previous repayments by CAWD/PBCSD to WMD pursuant to this subsection, is in excess of the payment which WMD is obligated to make to CAWD/PBCSD with respect to the immediately succeeding quarter, CAWD/PBCSD shall repay such excess to WMD on or before the 20th day of such succeeding quarter. Each such payment to CAWD/PBCSD by WMD shall be deemed to constitute an advance of Operation and Maintenance Expenses for the quarter with respect to which the payment is made and shall be deposited by CAWD/PBCSD in a separate account from which only such expenses are to be paid. All interest earned on the sums deposited in such account shall be deemed, for purposes of this subsection, to constitute a payment by WMD to CAWD/PBCSD pursuant to this subsection. In the event any of the fiscal years of the Project is a partial fiscal year, the parties hereto shall negotiate in good faith the percentage of the Operation and Maintenance Expenses projected to be incurred by CAWD/PBCSD during such fiscal year, as shown in the approved budget for such fiscal year, to be paid by WMD with respect to each of the quarters, whether partial or full, during such fiscal year, and such percentages shall be consistent with the front-end loaded payment concept followed by the parties with respect to a full fiscal year. Within 30 days after the termination of this Agreement, CAWD/PBCSD shall repay to WMD the balance in such account, after deducting any amount necessary to pay any Operation and Maintenance Expense which CAWD/PBCSD has actually and properly incurred pursuant to this Agreement prior to such termination.

(b) On or before the 15th day after each calendar month, or portion thereof, after the Commercial Operation Date, CAWD/PBCSD shall submit to each member of the Management Committee an accounting, in such format and with such detail as shall be acceptable to each such member, of the Operation and Management Expenses incurred with respect to the Project, and any payment of such expenses made, during such month. CAWD/PBCSD shall also submit to WMD a copy of each such accounting on the same date it submits such accounting to the members of the Management Committee.

(c) Cost accounting procedures for, and qualifying categories of, Operation and Maintenance Expenses will be established, and memorialized in writing, by the mutual agreement of each of the parties hereto and attached hereto, as an exhibit, upon such writing having been prepared. The parties shall each engage in best efforts, on a good faith basis, to reach such mutual agreement and memorialize such agreement by March 31, 1991.

6. Management of Project.

6.1 Role of Management Committee. In addition to its other duties specified in this Agreement, the Management Committee shall:

(a) make all decisions with respect to the design, construction, management, operation and maintenance of the Project on behalf of the Board of Directors of each of CAWD and PBCSD, except for those matters requiring legally binding action by such boards, including, without limitation, the execution of any agreement, the adoption of any budget, and the initiation of any legal action;

(b) approve such rules with respect to the governance of its actions and the performance of its duties hereunder as are not inconsistent with this Agreement, the Fiscal Sponsorship Agreement, any of the Related Agreements, the Management Agreement or applicable law;

(c) direct the General Manager in the implementation of the duties of CAWD/PBCSD with respect to the Project;

(d) at its election, make recommendations to the Board of Directors of each of CAWD and PBCSD with respect to any matters concerning the Project requiring the approval, or ratification, of such board;

(e) permit the General Manager of both CAWD and PBCSD to attend its meetings, including any closed sessions, and participate in its deliberations; provided, however, such person shall not have a vote on the Management Committee unless he or she has been formally appointed as a representative of CAWD or PBCSD to the Management Committee;

(f) permit a representative of WMD to attend its meetings, including, without limitation, any closed session, when appropriate, and ensure that the General Manager of WMD is given written notice of each of the meetings at the same time and in the same manner as the notice of such meeting is given the members of the Management Committee (provided,

however, it shall not be deemed appropriate for a representative of WMD to attend any such closed session to the extent such session is intended to involve a discussion of any personnel matter or threatened or pending litigation in which WMD is or may be a party adverse to CAWD/PBCSD); and

(g) ensure that all meetings of the Management Committee shall be open to the public and shall be called, noticed, held and conducted in accordance with the provisions of the Ralph M. Brown Act, being Sections 54950, et seq. of the California Government Code.

6.2 General Manager and Staff. The General Manager shall be responsible, subject to the direction and control of the Management Committee, for the day-to-day implementation of the responsibilities and duties of CAWD/PBCSD. In connection with performing such services, the General Manager shall receive such staff assistance as may be required, from time to time, from the staff members of CAWD. The General Manager, in addition to the other duties specified in this Agreement, shall report regularly to the Management Committee with respect to the construction and operation of the Project and present to the Management Committee for its review and action all matters ultimately requiring the approval, or ratification, of the Board of Directors of each of CAWD and PBCSD, payment requests with respect to Capital Costs or Operation and Maintenance Expenses, policy matters and any other category of matters which the Management Committee determines to be appropriate for its consideration. The General Manager shall be responsible, as well, for preparing payment requests for Capital Costs and Operation and Maintenance Expenses.

6.3 Management Agreement. So long as any of the Bonds, or any bonds or certificates of participation issued to refinance the Bonds, are outstanding, CAWD and PBCSD shall make no amendments to the Management Agreement which could, at the time or in the future, impair the ability of CAWD/PBCSD to perform any of its obligations hereunder or under any of the Related Agreements or adversely affect any of the rights of PBC or WMD hereunder, under the Fiscal Sponsorship Agreement or under any of the Related Agreements.

7. Investment of Operating Revenues. All Operating Revenues of the Project, including, without limitation, those held by CAWD/PBCSD pursuant to Section 5.5(a) hereof as an advance against Operation and Maintenance Expenses of CAWD/PBCSD, shall be invested in a manner designed to maximize the investment return on such funds (under the circumstances, given the amount of the funds involved and the time by which such funds are required to be expended), subject to applicable

legal investment and/or tax law limitations and the investment criteria agreed upon by PBC and WMD pursuant to Section 3.10 of the Fiscal Sponsorship Agreement.

8. Certain Rights of PBC.

(a) PBC has, pursuant to the terms and conditions of a Memorandum of Understanding, dated July 1987, between PBC and WMD and the Fiscal Sponsorship Agreement, advanced funds, both prior and subsequent to the date of such Memorandum and the Fiscal Sponsorship Agreement, for expenditures with respect to design, engineering and other matters incident and preparatory to the Reclamation Project, including, without limitation, legal and consulting fees and costs associated with the Reclamation Project and its implementation and this Agreement, the Fiscal Sponsorship Agreement, each Related Agreement and the Management Agreement, and shall have the right, but not the obligation, to continue to advance funds for such expenditures unless and until the proceeds from sale of the Bonds are available. All such expenditures incurred by PBC shall be deemed to constitute Capital Costs of the Reclamation Project and shall be reimbursed to PBC by the issuer of the Bonds from the proceeds of, and after the closing of, the sale of the Bonds, within 30 days after the receipt by such issuer, from time to time, of written evidence, in reasonable detail, of PBC incurring such expenditures.

(b) PBC shall have the right, in its absolute discretion and for any reason whatsoever, to terminate this Agreement at any time prior to the commencement of the offering of the Bonds upon delivering written notice of such termination to the other parties hereto. Upon any such termination, no party hereto shall have any further obligation hereunder to any other party or any other person or entity.

9. Representations and Warranties and Covenants.

9.1 Mutual Representations and Warranties.

PBC, PBCSD, CAWD and WMD each hereby represents and warrants to the other that:

(a) the execution and delivery of this Agreement, and the performance of its obligations under this Agreement, have been duly authorized by all necessary action on its part, and it has full power, right and authority to enter into this Agreement and to perform its obligations hereunder;

(b) neither the execution and delivery of this Agreement by it, nor the performance by it of any of its obligations under this Agreement, violates any applicable

Federal, state or local law, whether statutory or common, or regulation or, with respect to PBC, partnership agreement, or constitutes a violation of, or a breach or default under, any agreement or instrument, or judgment or order of any court or governmental authority, to which it is a party or to which it or any of its property is subject;

(c) this Agreement is a valid and binding obligation of it, enforceable against it in accordance with its terms, except as such enforceability may be limited by equitable principles or by bankruptcy or other laws affecting creditors' rights generally; and

(d) except as may be required to construct and operate the Project, no consent, approval, order or authorization of any person, entity, court or governmental authority is required on its part in connection with the execution and delivery of this Agreement or the performance by it of any of its obligations hereunder.

9.2 Covenants of CAWD and PBCSD Concerning Operation of Project.

Each of CAWD and PBCSD hereby covenant and agree with each of PBC and WMD as follows:

(a) CAWD/PBCSD shall ensure that the Project is constructed in compliance with (i) final design plans for the Project, (ii) all applicable provisions of federal, state and local laws and regulations, including, without limitation, building codes, and insurance policies in place with respect to the Project, (iii) the terms and conditions of all construction contracts and subcontracts for the Project, (iv) all performance bonds obtained in connection with the Project, and (v) the construction schedule for the Project.

(b) The General Manager shall implement, upon the initiation of the construction of the Project, and maintain a safety and loss prevention program for the Project. CAWD/PBCSD shall ensure that (i) all reasonable precautions for the safety of CAWD/PBCSD employees, independent contractors and visitors in connection with the Project have been taken, and (ii) the Project is operated and maintained in compliance with (A) all applicable provisions of federal, state and local laws and regulations, including, without limitation, building codes, and (B) insurance policies in place with respect to the Project.

(c) In accordance with each approved budget, the General Manager shall procure inventory and maintain replacement spare parts, specialized tools,

consumables and working supplies reasonably necessary to maximize the continuous operation of the Project.

(d) Subject to shutdowns for scheduled maintenance, CAWD/PBCSD shall, to the maximum extent achievable under the law and subject to Section 2.3(b) hereof, use its best efforts to maintain the Project in operation, producing water at its full rated capacity, 24 hours per day, seven days per week, throughout the entire year, including legal and other holidays.

9.3 Covenants of CAWD Concerning Personnel.

CAWD hereby further covenants and agrees with the other parties as follows:

(a) CAWD shall provide and employ qualified plant management, operations and maintenance personnel for the Project in sufficient numbers, and at such times, as is necessary to accomplish CAWD/PBCSD's obligations hereunder and to comply with prudent utility practices for the operation and maintenance of the Project.

(b) All such personnel shall (i) meet the minimum job qualifications required of their positions, as determined by the Management Committee and General Manager, and (ii) possess experience and training equal to standards generally set within the industry for employees who operate and maintain substantially similar facilities.

9.4 Effect of Agreement and Project on Existing Plant. Nothing in this Agreement shall permit any party to this Agreement, or any other person or entity, other than CAWD, pursuant to such agreements as exist between CAWD and PBCSD, to operate or manage the operation of the wastewater treatment plant presently being operated by CAWD.

10. Term. This Agreement shall become effective upon its execution and delivery by each party and shall expire on the later to occur of (a) the maturity date of the Bonds, and (b) the date on which all principal and accrued, unpaid interest on the Bonds, and all other sums payable with respect to the Bonds, have been paid. Notwithstanding any implication to the contrary herein, this Agreement may be terminated, at the election of PBC, unless each of the parties to each of the Related Agreements and the Management Agreement shall have executed, and delivered to each of the other parties thereto, such document on or before March 31, 1991. Upon any such termination, neither party hereto shall have any further obligation hereunder to the other party or any other person or entity.

11. Remedies for Breach.

11.1 Termination and Damages. In the event that CAWD/PBCSD breaches, in any material respect, any of its representations and warranties or covenants in this Agreement, PBC shall have the right, in addition to all other remedies it may have under law or in equity, to terminate this Agreement, 30 days or more after CAWD/PBCSD receives written notice of such termination, specifying such breach in reasonable detail, if such breach is not cured by CAWD/PBCSD during such 30-day period. In the event any party to this Agreement breaches, in any material respect, any of its representations and warranties or covenants in this Agreement, either of the other parties hereto shall have the right to bring an action against the breaching party for damages arising out of, or resulting from, such breach, 30 days or more after the breaching party receives written notice of the other party's intention to bring such action, specifying such breach in reasonable detail, if such breach is not cured by the breaching party during such 30-day period. Notwithstanding the foregoing, if a cure of any such breach by any party hereto cannot practicably be effected within such 30-day period, and the breaching party, upon receiving such written notice, promptly initiates efforts to cure such failure and diligently pursues such cure, the other party shall not have the right to exercise its rights under this Section 11.1 unless such cure is not effected within 90 days after the breaching party receives such written notice. In the event PBC should terminate the Fiscal Sponsorship Agreement as a result of any material breach by WMD of any of its representations and warranties or covenants in such agreement, PBC shall have the right to terminate this Agreement upon giving all of the parties hereto ten days prior written notice of such termination. Except as specifically provided in this Section 11.1, no party shall have the right to terminate this Agreement as a result of any breach hereof or of the Fiscal Sponsorship Agreement. No termination of this Agreement by PBC shall affect the Water Entitlement or the Water Use Permits, each as defined in the Fiscal Sponsorship Agreement, or any rights thereto. For purposes of this Section 11.1, CAWD and PBCSD shall be deemed to be one party.

11.2 Remedies Under Fiscal Sponsorship Agreement. In the event that either CAWD or PBCSD breaches any of its representations and warranties or covenants in this Agreement or any Related Agreement, then so long as such breach continues, PBC's obligations under the Fiscal Sponsorship agreement with respect to any NOD Letter of Credit shall not be enforceable.

11.3 Equitable Remedies. Notwithstanding any implication in Section 11.1 above to the contrary, each of the parties hereby acknowledges that the other parties may have no adequate remedy at law if such party breaches any of its

obligations hereunder, and, accordingly, each of the parties shall have the right, in addition to any other rights it may have hereunder or at law, to obtain, in any court of competent jurisdiction, injunctive relief to restrain a breach or threatened breach hereof by any other party or otherwise to specifically enforce any of the provisions Hereof involved in any such breach or threatened breach.

12. Indemnification.

12.1 Protection of Parties. Subject to the limitations in this Section 12, each party shall defend and indemnify, and hold harmless, each of the other parties from and against any and all damages, liabilities, losses, and costs or expenses suffered or incurred by such other party, arising out of, or resulting from, any breach of its representations, warranties or agreements set forth in this Agreement.

12.2 Procedure For Indemnification. In the event that any legal proceedings are instituted, or any claim or demand is asserted, by any third party which may give rise to any damage, liability, loss, or cost or expense in respect of which any party has indemnified any of the other parties under Section 12.1 hereof, the indemnified party shall give the indemnifying party written notice of the institution of such proceedings, or the assertion of such claim or demand, promptly after the indemnified party first becomes aware thereof; provided, however, any failure by the indemnified party to give such notice on such prompt basis shall not affect any of its rights to indemnification hereunder unless such failure materially and adversely affects the ability of the indemnifying party to defend such proceeding. The indemnifying party shall have the right, at its option and at its own expense, to utilize counsel of its choice in connection with such proceeding, claim or demand, subject to the approval of the indemnified party, which approval shall not be unreasonably withheld or delayed, and to defend against, negotiate with respect to, settle or otherwise deal with such proceeding, claim or demand; provided, however, that no settlement of such proceeding, claim or demand shall be made without the prior written consent of the indemnified party, which consent shall not be unreasonably withheld or delayed, unless, pursuant to the terms and conditions of such settlement, the indemnified party shall be released from any liability or other exposure with respect to such proceeding, claim or demand; and provided, further, that the indemnified party may participate in any such proceeding with counsel of its choice at its own expense. In the event, or to the extent, the indemnifying party elects not to, or fails to, defend such proceeding, claim or demand and the indemnified party defends against, settles or otherwise deals with any such proceeding, claim or demand, any settlement thereof may be made without the consent of the indemnifying

party if it is given written notice of the material terms and conditions of such settlement at least ten days prior to a binding agreement with respect to such settlement being reached. Each of the parties agrees to cooperate fully with each other in connection with the defense, negotiation or settlement of any such proceeding, claim or demand.

12.3 Payment of Indemnified Claims. Upon a final judgment or award with respect to any proceeding of the nature described in Section 12.2 hereof having been rendered by a court, arbitration board or administrative agency of competent jurisdiction and the expiration of the time in which an appeal therefrom may be made (a "Final Judgment"), or a settlement of such proceeding, claim or demand having been consummated, or the parties having arrived at a mutually binding agreement with respect to each separate matter indemnified hereunder, the indemnifying party shall forthwith pay all of the sums so owing to the indemnified party. In the event any such proceeding is brought, in which allegations of fault are made against both of the parties, the extent of any indemnification shall be determined in accordance with the findings of the court as to the relative contribution by each of the parties to the damage suffered by the party seeking indemnity with respect to such proceeding.

12.4 Securities Law Indemnification. Subject to the limitations in this Section 12, each party shall defend and indemnify, and hold harmless, each of the other parties from and against any and all expenses suffered or incurred by such other party as a result of any written information provided by the indemnifying party for inclusion in any of the Bond Documents, as defined in the Fiscal Sponsorship Agreement, or any Bond Document prepared by the indemnifying party (except with respect to the portion thereof prepared based on written information provided by other than the indemnifying party for inclusion in such Bond Document), containing any untrue statement of a material fact or omitting to state a material fact necessary to make such written information or Bond Document not misleading.

13. Miscellaneous.

13.1 Further Assurances. Each of the parties agrees to execute, and deliver to the other parties, such documents and instruments, and take such actions, as may reasonably be required to effectuate the terms and conditions of this Agreement; provided, however, such covenant shall not have the effect of increasing the obligations of any party pursuant to this Agreement or require any representations and warranties by any party in addition to those of such party set forth herein.

13.2 Relationship of the Parties. Nothing in this Agreement shall create a joint venture, partnership or principal-agent relationship between or among any of the parties.

13.3 Notices. Whenever any matter herein provides for notice or other communication to be given to any of the parties, such notice shall be in writing and given to the persons, and at the addresses, designated below for such party, or to such other person or other address as such party shall provide, in writing, to the other party. All notices may be given by being personally delivered, placed in the United States mail, postage prepaid, certified or registered mail, or sent by overnight, prepaid air freight, addressed to the party to whom notice is to be given. Each such notice shall be deemed to be effective upon receipt, if personally delivered or sent by air freight, or five days after being so mailed.

If to PBC:

Pebble Beach Company
P.O. Box 1767
Pebble Beach, CA 93953
Attn: Larry Seeman

If to WMD:

Monterey Peninsula Water
Management District
187 Eldorado, Suite E
Monterey, CA 93940
Attn: General Manager

and

Hoge, Fenton, Jones & Appel, Inc.
2801 Monterey Salinas Highway
P.O. Box 791
Monterey, CA 93942
Attn: Thomas H. Jamison and
Ronald F. Scholl

and

David C. Laredo
De Lay & Laredo
606 Forest Avenue
Pacific Grove, CA 93923

If to PBCSD:

Pebble Beach Community Services
District
Forest Lake Road & Lopez Road
Pebble Beach, California 93953
Attn: General Manager

If to CAWD:

Carmel Area Wastewater
District
P.O. Box 221428
Carmel, California 93922
Attn: General Manager

13.4 Exhibits. All exhibits referred to in this Agreement and attached hereto are hereby incorporated herein and made a part of this Agreement, for all purposes, by this reference.

13.5 Assignment. This Agreement shall be binding upon, and inure to the benefit of, the successors and permitted assigns of the parties. Notwithstanding the foregoing, (a) WMD, PBCSD and CAWD may each assign any of their rights or obligations hereunder only to any successor agency,

and (b) PBC and any successor assignee may at any time assign any of its rights hereunder and/or may assign any of its obligations hereunder to any person or entity which assumes such obligations in writing. In the event any permitted assignment occurs, the assignor shall thereafter have no further responsibility with respect to such obligation.

13.6 Cumulative Remedies. Except as specifically provided to the contrary in Section 11.1 hereof, no remedy or election hereunder shall be deemed exclusive, but shall be cumulative with all other remedies at law or in equity.

13.7 Severability. Should any provision of this Agreement be declared invalid or unenforceable in any jurisdiction by a court of competent jurisdiction, then such portion or provision shall be deemed to be severable, to the extent invalid or unenforceable, from this Agreement as to such jurisdiction (but, to the extent permitted by law, not elsewhere) and shall not affect the remainder hereof. Notwithstanding the foregoing, (a) such provision of this Agreement shall be interpreted by the parties and by any such court, to the extent possible, in such a manner that such provision shall be deemed to be valid and enforceable, and (b) such court shall have the right to make such modifications to any provision of this Agreement as do not materially affect the rights or obligations under this Agreement of the parties hereto and thereto and as may be necessary in order for such provision to be valid and enforceable.

13.8 Waiver. No waiver of any right or obligation of any of the parties shall be effective unless in a writing, specifying such waiver, executed by the party against whom such waiver is sought to be enforced. A waiver by any of the parties of any of its rights under this Agreement on any occasion shall not be a bar to the exercise of the same right on any subsequent occasion or of any other right at any time.

13.9 Headings and Titles. The designation of a title, or a caption or a heading, for each section of this Agreement is for the purpose of convenience only and shall not be used to limit or construe the contents of this Agreement.

13.10 Presumptions. Because all of the parties have participated in preparing this Agreement, there shall be no presumption against any party on the ground that such party was responsible for preparing this Agreement or any part hereof.

13.11 Amendment or Modification. This Agreement may be amended, altered, or modified only by a writing, specifying such amendment, alteration or modification, executed by all of the parties hereto.

13.12 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

13.13 Entire Agreement. This Agreement constitutes the entire agreement between the parties regarding the subject matter hereof, and supersedes all prior or contemporaneous negotiations, understandings or agreements of the parties, whether written or oral, with respect to such subject matter, including, without limitation, any memoranda of understanding to which the parties or WMD, CAWD and PBCSD are parties.

13.14 Limitation on Liability of Partners. No recourse shall be had against any partner of PBC or any partner or subpartner of a partner of PBC, or any legal representative, heir, successor or assign of any thereof, on account of any covenant, agreement or indemnification contained herein or in any of the Related Agreements, or for any claim arising out of or with respect to this Agreement or any of the Related Agreements, or the performance hereof or thereof. Recourse therefor shall be limited solely to PBC and the assets of PBC (a deficit capital account of any partner of PBC or other funding obligation of a partner under the partnership agreement of PBC shall not be deemed an asset or property of PBC), and no action or proceeding on account of any such covenant, agreement or indemnification shall be sought, obtained or enforced against any partner of PBC or any partner or subpartner of PBC, or heir, successor or assign, or against their respective individuals assets.

13.15 No Third-Party Beneficiary Rights. CAWD and PBCSD each hereby acknowledge that all of its rights with respect to the Reclamation Project are set forth in this Agreement, the Related Agreements to which it is a party and the Management Agreement and it is not a third-party beneficiary of the Fiscal Sponsorship Agreement.

13.16 Security Interest. WMD hereby grants to CAWD/PBCSD a security interest in all of its right, title and interest to the payments which the owners of the Open Spaces will be obligated to make to it pursuant to the Sales Agreements, and all proceeds thereof, (the "Collateral") as security for the performance by WMD of its obligations to make payments to CAWD/PBCSD pursuant to Section 5.5(a) hereof. CAWD/PBCSD shall have all of the rights and remedies of a secured party under the California Commercial Code with respect to the Collateral.

13.17 Expanded or Additional Facilities.

Notwithstanding any implication to the contrary herein, subject to the specific obligations of CAWD and PBCSD in Section 9.2 hereof, nothing in this Agreement shall prevent CAWD/PBCSD from expanding the capacity of the Facility, or constructing and operating additional wastewater reclamation facilities, for the purpose of producing Reclaimed Water in excess of the capacity, from time to time, of the Facility to produce Reclaimed Water, so long as such expansion or addition does not (a) adversely affect the operation or then existing capacity of the Facility or the rights of the holders of any then outstanding Bonds with respect to the Bonds or the Reclamation Project, (b) increase the capital costs or operating expenses of the Reclamation Project or any of PBC's obligations with respect to the Reclamation Project or the Bonds, (c) diminish the operating revenues of the Reclamation Project, or (d) diminish, or otherwise affect, the obligations of CAWD or PBCSD under this Agreement or the ability of CAWD or PBCSD to perform such obligations. In the event CAWD/PBCSD proposes any such expansion or additional facility, the parties hereto shall amend this Agreement, or enter into such other agreements, as may be necessary to properly and fully evidence the rights and obligations of the parties hereto and the rights of the holders of such Bonds with respect to the construction and operation of the Reclamation Project and such expansion or additional facility, including, without limitation, with respect to the accounting for, and an allocation between the Reclamation Project and such expansion or additional facilities of, the capital costs and operating expenses of each that equitably assigns such costs and expenses between the Reclamation Project and such expansion or additional facilities.

IN WITNESS WHEREOF, this Agreement has been executed by the duly executed officers of each of the parties effective the date first shown above.

Pebble Beach Company

By: Ben Hogan Property Co. I
MS: General Partner

By: Harry J. White Jr.

Its: TREASURER DEC. 18, 1990

Monterey Peninsula Water
Management District

By: James R. Coler

Its: General Manager

Pebble Beach Community
Services District

By: D. J. Spang

Its: President 11-20-90

Carmel Area Wastewater
District

By: Charlotte F. Townsend

Its: President

EXHIBIT "A"

OPEN SPACES

Pebble Beach Golf Course
Cypress Point Golf Course
Spyglass Hill Golf Course
Poppy Hills Golf Course
Monterey Peninsula Country Club Dunes Course
Monterey Peninsula Country Club Shore Course
Spanish Bay Golf Course
Peter Hay Par 3 Golf Course
Collins Field
Pebble Beach Practice Fairway
Robert Louis Stevenson School athletic fields

EXHIBIT "B"

DESCRIPTION OF RECLAMATION PROJECT

The Reclamation Project is described in the Basis of Design Report, dated June, 1988, prepared by Engineering Science for CAWD, and consists of the following components:

(1) Construction of a new 9,000 square foot treatment plant, at the existing CAWD sewage treatment plant located immediately south of the Carmel River and west of California State Highway One, capable of producing 1.5 million gallons per day (MGD) of tertiary treated reclaimed water suitable for irrigation. The location of the tertiary treatment plant has been moved from land outside the existing CAWD boundaries (as originally proposed and studied in the Basis of Design Report) to land within the existing CAWD boundaries. The new treatment facility will divert and treat secondary level effluent from the existing CAWD plant to levels suitable for reuse as irrigation water (i.e., tertiary treatment). The plant will have a treatment process consisting of: secondary effluent flow equalization; influent pumping; polymer and alum addition with rapid mixing for coagulation; low energy mixing for flocculation; filtration; chlorination; dechlorination; and reclaimed pumping.

(2) Improvements to the existing CAWD plant facilities in order to assure consistent and reliable quality of secondary effluent from the existing CAWD plant to be diverted to the tertiary treatment plant. These improvements include construction of a secondary clarifier flow split control and replacement of the existing mechanical aeration diffusers.

(3) A reclaimed water distribution system consisting of approximately 38,000 feet of distribution pipeline and a steel water storage tank (described below) in Del Monte Forest. The main transmission pipeline will begin at the treatment plant site and terminate at the southern portion of the Spanish Bay Golf Course and Resort in Del Monte Forest. The pipeline will be constructed primarily within existing roads and road rights-of-way extending through the City of Carmel-by-the-Sea and incorporated areas of Monterey County, including areas of Del Monte Forest. A connection for emergency potable water supply will also be constructed to provide irrigation water to the Open Spaces in the event of failure of the reclamation plant or distribution pump station.

(4) Construction of a 2.5 million gallon reclaimed water storage tank adjacent to the Poppy Hills Golf Course maintenance yard north of Viscaino Road in Del Monte Forest.