

Contractor Acctg.

Investor Construction
Loan Contract No. E51404

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

CONTRACT BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES
AND

DEL ESTE WATER COMPANY

FOR A CONSTRUCTION LOAN UNDER THE
CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1988

E51 (Rev. 11/91)

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STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

CONTRACT BETWEEN STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES AND

DEL ESTE WATER COMPANY

UNDER THE CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1988
(Water Code Section 14000 et. seq.)

THIS CONTRACT, entered into by and between the State of California, acting by and through its Department of Water Resources, herein referred to as the "State" and the Del Este Water Company an investor owned utility in the County of Stanislaus State of California, duly organized, existing, and acting pursuant to the laws thereof, herein referred to as the "Supplier", which parties do hereby agree as follows:

CONTRACT SPECIAL PROVISIONS

SECTION 1. PURPOSE OF LOAN

This loan is made by the State to the Supplier to assist in financing construction of a project that will enable the Supplier to meet safe drinking water standards established pursuant to Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code. Loan funds may be used only for such Eligible Project as defined in the final plans and specifications, approved by the State Department of Health Services, and any revisions thereof, and Article A-1 of the Loan Contract Standard Conditions.

Supplier is solely responsible for design, construction, operation and maintenance of the project. Review or approval of plans, specifications, bid documents or other construction documents by the State is solely for the purpose of proper administration of loan funds by the State and shall not be deemed to relieve or restrict the Supplier's responsibility.

SECTION 2. INCORPORATION OF STANDARD CONDITIONS AND SECURITY REQUIREMENTS,
AND PLANS AND SPECIFICATIONS AND SUPPLIER COMMITMENTS

This Contract incorporates Exhibit A, "Loan Contract Standard Conditions" (hereinafter referred to as "Standard Conditions") and Exhibit B, "Loan Contract Security Requirements" (hereinafter referred to "Security Requirements"), and any attachments thereto. Upon their completion, the final plans and specifications approved by the State Department of Health Services and referred to in Section 1 also shall be attached and are incorporated herein and made a part of this Contract. The Supplier accepts and agrees to

comply with all terms, provisions, conditions, and commitments of this Contract, including all incorporated documents, and to fulfill all assurances, declarations, representations, and statements made by the Supplier in the application, documents, amendments, and communications filed in support of its request for Safe Drinking Water financing.

SECTION 3. ESTIMATE OF PROJECT COST

The reasonable cost of the Project is estimated to be \$4,942,594.

SECTION 4. LOAN AMOUNT

Pursuant to the California Safe Drinking Water Bond Law of 1988, its applicable rules and regulations, and subject to the availability of funds, the State will lend to the Supplier in accordance with the terms of this Contract and amount not to exceed \$4,942,594. A five percent administrative fee will be added to the amount of loan funds disbursed as part of the Loan Principal to be repaid by the Supplier.

SECTION 5. SUPPLIER'S COST

The Supplier agrees to fund the difference between the estimate of the project cost (Section 3) and the loan amount (Section 4). Such Supplier's cost in the amount of \$ -0- shall be expended prior to the expenditure of State loan funds.

SECTION 6. REQUIREMENTS FOR DISBURSEMENT

By January 31, 1994, the Supplier shall meet all conditions precedent to the disbursement of money under this Contract, including Basic Conditions Precedent under Article A-3 of the Standard Conditions. Failure by Supplier to comply with this date may, at the option of the State, result in termination of the Contract under Article A-6 of the Standard Conditions.

SECTION 7. RATE OF INTEREST

The rate of interest to be paid by the Supplier shall be 3.1775 percent per annum of the unpaid balance of the loan.

SECTION 8. WATER CONSERVATION

The Supplier agrees to observe all applicable Public Utilities Commission orders concerning water conservation. In addition, for a period of 20 years, which is the reasonably expected life of the Project, Supplier shall undertake all reasonable efforts to conserve water in a cost effective manner.

SECTION 9. OPERATION AND MAINTENANCE OF PROJECT

For a period of 20 years, which is the reasonably expected life of the Project, in consideration of the loan made by the State, the Supplier agrees to commence and to continue operation of the Project upon completion and shall cause the Project to be operated in an efficient and economical manner; shall provide for the making of all repairs, renewals, and replacements necessary to the efficient operation of the same; and shall cause the same to be maintained in as good and efficient condition as upon its construction, ordinary and reasonable wear and depreciation excepted. Refusal of the Supplier to operate and maintain the Project in accordance with this provision may, at the option of the State, be considered a material breach of Contract and may be treated as default under Article B-5 of Exhibit B.

SECTION 10. OTHER ASSISTANCE

Supplier certifies that it has applied for and made reasonable efforts to secure federal assistance for the Project and has secured the approval of the State and the State Department of Health Services to make application for federal assistance in order to maximize and to utilize best the amounts of such assistance available.

Supplier further agrees that if federal funds become available for this Project within three years of Project completion, Supplier will remit to the State all or a portion of the federal funds received up to the amount necessary to discharge the remaining debt, provided remittance is not contrary to the terms upon which federal funds were received.

SECTION 11. REPAYMENT OF PRINCIPAL AND INTEREST

The Supplier shall execute a fiscal services agreement with a Fiscal Agent in a format acceptable to the State. A Fiscal Agent shall be retained until the Principal Amount of the Loan and interest have been paid in full.

The Supplier shall open a special account with the Fiscal Agent into which sufficient funds shall be maintained for servicing the loan as provided in Article B-6 of the Security Requirements including any ratepayer surcharge revenues or assessments authorized by the Public Utilities Commission, to the extent provided in the Order of the Commission. Funds from this account shall be used only for payment of principal and interest on the loan when due, or any delinquencies thereon, until the loan is repaid in full.

Once a fiscal services agreement has been approved by the State, the Supplier shall not amend the agreement, close the special account, or retain a new Fiscal Agent without 90 days advance notice and prior written approval of a new fiscal services agreement by the State.

The State shall have no obligation to disburse funds until the Fiscal Agent has been engaged and the agreement between the Supplier and the Fiscal Agent has been approved by the State.

SECTION 12. PROJECT OFFICIALS AND NOTICES

The State Project Manager shall be the Chief, Division of Fiscal Services of the Department of Water Resources.

The State Project Manager shall be the State's representative for administration of the Contract and shall have authority to make determinations and findings with respect to each controversy arising under or in connection with the interpretation, performance, or payment for work performed under the Contract. Disputes shall be resolved in accordance with Article A-30 of Exhibit A.

The Supplier Project Director shall be the President or Vice President of Del Este Water Company. The Supplier Project Director shall be the Supplier's representative for the administration of the Contract and shall have full authority to act on behalf of the Supplier. All communications given to the Project Director shall be as binding as if given to the Supplier.

Either party may change its Project Manager or Project Director upon written notice to the other party.

Notices required to be given in writing by the Supplier under this Contract shall be sent to:

Public Utilities Commission
Commission Advisory and
Compliance Division
505 Van Ness Avenue, Room 3211
San Francisco, California 94102

State of California
Department of Water Resources
Attention: Program Manager
Safe Drinking Water Program
Post Office Box 942836
Sacramento, California 94236-0001

Notices required to be given in writing by the State under this Contract shall be sent to:

President

Del Este Water Company

Post Office Box 3250

Modesto, California 95353-3250

A change of address for delivery of notice may be made by either party by written notice of such change of address to the other party.

All such notices shall be enclosed in a properly addressed, post-age prepaid envelope and deposited in a United States Post Office for delivery by registered or certified mail.

IN WITNESS WHEREOF, the parties hereto have executed this Contract on
JUN 10 1993

Approved as to Legal Form
and Sufficiency:

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By Susan N. Weber
Chief Counsel
Department of Water Resources

By Chester M. Quinn
Chief
Division of Fiscal Services
Post Office Box 942836
Sacramento, California 94236-0001

Del Este Water Company
Supplier

By Kennan H. Beard
Kennan H. Beard, President

William R. Beard
William R. Beard, Vice-President

P. O. Box 3250
Address

Modesto, CA 95353

EXHIBIT A

STATE OF CALIFORNIA
THE RESOURCES AGENCY
DEPARTMENT OF WATER RESOURCES

LOAN CONTRACT STANDARD CONDITIONS

ARTICLE A-1. DEFINITIONS

Whenever in this Contract the following terms are used, their meaning shall be as follows unless the context clearly requires otherwise:

State Department of Health Services--The State of California Department of Health Services or the local health agency that has jurisdiction to issue the necessary water permit under the provisions of Chapter 7 (commencing with Section 4010) of Part 1 of Division 5 of the Health and Safety Code.

Contract--The Contract to which these Loan Contract Standard Conditions are appended, which shall be considered a promissory note for the purpose of meeting the Loan Security Requirements of Exhibit B.

Days--Calendar days unless otherwise expressly indicated.

Month--Calendar months unless otherwise expressly indicated.

Year--Calendar year unless otherwise expressly indicated.

Project--All work, not including construction equipment, for the construction, improvement, or rehabilitation of the domestic water system, including water supply, treatment, works, storage facilities, and all or part of a water distribution system proposed by the Supplier pursuant to the plans and specifications that describe the plan of the Project approved by the State Department of Health Services and all addenda and changes to the foregoing documents approved by the State Department of Health Services.

Supplier--Any person, partnership, corporation, association, or other entity or political subdivision of the state which owns or operates a domestic water system.

System--All facilities owned, under control of or operated by the Supplier for the provision of piped water to the public for human consumption, which may include any water supply, treatment, storage, or distribution facilities.

Eligible Project--A project for the construction, improvement, or rehabilitation of a domestic water system determined to be eligible under the California Safe Drinking Water Bond Law.

Eligible Project Costs--Reasonable costs associated with an eligible project including the engineering, legal, and administrative fees associated with the Project, and also including those reasonable costs incurred by the

applicant to prepare the application and to establish eligibility prior to or after the effective date of this Contract. Eligible Project costs do not include:

- (a) Operation and maintenance costs.
- (b) Cost of providing water for industrial or agricultural use.
- (c) Costs for purchase of equipment.
- (d) Payment of principal or interest of existing indebtedness or any interest payment unless:
 - (1) The debt is incurred after the issuance of a letter of commitment of funds by the State; and
 - (2) The State agrees in writing to the eligibility of the costs for reimbursement before the debt is incurred; and
 - (3) The purposes for which the debt is incurred are otherwise Eligible Project Costs.
- (e) Establishment of a reserve fund.

Treatment Works--Any devices or systems used in the treatment of water supplies, including necessary lands, that render such supplies pure, wholesome, and potable water for domestic purposes.

Loan Commitment--The maximum sum of money that the State agrees to lend to the supplier under this Contract, not to exceed \$5,000,000 plus any administration fee.

Principal Amount of the Loan--The total amount disbursed to the Supplier under the Contract, plus an administrative fee not to exceed five percent, less any amount of such total amount disbursed that may have been repaid or remitted to the State by the Supplier.

Term of Loan--The period of time between the date of first disbursement of money to the Supplier and the date the Principal Amount of the Loan is repaid in full.

Repayment Term--The period of time between the date of final disbursement of money to the Supplier and the date the Principal Amount of the Loan is repaid in full.

Fiscal Agent--A bank, savings and loan, or any other financial institution approved by the State, to which funds for the repayment of this loan are deposited, or are under the control of, for the purpose of disbursing repayments of the loan to the State according to the repayment schedule referred to in Article A-9 of Exhibit A.

ARTICLE A-2. TERM OF CONTRACT

Subject to the provisions of Article A-3, this Contract shall become effective on the date of its execution and shall remain in effect until the Principal Amount of the Loan, all interest thereon, and any other sums of money due to the State have been paid in full.

ARTICLE A-3. BASIC CONDITIONS PRECEDENT

The State shall have no obligation to disburse money under this Contract unless and until:

- (a) The Loan and Contract are authorized by the Public Utilities Commission of the State of California.

(b) The Supplier provides a copy of a resolution passed by its governing board, or other enabling authority, if applicable, accepting the loan, and designating a representative to execute this Contract and to sign requests for disbursement of State funds.

(c) The Supplier demonstrates to the State's satisfaction the proposed Project has the support of a majority of the affected community.

(d) The Supplier demonstrates the availability of sufficient funds to complete the Project.

(e) All other sources of funds for the Project have been utilized.

(f) The Supplier has satisfied the security provisions of Article A-12.

(g) The Supplier engages the services of a Fiscal Agent under an agreement approved by the State.

(h) The Supplier submits an initial budget of Eligible Project Costs approved by the State Department of Health Services on a form provided by the Department of Water Resources. The Supplier shall thereafter submit to the State in writing any substantial changes in the budget. The Supplier shall obtain written approval of changes from the State Department of Health Services and the State before the changes are made.

(i) The Supplier demonstrates to the State's satisfaction that the Supplier has and will continue to have sufficient water available at all times and a right to use the water required to operate the Project throughout the repayment period of the loan.

(j) The Supplier opens a separate checking account for deposit of loan proceeds as provided in Article A-14. The Supplier shall inform the State of the fund account number and title.

(k) The Supplier provides a certificate to the State evidencing insurance coverage of the individuals authorized to approve disbursement of funds as provided in Article A-14(b), for fidelity in the receipt, administration, and accounting of funds to be disbursed under this loan and any services or materials purchased pursuant to this Contract. The certificate of insurance shall be issued by a surety or insurance broker and signed by an authorized representative of the insurer.

(l) The Supplier obtains all necessary permits required by other State, federal and or local agencies, including an Amended Water Permit from the State or County agency which issues your permit to operate a water system.

ARTICLE A-4. COMPLIANCE WITH LAWS, REGULATIONS, PERMIT REQUIREMENTS

The Supplier shall at all times comply with, and require its subcontractors to comply with, all applicable federal and state laws, rules and regulations, permits, and all applicable local ordinances, specifically including, but not limited to, environmental, procurement and safety laws, rules, regulations, permits, and ordinances.

ARTICLE A-5. LOAN DISBURSEMENTS BY STATE

(a) Cost Statements

After the Basic Conditions Precedent in Articles A-3 and A-4 are met, the State will disburse the whole or portions of the loan commitment to the Supplier following receipt from the Supplier of a statement or statements of incurred Eligible Project Costs on forms provided by the State. Requests for State funds shall be filed monthly or for such longer period as the State and Supplier may mutually agree and the Supplier shall provide the following information:

(1) A statement of the incurred Eligible Project Costs for work performed in constructing the Project during the period identified in the particular statement.

(2) A statement of other incurred Eligible Project Costs that have been incurred for the Project during the period identified in the particular statement, including, but not limited to, legal, engineering, and administrative fees associated with the Project and reasonable costs of the Supplier to prepare the application and establish eligibility.

After the State gives notice to the Supplier that the State has determined that the Project has been completed or terminated, the Supplier shall furnish a final statement of incurred Eligible Project Costs.

(b) Disbursement

Following the review by the State of each statement of costs, the State will disburse to the Supplier the amount approved, subject to the availability of funds. Any and all money disbursed to the Supplier under this Contract and any and all interest earned by the Supplier on such money shall be used solely to pay Eligible Project Costs.

(c) Withholding of Loan Disbursements by Supplier

The Supplier shall withhold not less than five percent (5.0%) from any loan disbursement or the combination of loan disbursements until the Project is determined to be completed pursuant to Article A-7.

ARTICLE A-6. WITHHOLDING OF LOAN DISBURSEMENTS BY STATE

(a) Conditions for Withholding

If the State determines that the Project is not being carried out substantially in accordance with the provisions of this Contract, or if the State determines that the Supplier has failed in any other respect to substantially comply with the provisions of this Contract, and if the Supplier does not remedy any such failure to the State's satisfaction, the State may withhold from the Supplier all or any portion of the loan commitment and take any other action that it deems necessary to protect its interests.

(b) Withholding Entire Loan Commitment

If the State notifies the Supplier that it has decided to withhold all of the loan commitment from the Supplier pursuant to Subdivision (a)

of this Article, this Contract shall terminate upon receipt of such notice by the Supplier and shall no longer be binding on either party hereto.

(c) Withholding Balance of Loan Commitment

Where a portion of the loan commitment has been disbursed to the Supplier and the State notifies the Supplier that it has decided to withhold the balance of the loan commitment from the Supplier pursuant to Subdivision (a) of this Article, the portion that has been disbursed shall thereafter be repaid forthwith to the State with interest as directed by the State. Refusal of the Supplier to so repay may, at the option of the State, be considered a material breach of contract and may be treated as default under Article B-5 of Exhibit B.

ARTICLE A-7. TIMING OF PROJECT

(a) Project Completion Date

The Supplier shall cause the project to be completed not later than January 31, 1995, provided that said date for completion may be extended upon written approval of the State.

(b) Project Pursuant to Project Plans and Specifications

The Project shall be constructed in accordance with the final plans and specifications approved by the State Department of Health Services, together with any revisions thereof approved by the State Department of Health Services.

(c) Determination of Project Completion

For the purposes of this Contract, the Project shall be considered to be completed or terminated when so determined by the State.

(d) Competitive Bidding

Any contract let for the construction of the Project, or any part thereof, which is in excess of \$10,000, or which is in excess of any smaller amount for which bids are required under the enabling authority of the Supplier, shall be let by competitive bid procedures which assure award of the Contract to the lowest responsible bidder, except as may be otherwise authorized in writing by the State. Requests for approval of competitive bidding, for award of a contract to other than the low bidder, or for a supplier to proceed on the basis of force account or day labor, or for any other procedure which deviates from the principle of competitive bidding shall be submitted in writing to the State before the procedure is implemented. State's prior written approval of the procedure will be based on compliance with applicable laws and policies. The State expressly reserves the right to approve or disapprove of such requests.

(e) Sign Referring to Safe Drinking Water Bond Law Financing

During construction of the Project, the Supplier shall cause a sign to be installed at a prominent location which shall include a statement that the Project is financed under the California Safe Drinking Water Bond Law Program administered by the State of California, Department of Water Resources, and the State Department of Health Services.

(f) Audit Requirement

Pursuant to Government Code Section 10532, the contracting parties shall be subject to the examination and audit of the State and the State Auditor General for a period of three years after final payment under this Contract with respect to all matters connected with the performance of this Contract, including, but not limited to, the cost of administering this Contract. All records of the Supplier or subcontractors shall be preserved for this purpose for at least three years after completion of the Project.

ARTICLE A-8. STATEMENT OF PRINCIPAL AMOUNT OF LOAN

(a) Remittance of Unexpended Funds

The Supplier, within a period of thirty (30) days from the final disbursement from the State to the Supplier of loan funds, shall remit to the State any unexpended funds that were disbursed to the Supplier under this Contract and were not needed to pay Project Costs incurred.

Unexpended funds remitted to the State under this subdivision shall not be considered to be a repayment of any part of the loan, but shall be deemed to be a return to the State of part of the funds disbursed and a reduction in the total amount loaned to the Supplier pursuant to this Contract.

(b) Transmission of Statement to Supplier

Within sixty (60) days after final disbursement of money, the State shall transmit to the Supplier a written statement setting forth the Principal Amount of the Loan consisting of all disbursements plus an administrative fee not to exceed five percent to be repaid by the Supplier to the State pursuant to Article A-9 thereof.

ARTICLE A-9. INTEREST PAYMENTS DURING CONSTRUCTION

The State will invoice the Supplier semiannually for interest accrued during the construction period. The interest amount of each disbursement shall be calculated as the fraction $x/182.5$ times the interest rate of 3.1775 percent as specified in Section 7, where x is the number of calendar days remaining in the semiannual period from the date on which the disbursement was made. Interest accrued during the construction period is due and payable within 30 days of the date of the invoice.

ARTICLE A-10. REPAYMENT OF PRINCIPAL AMOUNT OF LOAN AND INTEREST

(a) Repayment Terms

Upon completion of the project, the Supplier shall make semiannual payments to the State for a period not to exceed 20 years until the principal amount of the Loan is repaid in full. The State will invoice the Supplier semiannually for principal and interest payments. Such invoices will include a statement of the outstanding principal amount of the loan, the amount of the payment which constitutes principal to be paid, and the amount of the payment which constitutes interest to be paid. There shall be a level annual repayment of principal and interest on the loan, based on a standard semiannual payment loan amortization method to be determined by the State.

The standard amortization method shall incorporate the outstanding loan principal as determined by Article A-8(b), the loan repayment term specified herein, and the Loan interest rate of 3.1775 percent, as specified in Section 7.

Loan Principal and interest payments shall be due and payable within 30 days from the date of the invoice. The first semiannual payment shall be due and payable on October 1, 1994. The remaining amounts shall be made semiannually thereafter commencing on April 1, 1995 until the Principal Amount of the Loan is repaid in full. The final semiannual payment shall be in an amount equal to the then unpaid portion of the principal of the loan, plus interest accrued. Interest on the principal shall not be deferred.

(b) Advance Payment Option

The Supplier shall have the option of paying in advance on any semiannual payment due date all or any part of the unpaid portion of the Principal Amount of the Loan, provided that any interest accrued hereunder shall be paid at the same time, and, provided further, that any such payment shall not relieve the Supplier of its obligations to make payments in the amount and at the time specified in Subdivision (a) of this Article until the Principal Amount of the Loan is repaid in full.

ARTICLE A-11. DELINQUENCY IN INTEREST PAYMENT

Upon every amount of interest money required to be paid by the Supplier to the State pursuant to Article A-10 of this Contract which remains unpaid after it becomes due and payable, interest shall accrue at the rate of one percent (1.0%) per month of the amount of such delinquent payment from and after the due date until it is paid, and the Supplier hereby agrees to pay such interest, provided that no such interest shall be charged to or be payable by the Supplier under this article unless such delinquency continues for more than thirty (30) days. Delinquency for a period of one year may, at the discretion of the State, be considered a material breach of contract and may be treated as default under Article B-5 of Exhibit B.

ARTICLE A-12. SECURITY REQUIREMENTS

The Supplier shall meet the security requirements provisions set forth in Exhibit B, "Loan Contract Security Requirements", to adequately protect the interest of the State during the term of the loan.

ARTICLE A-13. PAYMENT CAPACITY IMPAIRMENTS

(a) Transfer of Water Outside Service Area

No sale or other transfer of water made available by the constructed project shall be made outside the Supplier's existing service area which, in the judgement of the State, would materially impair the Supplier's capacity to make payments to the State as provided for in this Contract. The Supplier shall notify the State as promptly as feasible of all proposed sales or other transfers of Project water outside the Supplier's service area.

(b) Changes in Supplier's Organization

The Supplier shall notify the State as promptly as feasible of any proposed change in the Supplier's organization or service area. While this Contract is in effect, no changes shall be made in the organization of the Supplier without permission of the State. The Supplier shall take no action which may materially impair the Supplier's capacity to make payments to the State.

ARTICLE A-14. ACCOUNTING AND DEPOSIT OF LOAN DISBURSEMENTS

(a) Separate Accounting of Loan Disbursements and Interest; Records

The Supplier shall account for the money disbursed pursuant to this Contract separately from all other Supplier's funds. The Supplier shall maintain audit and accounting procedures that are in accordance with generally accepted accounting principles and practices, consistently applied. The Supplier shall keep complete and accurate records of all receipts, disbursements, and interest earned on expenditures of such funds. The Supplier shall require its contractors or subcontractors to maintain books, records, and other documents pertinent to their work in accordance with generally accepted accounting principles and practices. Records are subject to inspection by the State at any and all reasonable times.

(b) Disposition of Money Disbursed

The Supplier shall open and maintain a special checking account into which funds disbursed under this Contract will be deposited directly by the State. Such account shall be separate from all other accounts, and shall be used solely to accomplish the purposes of this Contract. All drafts or withdrawals from this account shall be payable to the providers of Eligible Project Costs as itemized on requests for disbursements submitted to the State. Drafts or withdrawals from the account shall require both the signatures of the Supplier's representative authorized to sign requests for disbursements, and a second designated individual, either a corporate officer, the registered project engineer, or the corporate accountant or another individual as approved by the State. The Supplier shall notify the State of the special checking account number. All money disbursed pursuant to this Contract shall be deposited, administered, and accounted for pursuant to the provisions of law applicable to the Supplier.

(c) Interim and Final Audits

The State reserves the right to conduct an audit at any time between the execution of this Contract and the completion of the Project. After completion of the Project, the State may require the Supplier to conduct a final audit, at the Supplier's expense, such audit to be conducted by and a report prepared by an independent Certified Public Accountant.

Failure or refusal by Supplier to comply with this provision shall be considered a substantial failure to comply with this Contract, and the State may elect to pursue any remedies provided in Article A-7 or take any other action it deems necessary to protect its interests.

ARTICLE A-15. REPORTS ON EXPENDITURE AND PROJECT CONSTRUCTION

During the planning and construction phases, the Supplier agrees to provide to the State an annual summary of the information required by Articles A-5 and A-14.

ARTICLE A-16. INSPECTIONS OF PROJECT BY STATE AND STATE DEPARTMENT OF HEALTH SERVICES

The State and State Department of Health Services shall have the right to inspect the work being performed at any and all reasonable times during the term of the Contract. This right shall extend to any subcontracts, and Supplier shall include provisions ensuring such access in all its contracts or subcontracts entered into pursuant to its Contract with the State.

Supplier shall notify the State and the State Department of Health Services of the final inspection of the Project or any component by the Supplier at least ten (10) days prior to the date set for the inspection.

ARTICLE A-17. PROHIBITION AGAINST DISPOSAL OF PROJECT WITHOUT STATE PERMISSION

The Supplier shall not sell, abandon, lease, transfer, exchange, mortgage, hypothecate, or encumber in any manner whatsoever all or any portion of any real or other property necessarily connected or used in conjunction with the Project, or with the Supplier's service of domestic water, without prior permission of the State. Supplier shall not take any action, including but not limited to actions relating to user fees, charges and assessments, that could adversely affect the ability of the Supplier to make timely payments or to otherwise meet its obligations under this Contract, without prior written permission of the State. The State may require that the proceeds from the disposition of any real or personal property be remitted to the State to be applied to Supplier's indebtedness under this Contract.

ARTICLE A-18. NONDISCRIMINATION CLAUSE

During the performance of this contract, the supplier, its contractor and subcontractors shall not deny the Contract's benefits to any person on the basis of religion, color, ethnic group identification, sex, age, physical or mental disability, nor shall they discriminate unlawfully against any employee or applicant for employment because of race, religion, color, national origin, ancestry, physical handicap, mental disability, medical condition, marital status, age, or sex. Supplier shall insure that the evaluation and treatment of employees and applicants for employment are free of such discrimination.

Supplier, its contractors and subcontractors shall comply with the provisions of the Fair Employment and Housing Act (Government Code, Section 12900 et seq.), the regulations promulgated thereunder (California Code of Regulations, Title 2, Section 7285.0 et seq.), the provisions of Article 9.5, Chapter 1, Part 1, Division 3, Title 2 of the Government Code (Government Code, Sections 11135-11139.5) and the regulations or standards adopted by the awarding State Agency to implement such article.

Supplier shall permit access by representatives of the Department of Fair Employment and Housing and the State upon reasonable notice at any time during the normal business hours, but in no case less than 24 hours notice, to such of its books, records, accounts, and other sources of information and its facilities as said Department or the State shall require to ascertain compliance with this clause.

Supplier, its contractors and subcontractors shall give written notice of their obligations under this clause to labor organizations with which they have a collective bargaining or other agreement.

Supplier shall include the nondiscrimination and compliance provisions of this clause in all subcontracts to perform work under the contract.

The Supplier's signature on this Contract shall constitute a certification under the penalty of perjury under the laws of the State of California that the Supplier has, unless exempted, complied with the nondiscrimination program requirements of Government Code, Section 12990, and Title 2, California Code of Regulations, Section 8103.

ARTICLE A-19. WORKERS' COMPENSATION CLAUSE

Supplier affirms that it is aware of the provisions of Section 3700 of the California Labor Code, which requires every employer to be insured against liability for workers' compensation or to undertake self-insurance in accordance with the provisions of that code, and Supplier affirms that it will comply with such provisions before commencing the performance of the work under this Contract and will make its contractors and subcontractors aware of this provision.

ARTICLE A-20. SUCCESSORS AND ASSIGNS

This Contract and all of its provisions shall apply to and bind the successors and assigns of the parties hereto. No assignment or transfer of this Contract or any part hereof, rights hereunder, or interest herein by the Supplier shall be valid unless and until it is approved by the State and made subject to such reasonable terms and conditions as the State may impose.

ARTICLE A-21. STATE TO BE HELD HARMLESS

The Supplier agrees to indemnify the State of California, Department of Water Resources and the State Department of Health Services, and their officers, agents, and employees against and to hold the same free and harmless from any and all claims, demands, damages, losses, costs, expenses, or liability due or incident to, either in whole or in part, and whether directly or indirectly, the Project.

ARTICLE A-22. REMEDIES NOT EXCLUSIVE

The use by either party of any remedy specified herein for the enforcement of this Contract is not exclusive and shall not deprive the party using such remedy of, or limits the application of, any other remedy provided by law.

ARTICLE A-23. AMENDMENTS

This Contract may be amended at any time by mutual agreement of the parties, after being concurred in by the Public Utilities Commission, when necessary, except insofar as any proposed amendments are in any way contrary to applicable law. Requests by the Supplier for amendments must be in writing stating the amendment request and the reason for the request.

ARTICLE A-24. OPINIONS AND DETERMINATIONS

Where the terms of this Contract provide for action to be based upon opinion, judgement, approval, review, or determination of either party hereto, such terms are not intended to be and shall never be construed as permitting such opinion, judgement, approval, review, or determination to be arbitrary, capricious, or unreasonable.

ARTICLE A-25. CONTRACTING OFFICER OF THE STATE

The contracting officer of the State shall be the Director of the Department of Water Resources of the State of California and his successors, or their duly authorized representatives. The contracting officer shall be responsible for all discretionary acts, opinions, judgements, approvals, reviews, and determinations required by the State under the terms of this Contract.

ARTICLE A-26. WAIVER OF RIGHTS

It is the intention of the parties hereto that from time to time either party may waive any of its rights under this Contract unless contrary to law. Any waiver by either party hereto of rights arising in connection with this Contract shall not be deemed to be a waiver with respect to any other rights or matters.

ARTICLE A-27. NOTICES

All notices that are required either expressly or by implications to be given by one party to the other under this Contract shall be signed for the State by its contracting officer and for the Supplier by such officers, as from time to time, it may authorize in writing to so act. All such notices shall be deemed to have been given if delivered personally or if enclosed in a properly addressed postage-prepaid envelope and deposited in a United States Post Office for delivery by registered or certified mail.

ARTICLE A-28. INSPECTION OF BOOKS, RECORDS, AND REPORTS

During regular office hours, each of the parties hereto and their duly authorized representatives shall have the right to inspect and to make copies of any books, records, or reports of either party pertaining to this Contract or matters related hereto. Each of the parties hereto shall maintain and shall make available at all times for such inspection accurate records of all its costs, disbursements, and receipts with respect to its activities under this Contract. Failure or refusal by Supplier to comply with this provision shall be considered a substantial failure to comply with this Contract, and the State may withhold disbursements to the Supplier or take any other action it deems necessary to protect its interests.

ARTICLE A-29. SUIT ON CONTRACT

Each of the parties hereto may sue and be sued with respect to this Contract.

ARTICLE A-30. CLAIMS DISPUTE CLAUSE

Any claim that Supplier may have regarding the performance of this agreement including, but not limited to, claims for additional compensation or extension of time, shall be submitted to the Director, Department of Water Resources, within thirty days of its accrual. State and Supplier shall then attempt to negotiate a resolution of such claim and process an amendment to this agreement to implement the terms of any such resolution.

ARTICLE A-31. NATIONAL LABOR RELATIONS BOARD CLAUSE

In accordance with Public Contract Code Section 10296, Supplier declares under penalty of perjury that no more than one final, unappealable finding of contempt of court by a federal court has been issued against the Supplier within the immediately preceding two-year period because of Supplier's failure to comply with an order of a federal court which orders Supplier to comply with an order of the National Labor Relations Board.

EXHIBIT B

LOAN CONTRACT SECURITY REQUIREMENTS

ARTICLE B-1. NO PRIORITY FOR ADDITIONAL LOANS

The Supplier agrees to incur no additional indebtedness having any priority in payment of principal or interest or pledge of revenues or facilities or equipment in existence at the date of this Contract or to be constructed or obtained under terms of this Contract without obtaining prior written consent of the State.

ARTICLE B-2. RATES AND CHARGES

The Supplier agrees that it will levy and collect assessments or user charges as may be necessary to operate and to maintain the Project and to meet the payments of the loan when the same becomes due and if, for any reason, gross revenues prove insufficient to service the loan contract, Supplier agrees to raise sufficient funds through increased user charges or assessments or any other legal means available to it to meet loan payments and to operate and to maintain the Project.

ARTICLE B-3. PERFORMANCE AND ASSURANCES

Supplier agrees to faithfully and expeditiously perform or cause to be performed all Project work as described in the final plans and specifications as submitted or as later amended and approved by the State Department of Health Services under this Contract and to apply State funds received only to Eligible Project Costs and to operate and maintain the Project in accordance with applicable provisions of the law. In the event the State finds it necessary to enforce this provision or any right of power under this Contract in the manner provided by law, Supplier agrees to pay all costs incurred by the State including, but not limited to, reasonable attorneys' fees, legal expenses, and costs.

ARTICLE B-4. SECURITY INTEREST

The Supplier agrees to grant to the State a security interest in both real and personal property as the State determines is reasonably necessary to secure payment of Supplier's obligations. The Supplier shall execute any and all documents required by the State to create such a security interest, including any amendments, notifications, or new documents as may be reasonably necessary to maintain, preserve, and protect the State's interest in the property.

ARTICLE B-6. RESERVE FUND

The Supplier agrees to provide for the accumulation of necessary reserves in accordance with Section 11 of this Contract to assure that funds will be available to make the semiannual payments when due. A reserve of two semiannual payments will be required to be accumulated during the first ten-year period for all repayment methods except those based on the quantity of water used, for which a reserve of four semiannual payments shall be accumulated during the first ten years. This reserve shall be maintained at this level thereafter with the withdrawals being replaced at the same original rates until the reserve is returned to the maximum amount. The reserve fund shall be maintained and administered by the Fiscal Agent.

ARTICLE B-5. DEFAULT PROVISIONS

(a) Supplier will be in default under this agreement if any of the following occur:

(1) Failure to pay any installment when due, or the entire indebtedness to the State when due at the designated due date, on accelerated maturity, or otherwise;

(2) Failure to make any remittances required by this Contract;

(3) Substantial breach of this agreement, or any supplement or amendment to it, or any other agreement between Supplier and the State evidencing or securing Supplier's obligations;

(4) Making any false warranty, representation, or statement with respect to this Contract;

(5) Loss, theft, or damages to any collateral;

(6) Seizure of, or levy on any collateral; and/or

(7) Dissolution or cessation of operations by Supplier, termination of Supplier's existence, insolvency of Supplier, or from filing of a voluntary or involuntary bankruptcy petition by or on behalf of Supplier.

(b) When an event of default occurs, the State may do any or all of the following:

(1) Declare the Supplier's obligations immediately due and payable, with demand or notice to Supplier, which Supplier expressly waives;

(2) Terminate any obligation to make future payments to Supplier;

(3) Exercise all rights and remedies available to a secured creditor after default, including, but not limited to, the rights and remedies of secured creditors under the California Uniform Commercial Code;

(4) Perform any of Supplier's obligations under this Contract for Supplier's account;

(5) Take over all of Supplier's property and operate the Supplier's water system at its discretion; and

(6) Take any other action which it deems necessary to protect its interests.

(c) Supplier agrees that any remedy provided in this Contract is in addition to and not in derogation of any other legal or equitable remedy available to the State as a result of a breach of contract by the Supplier, whether such breach occurs before or after completion of the project.

(d) No waiver by the State of any breach or default will be a waiver of any breach or default occurring later. A waiver will be voluntary if signed by the State or its authorized agent.

Estimated Schedule of Repayment of the Loan
City of Modesto
Contract No. E51404

Loan Amount: \$3,710,420.70
 5% Administrative Fee: \$185,521.04
 Principal: \$3,895,941.74
 Interest: 3.1775%
 Term: 20 Years

Semiannual Payments

Payment No.	Semiannual Payment	Interest	Principal	Principal Balance	Principal Reduction Factor
				\$3,895,941.74	
3/96 1	\$132,349.45	\$61,896.77	\$70,452.68	\$3,825,489.06	1.80836%
2	\$132,349.45	\$60,777.46	\$71,571.99	\$3,753,917.07	1.83709%
3	\$132,349.45	\$59,640.36	\$72,709.09	\$3,681,207.98	1.86628%
4	\$132,349.45	\$58,485.19	\$73,864.26	\$3,607,343.72	1.89593%
5	\$132,349.45	\$57,311.67	\$75,037.78	\$3,532,305.94	1.92605%
6	\$132,349.45	\$56,119.51	\$76,229.94	\$3,456,076.00	1.95665%
7	\$132,349.45	\$54,908.41	\$77,441.04	\$3,378,634.96	1.98774%
8	\$132,349.45	\$53,678.06	\$78,671.39	\$3,299,963.57	2.01932%
9	\$132,349.45	\$52,428.17	\$79,921.28	\$3,220,042.29	2.05140%
10	\$132,349.45	\$51,158.42	\$81,191.03	\$3,138,851.26	2.08399%
11	\$132,349.45	\$49,868.50	\$82,480.95	\$3,056,370.31	2.11710%
12	\$132,349.45	\$48,558.08	\$83,791.37	\$2,972,578.94	2.15074%
13	\$132,349.45	\$47,226.85	\$85,122.60	\$2,887,456.34	2.18490%
14	\$132,349.45	\$45,874.46	\$86,474.99	\$2,800,981.35	2.21962%
15	\$132,349.45	\$44,500.59	\$87,848.86	\$2,713,132.49	2.25488%
16	\$132,349.45	\$43,104.89	\$89,244.56	\$2,623,887.93	2.29071%
17	\$132,349.45	\$41,687.02	\$90,662.43	\$2,533,225.50	2.32710%
18	\$132,349.45	\$40,246.62	\$92,102.83	\$2,441,122.67	2.36407%
19	\$132,349.45	\$38,783.34	\$93,566.11	\$2,347,556.56	2.40163%
20	\$132,349.45	\$37,296.80	\$95,052.65	\$2,252,503.91	2.43979%
21	\$132,349.45	\$35,786.66	\$96,562.79	\$2,155,941.12	2.47855%
22	\$132,349.45	\$34,252.51	\$98,096.94	\$2,057,844.18	2.51793%
23	\$132,349.45	\$32,694.00	\$99,655.45	\$1,958,188.73	2.55793%
24	\$132,349.45	\$31,110.72	\$101,238.73	\$1,856,950.00	2.59857%
25	\$132,349.45	\$29,502.29	\$102,847.16	\$1,754,102.84	2.63985%
26	\$132,349.45	\$27,868.31	\$104,481.14	\$1,649,621.70	2.68179%
27	\$132,349.45	\$26,208.36	\$106,141.09	\$1,543,480.61	2.72440%
28	\$132,349.45	\$24,522.05	\$107,827.40	\$1,435,653.21	2.76769%
29	\$132,349.45	\$22,808.94	\$109,540.51	\$1,326,112.70	2.81166%
30	\$132,349.45	\$21,068.62	\$111,280.83	\$1,214,831.87	2.85633%
31	\$132,349.45	\$19,300.64	\$113,048.81	\$1,101,783.06	2.90171%
32	\$132,349.45	\$17,504.58	\$114,844.87	\$986,938.19	2.94781%
33	\$132,349.45	\$15,679.98	\$116,669.47	\$870,268.72	2.99464%
34	\$132,349.45	\$13,826.39	\$118,523.06	\$751,745.66	3.04222%
35	\$132,349.45	\$11,943.36	\$120,406.09	\$631,339.57	3.09055%
36	\$132,349.45	\$10,030.41	\$122,319.04	\$509,020.53	3.13965%
37	\$132,349.45	\$8,087.06	\$124,262.39	\$384,758.14	3.18953%
38	\$132,349.45	\$6,112.84	\$126,236.61	\$258,521.53	3.24021%
39	\$132,349.45	\$4,107.26	\$128,242.19	\$130,279.34	3.29169%
40	\$132,349.15	\$2,069.81	\$130,279.34	\$0.00	3.343983%
	\$5,293,977.70	\$1,398,035.96	\$3,895,941.74		100.000000%

DEPARTMENT OF WATER RESOURCES

1416 NINTH STREET, P.O. BOX 942836
SACRAMENTO, CA 94236-0001
(916) 653-5791



JUL 06 1995

Mr. Michael Milich
Attorney-At-Law
City of Modesto
801 11th Street, Fourth Floor
Modesto, California 95353

Dear Mr. Milich:

Safe Drinking Water Loan Contract No. E51404, Amendment A-3

Under the Safe Drinking Water Bond Law of 1988, the Department of Water Resources provided a \$4,942,594 loan to the Del Este Water Company. In a letter dated June 9, 1995, Del Este's Operations Manager, Dan Cockrum, requested an amendment to the Department of Water Resources loan contract. The request is to extend the project completion date from June 30, 1995 to December 31, 1995. Also, in a letter dated June 7, 1995, Del Este's legal representative, James Powers of Nossaman, Guthner, Knox & Elliott, informed the Department that the City of Modesto will acquire all assets and liabilities of the Water Company July 1, 1995 (this date subsequently revised to July 7, 1995). Mr. Powers requests that the Safe Drinking Water contract be assigned to the City of Modesto.

The request to extend the project completion date has been reviewed and is hereby approved. Therefore, the contract is amended as follows:

"ARTICLE A-7. TIMING AND MANNER OF PROJECT CONSTRUCTION

(a) Project Completion Date

Supplier shall cause the construction of the Project to be completed not later than December 31, 1995."

As a result of this revision, the following amendment is necessary:

"ARTICLE A-10. REPAYMENT OF PRINCIPAL AMOUNT OF LOAN

(a) Repayment Terms

Upon completion of the Project, the Supplier shall make semiannual payments to the State for a period not to exceed 20 years until the principal amount of the loan is repaid in full. The State will invoice the Supplier semiannually

Mr. Michael Milich

JUL 06 1995

Page Two

for principal and interest payments. Such invoices will include a statement of the outstanding principal amount of the loan, the amount of the payment which constitutes principal to be paid, and the amount of the payment which constitutes interest to be paid. There shall be a level annual repayment of principal and interest on the loan, based on a standard semiannual payment loan amortization method to be determined by the State. The standard loan amortization method shall incorporate the outstanding loan principal as determined by Article A-8(b), the loan repayment term specified herein, and the loan interest rate of 3.1775 percent, as specified in Section 7.

"Loan principal and interest payments shall be due and payable within 30 days from the date of the invoice. The first semiannual payment shall be due and payable on April 1, 1996. The remaining amounts shall be made semiannually thereafter commencing on October 1, 1996 until the principal amount of the loan is repaid in full. The final semiannual payment shall be in an amount equal to the then unpaid portion of the principal amount of the loan, plus interest accrued."

Also, DWR has no objection to the transfer of the loan contract to the City of Modesto. Therefore in accordance with Article A-20 of the contract, we are issuing the attached Assignment of Loan Agreement for signature by the Del Este Water Company and the City of Modesto. Please be advised that assignment of this loan to the City will be at parity with the City's existing 1992 Certificates of Participation. As a result of this requirement, the following amendment is necessary:

"Article B-1. NO PRIORITY FOR ADDITIONAL LOANS

The Supplier agrees to incur no additional indebtedness having any priority in payment of principal or interest or pledge of revenues or facilities or equipment in existence at the date of this Contract or to be constructed or obtained under terms of this Contract without obtaining prior written consent of the State.

The Supplier agrees that this loan will be at parity with the Supplier's outstanding obligations secured by a

Mr. Michael Milich

JUL 06 1995
Page Three

prior lien on water revenues, being its obligations under its Treatment and Delivery Agreement with Modesto Irrigation District, its obligations with respect to its 1992 Certificates of Participation, and the proposed 1995 Certificates of Participation."

This loan was secured by a Deed of Trust in the amount of \$4,942,594 on 62 parcels and a UCC-1 Financing Statement. It is not the State's practice to secure Safe Drinking Water loans with real property when the debtor is as public agency. Since the Water Company will be acquired by the City, the State will release its interest in the secured property. We have sent a completed full reconveyance to your title company, Fidelity National Title Insurance, with instructions to release the State's interest once this Amendment and attached Assignment of Loan Agreement have been signed by all parties. In addition, we included a UCC-2 Release to be filed with the Secretary of State.

Any fees associated with the above recordations are the responsibility of the City of Modesto.

Please be advised that in order for the Assignment of Loan Agreement to become effective, you must execute a Fiscal Services Agreement (form BFA 600), copies enclosed. For informational purposes, a printout of the estimated loan repayment schedule is enclosed.

This letter with modifications along with the signed Assignment of Loan Agreement and the Del Este Water Company letter, with attachments, dated June 9, 1995, are incorporated into, made part of, and shall be attached to Contract E51404 as Amendment A-3, between the State of California, Department of Water Resources; Del Este Water Company; and the City of Modesto. Please have designated representatives of both parties sign and date three originals of both this letter and the Assignment of Loan Agreement. Return one original of this Amendment letter and one original of the Assignment of Loan Agreement to the Department of Water Resources, Bond Financing and Administration Office, Attention: Cynthia Thomas, Room 804, Post Office Box 942836, Sacramento, California 94236-0001.

Mr. Michael Milich

JUL 06 1995

Page Four

Please call Cynthia Thomas at (916) 653-9634 if you have any questions.

Approved as to Legal Form and Sufficiency:

Sincerely,

By: David J. Ray
for Chief Counsel
Department of Water Resources

Chester M. Winn
Chester M. Winn, Chief
Division of Fiscal Services

Amendment No. A-3 to Contract E51404, approved,

DEL ESTE WATER COMPANY

By: [Signature] Date: 7/11/95
Title: President

CITY OF MODESTO

By: [Signature] Date: 7/10/95
Title: CITY MANAGER

Enclosure

cc: Honorable Richard Lang, Mayor
City of Modesto
Post Office Box 642
Modesto, California 95353

Mr. Kennan H. Beard, President
Board of Directors
Del Este Water Company
Post Office Box 3250
Modesto, California 95353-3250

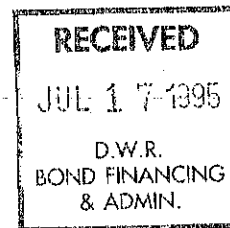
Mr. R. Marshal Elizer, Jr.
Director of Public Works
City of Modesto
Post Office Box 642
Modesto, California 95353

Ms. Alice Tullock, P.E.
Deputy Director-Utilities
City of Modesto
Post Office Box 642
Modesto, California 95353

(cc's continue on next page)

APPROVED AS TO FORM

[Signature]
Michael D. Milich, City Attorney



JUL 06 1995

Mr. Eric Tashman, Bond Counsel
Brown & Wood
555 California Street
San Francisco, California 94104

Mr. Joseph O. Spano, District Engineer
Stockton District
Division of Drinking Water and
Environmental Management
Department of Health Services
31 East Channel Street, Room 270
Stockton, California 95202

Ms. Injy Shediak Shami, Account Administrator
Bank of America NT & SA
Global Escrow Depository Services #3960
One Embarcadero Center, Fifth Floor
San Francisco, California 94111

Mr. Paul Potter, Chief
Finance Branch
Commission Advisory and Compliance Division
Public Utilities Commission
505 Van Ness Avenue, Room 3105
San Francisco, California 94102



Del Este

WATER COMPANY

June 9, 1995

Ms. Cynthia Thomas
Bond Finance Group
Dept. of Water Resources
P.O. Box 942836, Room 816
Sacramento, CA 94236-0001

Re: Investor Construction Loan Contract No. E51404, Request
for Amendment to Extend Project Completion Date

Dear Ms. Thomas:

In accordance with Article A-7 of the subject contract, Del Este Water Company (Supplier) requests that the current Project Completion Date of June 30, 1995 (see Amendment A-2) be extended to December 31, 1995.

The following elements of the total project remain to be completed:

1. Final piping connection, electrical, controls and shakedown of 3 booster stations.
2. Development, water quality testing and installation of building and well head equipment for "G" Street well in Empire.

Weather and delayed material deliveries during the past six-months have made completion by the June 30 date impossible.

This extension will not increase the overall project costs and will allow for adequate time to complete remaining elements. Also, a separate request was made on June 7, 1995 (copy attached) to allow for the take over of Del Este by the City of Modesto. This time extension should allow for orderly completion of the project by the City.

Sincerely,

Dan Cockrum
Operations Manager

DC:sf

Attachment

cc: Joseph O. Spano, District Engineer
Drinking Water Field Operations Branch
Stockton District Dept. Health Services

LAW OFFICES
NOSSAMAN, GUTHNER, KNOX & ELLIOTT
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

WALTER L. NOSSAMAN
(1888-1964)

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IRVINE, CA 92715-1007
(714) 933-7800

JAMER C. POWERS
DIRECT DIAL NUMBER
(213) 612-7835

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LOS ANGELES, CALIFORNIA 90071-1802
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WARREN ELLIOTT
OF COUNSEL

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WASHINGTON, D.C. 20037-1158
(202) 229-9100

SACRAMENTO
SUITE 1000
915 L STREET
SACRAMENTO, CA 95814-3701
(916) 442-8888

REFER TO FILE NUMBER

040283-001

June 7, 1995

Ms. Lorri Silva
Bond Financing and Administration
California Department of Water Resources
P.O. Box 942836
Sacramento, California 94236-0001

Re: Contract No. E51404
Acquisition of Assets of Del Este Water Company by City of Modesto

Dear Ms. Silva:

The City of Modesto is acquiring all of the assets of Del Este Water Company in connection with a pending condemnation action. We represent Del Este Water Company in that condemnation action. The City of Modesto intends to continue serving the customers of Del Este Water Company after the acquisition.

The State of California Department of Water Resources and Del Este Water Company are parties to the above-referenced Contract No. E51404 dated June 10, 1993 and to the Security Agreement dated August 11, 1993 which secures performance of Del Este's obligations under Contract No. E51404. As a part of its condemnation of all of the assets of Del Este Water Company, the City of Modesto intends to acquire all of Del Este's rights under those contracts, and the City will assume all of Del Este's obligations thereunder.

Paragraph A-20 of Contract No. E51404 provides that "No assignment or transfer of this Contract or any part hereof, rights hereunder, or interest herein by the Supplier shall be valid unless and until it is approved by the State and made subject to such reasonable terms and conditions as the State may impose."

There is some doubt as to whether condemnation of the assets of Del Este Water Company is an "assignment", but to avoid any question about the matter, we would like to obtain from you a written statement that, after the condemnation, the City of Modesto can perform Del Este's obligations under the agreements and will be entitled to Del Este's rights them.

NOSSAMAN, GUTHNER, KNOX & ELLIOTT

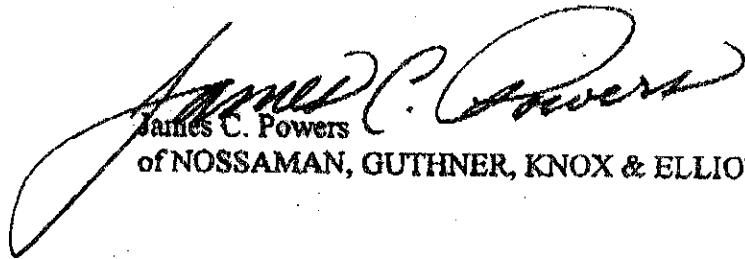
Ms. Lorri Silva

June 7, 1995

Page 2

We would appreciate it very much if you would confirm that this arrangement is satisfactory with you by signing and returning to us the enclosed consent form. If you have any question about this arrangement, please let us know immediately.

Very truly yours,



James C. Powers
of NOSSAMAN, GUTHNER, KNOX & ELLIOTT

JCP

cc: Michael D. Milich
Christine A. Deaton
William R. Beard

AGREEMENT FOR ASSIGNMENT OF LOAN UNDER
THE CALIFORNIA SAFE DRINKING WATER BOND LAW OF 1988

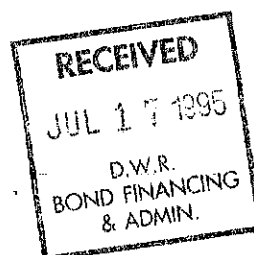
RE: CONTRACT NO. E51404

BETWEEN THE STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

AND

DEL ESTE WATER COMPANY

ASSIGNMENT TO CITY OF MODESTO



PREAMBLE

This Assignment Agreement is entered into between the State of California (the "State"), acting by and through its Department of Water Resources ("DWR"), Del Este Water Company ("Assignor"), a corporation and the City of Modesto ("Assignee"), a public utility.

RECITALS

1. The State and the Assignor entered into a loan contract, No. E51404, dated June 10, 1993. The contract was for a loan by the State to the Assignor under the California Safe Drinking Water Bond Law of 1988 ("SDWBL"), in an amount not to exceed \$4,942,594. (The contract is hereinafter referred to as the "SDWBL Loan Contract", and is attached hereto and incorporated herein by reference as Exhibit "A".) The purpose of the SDWBL Loan Contract was to finance an improvement project to bring the Assignor's water supply and distribution system in compliance with federal and State drinking water quality standards.

2. Article A-17 of the SDWBL Loan Contract between the State and Assignor prohibits any sale, transfer, or encumbrance of any portion of the project or associated real or personal property without prior permission of the State.

3. On July 7, 1995, the Assignee entered into an agreement with the Assignor to assume in full the rights and obligations under the SDWBL Loan Contract.

4. As of July 7, 1995, loan funds in the amount of \$3,235,084.86 have been disbursed by the State to Assignor under the terms of the SDWBL Loan Contract.

5. This Assignment Agreement shall be incorporated into and made a part of the SDWBL Loan Contract, and shall be referred to as "Amendment A-3."

AGREEMENT

6. Therefore, the State, and the Assignee agree as follows:

a. The State hereby consents to the Assignee assignment of the SDWBL Loan Contract and to the transfer of the Assignor's property to the Assignee;

b. The State agrees to substitute the Assignee in place of the Assignor with respect to the SDWBL Loan Contract;

c. The Assignee promises to perform the obligations described in the SDWBL Loan Contract, including all amendments thereto, and further assumes all rights and duties thereunder;

d. The State does hereby release and discharge the Assignor from the obligations described in the SDWBL Loan Contract;

e. The Assignee hereby assumes any contracts or agreements between the State and Assignor which relate to the subject matter of the SDWBL Loan Contract, whether made by the Assignor prior to the execution of this Assumption Agreement, pursuant to, or in conjunction with the SDWBL Loan Contract;

7. Section 12 of the SDWBL Loan Contract is hereby deleted in its entirety and amended to read as follows:

Section 12. PROJECT OFFICIALS AND NOTICES

a. The "State Project Manager" shall be the Chief, Division of Fiscal Services of the Department of Water Resources. The State Project Manager shall be the State's representative for administration of the Contract and shall have authority to make determinations and findings with respect to each controversy arising under or in connection with the interpretation, performance, or payment for work performed under the Contract.

b. The "Supplier Project Director" shall be the Director of Public Works, City of Modesto. The Supplier Project Director shall be the Supplier's representative for the administration of the Contract and shall have full authority to act on behalf of the Supplier. All communications given to the Project Director shall be as binding as if given to the Supplier.

c. Any claim that Supplier may have regarding the performance of this agreement including, but not limited to, claims for additional compensation or extension of time, shall be submitted to the Director, Department of Water Resources, within thirty days of its accrual. State and Supplier shall then attempt to negotiate a resolution of such claim and process an amendment to this agreement to implement the terms of any such resolution.

d. Either party may change its Project Manager or Project Director upon written notice to the other party.

e. Notices required to be given in writing by the Supplier under this Contract shall be sent to:

State of California
Department of Water Resources
Program Manager
Bond Financing and Administration Office
Post Office Box 942836, Room 804
Sacramento, California 94236-0001

f. Notices required to be given in writing by the State under this Agreement or under the terms of the SDWBL Loan Contract as amended shall be sent to:

Director of Public Works
City of Modesto
Post Office Box 642
Modesto, California 95353

g. A change of address for delivery of notice may be made by either party by written notice of such change of address to the other party.

h. All such notices shall be enclosed in a properly addressed, postage prepaid envelope and deposited in a United States Post Office for delivery by registered or certified mail.

GENERAL PROVISIONS

8. The effective date of this Assignment Agreement shall be the date of acquisition by the Assignee of the utility property of the Assignor, which date is deemed to have occurred on July 7, 1995.

9. All other terms of the SDWBL Loan Contract, except as amended herein, shall remain in full force and effect.

10. Each of the parties hereto agrees to execute any and all documents necessary to effectuate the intent and purpose of this Assignment Agreement.

11. This Assignment Agreement shall be binding upon the successors and assigns of each of the parties hereto.

12. In the event of any conflict or inconsistency between the provisions of this Assignment Agreement and the SDWBL Loan Contract, the provisions herein shall control in all respects.

13. This Assignment Agreement shall be governed by the laws of the State of California.

14. This Assignment Agreement constitutes the only existing and binding agreement among the parties regarding the subject matter of this assignment of the SDWBL Loan Contract, and the parties acknowledge that there are no other warranties, promises or representations of any kind, express or implied, upon which the parties have relied in entering this agreement, or as to future relationships of the parties, except as expressly set forth herein.

15. The signatories to this Assignment Agreement, on behalf of all parties hereto, warrant and represent that they have authority to execute this Assignment Agreement and to assume or release the rights and obligations referred to herein.

Approved as to Legal Form
and Sufficiency:

STATE OF CALIFORNIA
Department of Water Resources

By: David L. Ray
for Chief Counsel
Department of Water Resources

By: Charles M. Wilson
Chief, Division of
Fiscal Services
Department of Water Resources

Date: JUL 06 1995

Date: JUL 06 1995

DEL ESTE WATER COMPANY

CITY OF MODESTO

By: [Signature]
Kennan H. Beard
Print Name

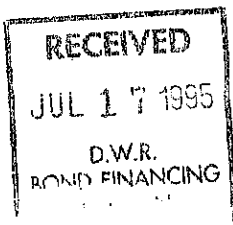
By: [Signature]
J. EDWARD TEWES
Print Name

Title: President

Title: CITY MANAGER

Date: 7/11/95

Date: 7/10/95



APPROVED AS TO FORM
[Signature]
Michael D. Milich, City Attorney