

**BROWNS VALLEY IRRIGATION DISTRICT
FUNDING AGREEMENT FOR
SPRING VALLEY DEVELOPMENT PROJECT APPLICATION PROCESSING**

THIS AGREEMENT is made this 11/8, 2005, by and between the Browns Valley Irrigation District, a California public agency ("BVID"), and AXEL KARLSHOEJ, ("Developer"), who agree as follows:

1. Recitals. This Agreement is made with reference to the following background recitals:

1.1. Developer owns or controls approximately 1,686 acres of land and has an option to purchase approximately 1,200 additional acres, all of which land is located in the southwest portion of BVID. Both the owned and optioned lands are intended to be part of the development project described in the Spring Valley Specific Plan approved by Yuba County voters in 1992. On those lands, Developer proposes to build a residential and commercial development known as the Spring Valley Project (the "Project"). Developer has submitted or intends to submit a development application for the Project to Yuba County (the "Application"). Before the County will begin processing the Application, Developer is required to demonstrate that a water supply is available to serve the Project. For that purpose, Developer has requested BVID issue a "will serve" letter stating that BVID currently has available up to 4,000 acre feet of annual raw water supplies for the Project (the "Letter"). BVID will issue the Letter, which requires Developer to satisfy certain conditions in order to secure the requested water supply, upon execution of this Agreement.

1.2. Pursuant to state law, BVID policies and the Letter, BVID is now obligated to process Developer's request for purposes of firming up the requested water supply, including but not limited to the following tasks: reviewing and analyzing any requests for water and sewer services resulting from BVID's issuance of the Letter; conducting water supply and facilities analyses and studies; preparing and/or reviewing plans and specifications for facilities and providing related services; preparing staff reports and recommendations, conditions, resolutions, findings and other Project-related documents; noticing and conducting Board of Directors' public hearings and meetings; and if the Project is built, completing any facilities BVID is required to construct to deliver the requested water supply to the Project or overseeing and inspecting any facilities constructed by Developer to be dedicated to BVID (the "Project Processing Tasks").

1.3. The Board of Directors has determined that the Project does not provide any benefits to BVID's ratepayers other than Developers and therefore, that state law and policy requires Developer to fund BVID's costs of performing the Project Processing Tasks to avoid the gifting of ratepayer funds for a private purpose. To obtain the necessary services in a timely and appropriate manner, Developer therefore agrees to provide funding to BVID to cover such costs, on and subject to the terms of this Agreement.

2. Application Processing Tasks. BVID, through its staff, legal, engineering and other consultants, and Board of Directors, will perform and undertake the Project Processing Tasks.

3. Funding for Application Processing Tasks.

3.1. Developer agrees to provide an initial deposit of \$25,000 to BVID as funding for issuing the Letter and the Project Processing Tasks. BVID will draw on this initial deposit to pay or reimburse periodic invoices from BVID's consultants and to reimburse BVID for the cost of BVID staff time and materials. The funding may be used retroactively to reimburse BVID's costs incurred before execution of this Agreement for issuing the Letter and performing Project Processing Tasks. If at any time before completion of the Project Processing Tasks the deposit balance is less than \$10,000, BVID reserves the right to either demand additional deposits in an amount sufficient to replenish the deposit fund up to the initial deposit amount of \$25,000 or to request payment from Developer on an invoice-by-invoice basis. Developer will make any deposit or payment to BVID within 15 days of the date of BVID's invoice or demand.

3.2. In addition to funding on-going Project Processing Tasks in accordance with paragraph 3.1 above, any Project Processing Task that requires BVID to enter into an agreement with a consultant or to purchase materials and supplies costing \$10,000 or more shall be funded in advance by Developer. To obtain such advance funding, BVID will advise Developer in writing of the cost and purpose of the proposed Project Processing Task. If Developer concurs that the work is a necessary Project Processing Task, it will advance the total estimated cost of the work under the consultant agreement to BVID within 15 days of the written notice of the proposed Project Processing Task. If Developer objects to the proposed work, it will send BVID a written notice of the objection(s) and specific ground(s) therefore within ten days of receipt of the District's notice, and request that BVID meet and confer to modify the proposal to address Developer's concerns or to otherwise resolve the dispute within 30 days of Developer's written notice to BVID. If the dispute is not resolved after meeting and conferring, BVID in its sole discretion may give written notice to Developer that BVID will proceed with the proposed Project Processing Task and require Developer to fund such task. If Developer then refuses to fund the work in the time provided in paragraph 3.1, such refusal will constitute a default and District may elect to terminate this Agreement as provided in paragraph 7.2.

3.3. If any requested deposit or payment is not timely made in accordance with paragraph 3.1, BVID will notify Developer and Developer will have ten days to cure the default. If Developer does not make a deposit or payment within the ten-day cure period or if the deposit funds become depleted, then BVID may suspend all work on the Project Processing Tasks until receipt of Developer's deposit or payment and/or may elect to declare a default and terminate the Agreement in accordance with section 7 hereof.

3.4. BVID will deposit Developer deposits into a special accounting fund for the purpose of paying and reimbursing BVID costs on the Project Processing Tasks (the "Project Fund"). Any Developer deposit remaining upon completion of the Project Processing Tasks will be refunded without interest to Developer. If the final total Project Processing Tasks costs exceed the amount of the deposit(s), Developer will pay the difference to the BVID within the time specified in paragraph 3.2 above.

4. Option Maintenance Payment. To reserve its right to the maximum 4,000 acre foot per year raw water supply, Developer shall make an annual option maintenance payment to BVID. The annual option maintenance payment will be calculated based on the full yearly per acre foot charge incurred by BVID to maintain its contract for 9,500 acre feet of water annually supplied by the Yuba County Water Agency multiplied by the maximum 4,000 acre foot annual supply optioned by Developer. The current charge is \$1.68 per acre foot, which would calculate into an annual option maintenance payment of \$6,720. The first annual option maintenance payment shall be due to BVID on or before Developer's execution of this Agreement, with subsequent payments being made annually on or before the anniversary date of this Agreement. BVID may adjust this charge from time to time to reflect changes in the per acre foot charge BVID incurs to purchase its YCWA water commitment, but not more than once annually. Developer consents to making the annual option maintenance payment as a means of reimbursing BVID for lost opportunity costs related to reserving the requested amount of water for Developer's benefit and to help defray recurring and non-recurring District costs related to the Project that are not otherwise reimbursable under this Agreement.

5. Record Keeping. BVID will keep and maintain accurate accounting and bookkeeping records relating to the Project Processing Tasks costs and Project Fund, including all deposits into the fund and all BVID costs paid or reimbursed from the fund. Developer and its employees, accountants, attorneys and agents may review, inspect, copy and audit these records, including all source documents.

6. No BVID Commitment on Project. BVID reserves complete discretion regarding the Project Processing Tasks and related documents and BVID's decisions concerning the Project, including provision of water supplies or services. Nothing in this Agreement will in any way commit or obligate BVID to approve the Project or consent to the Application or any other development project application. BVID also reserves complete discretion regarding the contents, analysis and conclusions of any Project Processing Task documents, including the scope and nature of any water service commitments and determination of Developer's compliance with BVID ordinances, rules and regulations and satisfaction of any conditions precedent to obtaining a water supply or water service. BVID employee staff and consultants will work directly for BVID and be responsible only to BVID.

7. Documents. Any documents prepared or compiled by BVID staff or consultants under contract with BVID relating to the Project Processing Tasks will be and remain the property of BVID.

8. Term and Termination.

8.1. This term of this Agreement is five years running from its effective date; provided that BVID may request at any time on or before the expiration date that Developer renegotiate any term or terms of this Agreement. If Developer refuses to renegotiate any such term or terms with BVID, such refusal shall be deemed a default in accordance with subdivision (a) of paragraph 7.2 below and BVID may terminate this Agreement.

8.2. This Agreement will remain in effect for the term provided in paragraph 7.1 above, unless earlier terminated upon the occurrence of: (a) Developer's failure to cure any default of its obligations under this Agreement; (b) Developer's failure to satisfy any conditions of the Application or Letter or expiration of the Application or Letter; (c) Developer's written notice to BVID that the

Application or Project is being withdrawn, suspended or terminated; (d) any determination by BVID that it has inadequate supplies to serve the Project or that it is unable to provide any services to the Project due to a change in any federal, state or local law, ordinance, rule, regulation or policy; (e) upon approval by the Yuba County Local Agency Formation Commission of any detachment of the Project lands from BVID or any determination that a public utility other than BVID will provide water supplies and/or utility services to the Project; or (f) BVID and Developer's termination of this Agreement upon 30 days mutual written notice. Unless otherwise mutually agreed in writing, any termination of this Agreement will automatically terminate the Letter.

8.3. If Developer defaults on any obligation under this Agreement, BVID will have the right to exercise any and all rights and remedies available to it under law and equity, including the right to terminate this Agreement and to withdraw or terminate the Letter, and to collect the costs of such cure from Developer, including attorneys' fees as provided in paragraph 8.7 of this Agreement. If this Agreement is terminated as provided in this section, any deficit in or balance from the Project Fund for all BVID unpaid, reimbursable costs incurred for the Project will be immediately due and payable by Developer to BVID in accordance with paragraph 3.1 of this Agreement. Developer's obligations under this paragraph will survive any termination of this Agreement.

9. General Provisions.

9.1. Integration. This Agreement constitutes the sole, final, complete, and integrated statement of the terms of this contract among the parties concerning the subject matter addressed herein, and supersedes all prior negotiations, representations or agreements, either oral or written, that may be related to the subject matter of this Agreement, except those other documents that are expressly referenced in this Agreement.

9.2. Assignment. Developer may not assign this Agreement to any other party except upon notice to BVID and BVID's written consent to the proposed assignment.

9.3. Successors and Assigns. This Agreement will bind and inure to the benefit of the respective successors, assigns, heirs, devisees and personal representatives of the parties.

9.4. Amendment. This Agreement may be modified or amended only by a subsequent written agreement approved and executed by both parties. Amendment by BVID requires approval of the Board of Directors and execution by the Board President or General Manager.

9.5. Governing Law and Venue. Except as otherwise required by law, this Agreement will be interpreted, governed by, and construed under the laws of the State of California. The County of Yuba will be venue for any state court litigation, and the Eastern District of California will be venue for any federal court litigation, concerning the enforcement or construction of this Agreement.

9.6. No Third Party Beneficiaries. Developer will not be deemed to be a third party beneficiary to any consultant services contract funded in whole or in part by this Agreement.

9.7. Attorney's Fees. In the event any legal action is brought to enforce or construe this Agreement, the prevailing party will be entitled to an award of reasonable attorney's fees, expert witness and consulting fees and costs, litigation costs and costs of suit

9.8. Notices. Any notice, demand, invoice or other communication required or permitted to be given under this Agreement will be in writing and served personally or sent by prepaid, first class U.S. mail or overnight mail and addressed as follows:

BVID:

Browns Valley Irrigation District
P.O. Box 6
9370 Browns Valley School Road
Browns Valley, CA 95918

Developer:

AXEL KARLSHOEJ
1437 FURNEAUX ROAD
MARYSVILLE, CALIF 95901

Any party may change its address by notifying the other party in writing of the change of address.

9.9. Indemnification. Developer will exonerate, hold harmless, indemnify and defend BVID, and its directors, officers, employees, agents, consultants and volunteers from and against any and all suits, actions, judgments, legal or administrative proceedings, arbitrations, claims, demands, causes of action, damages, liabilities, interest, attorneys' fees, fines, penalties, losses, costs or expenses of whatsoever kind or nature (collectively, "Claims"), directly arising out of: 1) the District's issuance of the Letter; 2) performance of any Project Processing Tasks; or 3) in any other way related to the subject matter of this Agreement or the Project, if any such Claim arises out of any act or omission of Developer or its directors, officers, employees, independent contractors, lenders, guests, invitees or agents. Neither the expiration nor earlier termination of this Agreement nor completion of the acts to be performed under this Agreement shall release Developer from its obligation to indemnify BVID as to any Claim, so long as the event upon which the Claim is predicated shall have occurred prior to effective date of any such expiration or earlier termination or completion and arose out of or was in any way connected with performance or operations under this Agreement, the Letter or Project Processing Tasks by Developer, its directors, officers, employees, independent contractors, lenders, guests, invitees or agents, or any one of them

[Signatures Follow on Next Page.]

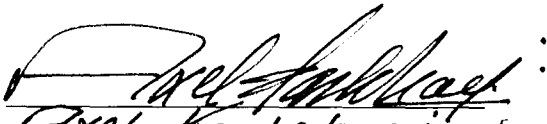
BROWNS VALLEY IRRIGATION DISTRICT

By: 
President, Board of Directors

Attest:

By: 
Secretary

DEVELOPER

By:  :
AXEL KARLSHOEJ [name]
Owner [title]