

**AGREEMENT FOR PURCHASE AND SALE OF CAPACITY
RIGHTS IN TREATMENT, DISPOSAL AND SEWER FACILITIES**

THIS AGREEMENT is made and entered into, to be effective as of the 1st day of January, 1986, by and between:

COUNTY SANITATION DISTRICTS NOS. 1, 2, 3, 5, 6, 7, 11 AND 13 OF ORANGE COUNTY, CALIFORNIA, hereinafter collectively referred to as "CSDOC";

AND

COUNTY SANITATION DISTRICT NO. 14 OF ORANGE COUNTY, CALIFORNIA, hereinafter referred to as "14".

RECITALS

WHEREAS, 14 and CSDOC are duly organized County Sanitation Districts, existing pursuant to the County Sanitation District Act, California Health & Safety Code Section 4700 et seq., each providing for the ownership, operation and maintenance of wastewater collection, treatment and disposal facilities owned by the Districts individually and collectively, pursuant to the Joint Ownership, Operation and Construction Agreement dated December 11, 1985, effective July 1, 1985 (hereinafter, the "JAO Agreement"); and

WHEREAS, 14 was recently formed pursuant to procedures undertaken by the Boards of Directors of CSDOC, the Board of Supervisors of the County of Orange, and the Orange County Local Agency Formation Commission; and

WHEREAS, 14 commenced its existence and operations effective January 1, 1986; and

WHEREAS, the area to be served by 14 is within the boundaries of the Irvine Ranch Water District (hereinafter, "IRWD");

and

WHEREAS, IRWD and CSDOC have heretofore entered into various agreements relating to wastewater collection and disposal including, but not limited to, CSDOC providing IRWD with capacity rights for effluent disposal of 15.0 million gallons per day (hereinafter, "MGD") in the CSDOC's ocean outfall facilities, and an agreement, entered into on March 13, 1985, concerning, among other things, the creation of 14 (hereinafter, the "March 13, 1985 Agreement").

WHEREAS, 14 wishes to purchase an ownership interest in existing collection, treatment, disposal and general/administrative facilities and equipment (hereinafter referred to collectively as the Joint Works Treatment Facilities, or "JWTF") owned by CSDOC and in CSDOC's real property which are deemed to be excess to the present and future needs of CSDOC; and

WHEREAS, 14 wishes to purchase, and District 7 wishes to sell, up to 45 MGD capacity rights in the Von Karman Trunk Sewer; and

WHEREAS, pursuant to the March 13, 1985 Agreement, IRWD has agreed to convey to 14 its rights, as described above, in CSDOC's ocean outfall facilities; and

WHEREAS, CSDOC is willing to sell an ownership interest to 14 in the JWTF and in the CSDOC's real property which are deemed to be excess to their present and future needs; and

WHEREAS, pursuant to the March 13, 1985 Agreement, 14 will initially acquire 15 MGD in the JWTF, and 14 will ultimately acquire up to an additional 17 MGD, for an estimated maximum of 32 MGD, in the JWTF, as needed; and

WHEREAS, 14 and CSDOC have received an engineering report, related to the Reorganization (formation) of District 14, identifying those trunk/interceptor sewers owned by CSDOC, wherein excess capacity exists beyond the needs of CSDOC and which would be available for sale to 14; and

WHEREAS, IRWD and CSDOC have agreed, pursuant to the March 13, 1985 Agreement, on certain restrictions with respect to wastewater solids residuals; and

WHEREAS, IRWD operates a water reclamation plant having a nominal capacity of 15 mgd to treat wastewater and prepare reclaimed water for agricultural and landscape customers to meet their seasonal demands, and the operation of this plant could cause unique demands upon the collection, treatment and disposal facilities of CSDOC in the form of an irregular pattern of peak flows and possibly higher concentrations of wastewater solids residuals; and

WHEREAS, CSDOC has been issued a modified National Pollution Discharge Elimination System ("NPDES") Permit jointly from the California Regional Water Quality Control Board (hereinafter, "CRWQCB") and the United States Environmental Protection Agency (hereinafter, "EPA"), which permit establishes discharge limitations on CSDOC and which does not address flows from within 14; therefore, CSDOC may need to apply to CRWQCB and EPA to amend said NPDES Permit to accommodate flows from 14, for which CRWQCB and EPA and others may require certain engineering and financial studies and a technical evaluation report.

NOW, THEREFORE, in consideration of the mutual promises set

forth herein, the parties hereto agree as follows:

Section 1: Purchase.

A. Subject to the satisfaction of the payment obligations set forth in this Section 1, CSDOC hereby conveys, and 14 hereby purchases, an initial 15 MGD capacity in the JWTF, at an agreed purchase price, established in the March 13, 1985 Agreement, of \$31,293,000. Said amount, adjusted as provided in Subsection B herein, shall be due and payable as follows: one-half (1/2) of the total within 20 days of the effective date of the Amendment to the JAO Agreement between CSDOC and 14 providing for membership by 14 in CSDOC (hereinafter "Amendment to the JAO Agreement"); and one-half (1/2) of the total amount within five months of the effective date of said Amendment to the JAO Agreement.

B. Concurrent with the execution of this Agreement, IRWD and 14 are entering into an Agreement entitled "Agreement Between Irvine Ranch Water District and County Sanitation District No. 14 Acquiring Ownership Interests, Assigning Rights and Establishing Obligations", attached hereto as Exhibit 1 and incorporated herein by this reference, whereby IRWD is conveying to 14 all its present rights to 15 MGD capacity in CSDOC's ocean outfall facilities. 14 hereby conveys to CSDOC said 15 MGD capacity in CSDOC's ocean outfall facilities upon receipt thereof. Upon execution of Exhibit 1 hereto, 14 shall receive a credit against the purchase price for capacity in the JWTF set forth in Subsection A hereof in the agreed sum of \$1,414,000. ✓

C. Subject to payment by 14 as set forth herein, CSDOC hereby conveys, and 14 hereby purchases, a proportionate

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interest in CSDOC's real properties, based on the expected ultimate maximum acquisition by 14 of 32 MGD, at an agreed purchase price, established in the March 13, 1985 Agreement, of \$4,653,000. Said amount shall be due and payable as follows: one-half (1/2) of the total within 20 days of the effective date of the Amendment to the JAO Agreement; and one-half (1/2) of the total amount within five months of the effective date of said Amendment to the JAO Agreement.

Section 2: Responsibility for Expenses. 14 and CSDOC agree that upon approval of this Agreement and execution by the respective parties, and the acquisition by 14 pursuant to this Agreement and the Amendment to the JAO Agreement of an ownership interest in the JWTF, 14 shall be responsible for its proportionate share of capital and operation and maintenance expenses, as such are prescribed herein and in the JAO Agreement.

14 shall pay its share of the joint administrative expenses as specified in the JAO Agreement; provided, however, that regardless of the proportion of flows received from 14 to total flows, said amount shall in no event be less than \$4,000 per month.

actual flows

- not 15 MGD's
- not 4 highest MC

Section 3: Modification of Rights.

A. As more specifically provided in Section 4 below, 14 and CSDOC agree that the ownership interest in the JWTF agreed to be transferred by CSDOC to 14 beyond the initial acquisition of 15 MGD, shall be established and determined on an annual incremental basis pursuant to the Annual Integration Adjustment (as defined in the JAO Agreement), and shall be based upon the

actual utilization by 14.

B. Subject to the availability of capacity, CSDOC agrees to transfer, at any given time, based upon 14's actual need, an interest in capacity up to the maximum available in the trunk/interceptor sewer facilities of each District of CSDOC.

C. Except as provided in Section 10 herein, in the event a lesser percentage of use of capacity in a trunk/interceptor sewer is realized in succeeding years by 14, the CSDOC shall have no obligation to repurchase said capacity from 14.

Section 4: Equity. Upon payment of the sums set forth in Section 1 above, 14 shall receive ownership equity in the JWTF. The equity credit shall be the amount of 14's initial Capital Outlay Revolving Fund ("CORF") percentage (initially, 6.25%) multiplied by the book value of the JWTF on June 30, 1985, consistent with the method utilized by CSDOC for allocation among all Districts.

Concurrently, 14 shall receive ownership equity in CSDOC's real property equal to 9.09% of the book value of real property owned by CSDOC on June 30, 1985.

A. Annual Integration Adjustment.

14's equity share in the JWTF and real property shall be annually adjusted as provided in the JAO Agreement, or as said JAO Agreement may be amended, modified or superseded; provided, however, that, so long as the 14 flows are less than 11,680 MG/Yr (32 MGD x 365 Days/Yr.), annual integration adjustments for 14 shall be based on the value of the JWTF only and shall not include the value of existing real property as established above. Should 14 flows exceed 11,680 MG/Yr., annual

integration adjustments thence forward for 14 shall be on the same basis then utilized for other CSDOC member Districts. Participation in the annual integration adjustment shall begin in the fiscal year 1985-86.

Section 5: Budget Share. 14 shall be responsible for its share of the annual CORF budget, effective July 1, 1985. 14's share shall be determined on the following bases, as applicable:

A. Flow of 5475 MG/Year or Less. Except as provided in Subsection C herein, so long as 14's flows are equal to or less than $5475 \text{ MG/year} \times \frac{15 \text{ mgd} \times 365}{5475}$, 14's share of the CORF shall be that percentage of the entire annual CORF budget derived by dividing 5475 by the sum of the combined total average flow of all other Districts for the preceding three years plus 5475 MG/year.

B. Flow of Over 5475 MG/Year. At such time as 14's flow, calculated as set forth in this Subsection, exceeds 5475 MG/year, 14's annual CORF budget share shall be the greater of: (1) an amount equal to the percentage determined pursuant to Subsection A above; or (2) an amount equal to the percentage derived by multiplying the average Daily Dry Weather Flow (as defined herein) delivered into the facilities of District 14 for the highest seven-day period each year by 365, and dividing the result thereof ("X") by the sum of the combined total average annual flow of all other Districts for the preceding three fiscal years plus "X". As used herein, "Daily Dry Weather Flow" means normal flow, excluding storm inflow and infiltration.

C. CORF Share After 1994-95. Notwithstanding the provisions of Subsection "A" above, if after fiscal year 1994-95,

14's annual flow, computed by using "X" as set forth in Subsection "B" hereof, does not exceed 5475 MG/year, the parties hereto agree that 14's CORF budget share may be changed if mutually agreeable terms can be reached between the parties after negotiating in good faith.

D. Notwithstanding the provisions of Subsections "B" and "C" hereof, if CSDOC revises the method currently utilized for allocating CORF costs, said new method shall also be utilized in determining 14's share, unless 14's flows fall below the minimum provided in Subsection "A".

Section 6: Meters. To accurately measure 14's flows, meters will be installed by CSDOC, concurrent with connection of 14's facilities to any member District's facilities. 14 shall reimburse CSDOC for all costs of acquisition, installation, operation and maintenance of said meters.

Section 7: Trunk Sewers. 14 shall provide permanent trunk sewer facilities for transportation of its wastewater to the JWTF by jointly constructing such facilities with Districts Nos. 6 and 7, on or before January 1, 1990, as generally contemplated in the engineering report entitled "County Sanitation District No. 14 Reorganization Report" prepared by Boyle Engineering Corporation received, ordered filed, and approved by CSDOC on May 8, 1985. The cost of construction of said facilities shall be shared on the basis of each respective participating District's ultimate proportional capacity requirements in said facilities.

Pending completion of construction, and to the extent that capacity may be available, 14 shall have the right to acquire temporary trunk sewer system capacity rights, as needed, from

Districts Nos. 1, 6 and/or 7 to transport wastewater from 14 to the JWTF, in accordance with the terms and conditions set forth in the form "Agreement for Purchase and Sale of Temporary Capacity" attached hereto as Exhibit 2.

IRWD has paid, on behalf of 14, an incremental cost associated with the Von Karman Trunk Sewer. The pro rata cost, equal to the proportional cost of the 45 MGD capacity to be assigned to 14 to the total capacity in said sewer, less the incremental cost previously paid, shall be paid by 14 within 30 days of the completion of construction, or within 10 days of the effective date of this Agreement, whichever is later. If not so paid, said pro rata cost shall bear interest at the rate of twelve (12%) per annum, until paid.

Section 8: Wastewater Solids Residuals. 14 shall not transfer wastewater solids residuals to the JWTF unless approved in advance by CSDOC. Such approval will not come before the completion of engineering and other studies addressing the impacts, if any, of such discharge on the facilities, operation and costs of CSDOC. If such studies, or subsequent experience, demonstrate problems or added costs for mitigation, CSDOC may place conditions and/or establish charges on 14 or may prohibit delivery of such wastewater solids residuals.

Section 9: NPDES PERMIT.

A. In the event that the discharge from the JWTF, including that originating from 14, exceeds that permitted by CSDOC's NPDES Permit, application for an amendment to CSDOC's NPDES Permit may be made by CSDOC. CSDOC will have control of

the NPDES Permit application process and will be responsible for conducting any necessary proceedings. 14 shall pay all costs of CSDOC's application for an amendment to the NPDES Permit deemed attributable to it, including, but not limited to, the costs of necessary reports.

B. In the event CRWQCB and EPA approve an amendment to said Permit but impose relatively more stringent conditions on CSDOC than contained in the existing NPDES Permit, CSDOC may agree that this agreement, including the exhibits hereto, shall remain in full force and effect, provided that 14 agrees either:

(i) to pay the cost of additional JWTF and ongoing operations and maintenance expenditures over and above what is necessary for CSDOC to meet the NPDES Permit limitations without 14, for the life of said Permit; or

(ii) to take other necessary measures to limit the quantity of flows delivered to CSDOC so as to avoid the imposition of stricter requirements on CSDOC and the need for additional JWTF.

In the event 14 fails or refuses to agree to either (i) or (ii) above, in accordance with the time set forth in the NPDES Permit Amendment, CSDOC shall have the option to terminate this agreement, including the agreements set forth as exhibits hereto.

C. In the event CRWQCB and EPA do not approve an amendment, under any conditions, to CSDOC's NPDES Permit, CSDOC shall have the option to terminate this agreement, including the agreements set forth as exhibits hereto.

D. The provisions of Section 9 shall be operative only until the present expiration date (March 31, 1990) of CSDOC's

current NPDES Permit.

Section 10: Termination.

A. In the event that this Agreement is cancelled pursuant to the provisions of Section 9 hereof within five (5) years of the effective date hereof, the following provisions shall govern:

(i) CSDOC shall repurchase the 15 MGD capacity initially purchased by 14 in the JWTF pursuant to Section 1, Subsection A herein. There shall be no obligation on CSDOC to repurchase any other interest purchased by 14, including, but not limited to, any interest purchased by 14 in any joint collection, treatment, disposal and general/administrative facilities and equipment (hereinafter, "New JWTF") constructed after the effective date of this Agreement; furthermore, 14 shall remain responsible for its share of encumbrances and other financial obligations incurred by it or by CSDOC for New JWTF and remaining owing, in whole or in part, on the date of termination.

(ii) CSDOC shall repurchase the real property purchased by 14 pursuant to Section 1, Subsection C hereof at the same price paid by 14 (\$4,653,000).

(iii) Should, prior to January 1, 2011, CSDOC, or any of its member Districts, utilize the capacity or any portion thereof in the New JWTF paid for by 14, CSDOC or the using member District or Districts shall reimburse 14 for that proportion of capacity used, in an amount not to exceed the price paid by 14 for such capacity.

(iv) The payment for repurchase of real property,

JWTF and/or New JWTF pursuant to Subsections A(i), (ii) or (iii) shall be an amount equal to the original purchase price with no additional sums for interest or escalated value of the original purchase price, provided payment is made by CSDOC within thirty (30) days of the effective date of termination. The payments for repurchase of real property, JWTF and/or New JWTF may be deferred for up to five years at the option of CSDOC; provided, however, that any payments so deferred shall bear interest at the rate of return on CSDOC's investments from 30 days after the date of termination until paid.

(v) CSDOC shall reconvey the 15 MGD capacity in the ocean outfall facilities which 14 conveyed to CSDOC pursuant to Section 1B herein.

(vi) Should, prior to January 1, 2011, CSDOC, or any of its member Districts, utilize the capacity or any portion thereof in the Von Karman Trunk Sewer paid for by 14, or by IRWD on 14's behalf, CSDOC or the using member or District or Districts shall reimburse 14 for that portion of capacity used, in an amount not to exceed the price paid by 14 (or IRWD) for such capacity, without interest or other additional sums.

B. In the event that this Agreement is cancelled pursuant to the provisions of Section 9 hereof subsequent to the fifth anniversary of its effective date, the parties hereto shall be bound by the then existing JAO agreement with respect to such termination.

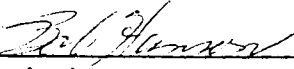
Section 11: Entire Agreement. This instrument contains the entire agreement between the parties relating to the rights herein granted and the obligations herein assumed. Any prior

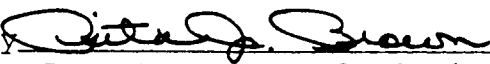
agreements or representations not expressly set forth herein are of no force and effect.

IN WITNESS WHEREOF, this Agreement has been executed in duplicate in the name of the respective Districts, by their duly authorized officers, effective as of the day and year first above written.

"CSDOC"

COUNTY SANITATION DISTRICTS NO. 1 OF
ORANGE COUNTY, CALIFORNIA

By 
Chairman, Board of Directors

By 
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 2 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 3 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 5 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

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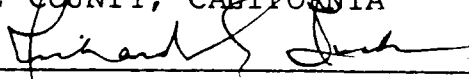
"CSDOC"


COUNTY SANITATION DISTRICTS NO. 1 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 2 OF
ORANGE COUNTY, CALIFORNIA

By 
Chairman, Board of Directors
pro tem

By 
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 3 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 5 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

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"CSDOC"

COUNTY SANITATION DISTRICTS NO. 1 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 2 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 3 OF
ORANGE COUNTY, CALIFORNIA

By Don R. Kott
Chairman, Board of Directors

By John J. Brown
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 5 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

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IN WITNESS WHEREOF, this Agreement has been executed in duplicate in the name of the respective Districts, by their duly authorized officers, effective as of the day and year first above written.

"CSDOC"

COUNTY SANITATION DISTRICTS NO. 1 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 2 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 3 OF
ORANGE COUNTY, CALIFORNIA

By _____
Chairman, Board of Directors

By _____
Secretary, Board of Directors

COUNTY SANITATION DISTRICT NO. 5 OF
ORANGE COUNTY, CALIFORNIA

By *William R. Hart*
Chairman, Board of Directors

By *Walter J. Brown*
Secretary, Board of Directors