EXCLUSIVE NEGOTIATING RIGHTS AGREEMENT
COUNTY OF MONTEREY AND CALIFORNIA AMERICAN WATER COMPANY

This Exclusive Negotiating Rights Agreement ("Agreement") is made and entered as of the last date opposite the respective signatures by and among the County of Monterey, a political subdivision of the state of California on behalf of County Service Area 75 – Chualar ("CSA 75 – Chualar"), the Board of Supervisors of the County of Monterey acting as the Board of Directors of the Boronda County Sanitation District ("BCSD"), the Board of Supervisors of the County of Monterey acting as the Board of Directors of the Pajaro County Sanitation District ("PCSD"), and California-American Water Company, a corporation organized and existing under the laws of the state of California ("CalAm"). CSA 75 - Chualar, the BCSD and the PCSD may sometimes be referred to collectively as "County." CSA 75 - Chualar, the BCSD and the PCSD and CalAm may be referred to herein as "Party" or collectively as the "Parties."

RECITALS

A. As endorsed by the Board of Supervisors of the County of Monterey, the County's goals and objectives include divesting all interest in the CSA 75 - Chualar Sanitation System, the BCSD Sanitation System, and the PCSD Sanitation System (at times referred to collectively as, the "Sanitation Systems").

B. CalAm has submitted Statement of Qualifications for RFQ #10577 Transfer of Ownership of the CSA 75 - Chualar Sanitation System, the BCSD Sanitation System, the BCSD – Zone 2 San Jerardo Water System, and the PCSD Sanitation System.

C. During negotiation efforts, the State of California Water Resources Control Board has approved a Technical, Managerial, and Financial report from the San Jerardo Cooperative, Inc. to enable the San Jerardo Cooperative, Inc. to take ownership of the San Jerardo Water System. The result of this action is the exclusion of the BCSD – Zone 2 San Jerardo Water System from all consideration and negotiations with CalAm in response to RFQ #10577.

D. CalAm has exhibited substantial experience in system acquisition and currently has staffing levels sufficient to meet the maintenance and operation needs of the sanitation systems.

E. The County on behalf of CSA 75 - Chualar, BCSD and PCSD, intends to perform system assessments and valuation reports for the Sanitation Systems.

F. Further, the County intends to complete Proposition 218 Rate Studies for the BCSD Sanitation System and the PCSD Sanitation System prior to divestment and transfer.

G. The purpose of this Agreement is to provide County's commitment to CalAm on behalf of CSA 75 – Chualar, the BCSD and the PCSD that, during the Negotiating Period prescribed herein, County will negotiate exclusively with CalAm in an effort to agree upon the terms of one or more asset purchase agreements for CalAm's purchase of said Sanitation Systems. As more fully set forth below by its execution of this Agreement, the County does not commit itself to any disposition of the Sanitation Systems to CalAm and

does not agree to undertake any other acts or activities requiring the subsequent independent exercise of discretion by the County, or any other governmental entity.

NOW, THEREFORE, in consideration of the mutual covenants and promises to set forth herein, the Parties agree as follows:

1. Good Faith Negotiations. Subject to the terms and conditions set forth in this Agreement the County and CalAm agree for the time period set forth below to negotiate diligently and in good faith towards the preparation of one or more purchase and sale agreements and any other divestment or transfer agreement (collectively, the "Purchase and Sale Agreement") which will involve the acquisition of the Sanitation Systems by CalAm. It is expressly understood and agreed by the Parties that this is a contract regarding negotiations only and does not convey any interest in the Sanitation Systems or a potential agreement or constitute any approval whatsoever for any proposed project.

   The County agrees, for the Initial Term, and any Extended Term (defined below) not to negotiate with, solicit offers or proposals regarding, or respond to inquiries from (other than to notify the inquiring party, person, or entity that the County is subject to this Agreement) any other person or entity regarding the divestment, purchase, sale or transfer of the Sanitation Systems, or any part thereof.

2. Term. The term of this Agreement shall be for a period of two (2) years from the date of final execution by the Parties ("Initial Term") unless earlier terminated or extended as provided in this Section 2 or Section 13 below.

   (a). The County shall have the right to extent the Initial Term of this Agreement for up to an additional one (1) year ("Extended Term"). The decision to extend the Initial Term shall be at the sole and absolute discretion of the County. If the County elects to extend the Initial Term, the County shall notify CalAm in writing not less than sixty (60) days prior to the expiration of the Initial Term ("Notice of Extension"). The Initial Term, and any Extended Term, shall constitute the "Negotiating Period."

   (b). If a Purchase and Sale Agreement is executed by the Parties relating to all or part of the Sanitation Systems during the Initial Term or any Extended Term, then this Agreement shall terminate upon execution of the Purchase and Sale Agreement with regard to the portion of the Sanitation Systems subject to the Purchase and Sale Agreement.

3. Exclusive Negotiations. During the Negotiating Period, the County shall not negotiate with any entity, other than CalAm, for the sale, transfer or disposition of the Sanitation Systems.

4. Negotiating Representatives. CalAm's primary representative to negotiate the Purchase and Sale Agreement shall be Thomas Brunet, or his designee. The County's primary representatives to negotiate the Purchase and Sale Agreement shall be the Assistant County Administrative Officer, Nick Chiulos, Director of Resource Management Agency, Carl P. Holm, or their designee. The Parties may change their representatives.

5. Milestones. Within the time periods set forth in the Schedule of Performance attached hereto as Exhibit 1 ("Schedule of Performance"), the Parties shall have completed the milestones set forth therein. The designated primary representatives or their respective designees may agree to extend the date of any task listed in Exhibit 1 on behalf of their respective Party or Parties through a mutually agreeable written extension of time for the task.

6. CalAm Responsibilities:

(a). CalAm Costs. CalAm expressly acknowledges that all expenses and costs it may incur during the Initial Term or any Extended Term of or as a result of this Agreement are its sole obligation and responsibility and done at its sole risk, including, but not limited to, and costs incurred to prepare any assessments, studies, or analysis of the Sanitation Systems or any portion thereof for any purpose, including environmental review or California Public Utilities Commission ("CPUC") approvals.

(b). Approvals. CalAm is responsible for all approvals required for the disposition or sale of the Sanitation Systems, including but not limited to Local Agency Formation Commission ("LAFCO"), CPUC, and California Environmental Quality Act ("CEQA"), if applicable.

(c). Progress Reports: CalAm shall keep County apprised as to the status of all work to be undertaken by on behalf of CalAm as described in the Schedule of Performance. During the Initial Term or any Extended Term, CalAm shall submit to County within ten (10) days following County's request, via email or other reasonable method, a progress update advising County of the status of all work being undertaken by or on behalf of CalAm.

7. County Responsibilities.

(a). County Assistance and Cooperation: County shall cooperate with CalAm by providing information regarding the development potential of the Property.

(b). Progress Reports: County shall keep CalAm apprised as the status of all work to be undertaken by or on behalf of the County as described in the Schedule of Performance. Within ten (10) days following CalAm's request, which may be made from time to time during the Initial Term or any Extended Term, the County shall submit to CalAm, via email or other reasonable method, a progress update advising CalAm of the status of all work being undertaken by or on behalf of County.

8. Limitation on Effect of Agreement. By execution of this Agreement, the County is not committing itself to or agreeing to undertake: (a) any disposition of land to CalAm; or (b) any other acts or activities requiring the subsequent independent exercise of discretion by the County, any County or department thereof, or any other governmental entity. This Agreement does not constitute a disposition of the Sanitation Systems or exercise of control over the Sanitation Systems by CalAm. Execution of this Agreement by the County is merely an agreement to enter into a period of exclusive negotiations according

to the terms hereof, reserving final discretion and approval by the County, on behalf of CSA 75 – Chualar, the BCSD and the PCSD, as to any Purchase and Sale Agreement and all proceedings, determinations, or decisions in connection therewith.

If the negotiations contemplated herein culminate in the execution of a Purchase and Sale Agreement, the Purchase and Sale Agreement will be brought forward for consideration by the Board of Supervisors, provided, however, such Purchase and Sale Agreement shall become effective only after having been considered and approved by the Board of Supervisors in its sole and absolute discretion following any public hearing or other actions required by law.

9. County Remediation. Execution of this Agreement does not create any legal liability on the part of the County or for any environmental remediation of the Sanitation Systems.

10. Indemnification.

(a). CalAm shall indemnify, defend and hold harmless the County, its officers, agents, and employees, from and against any and all claims, liabilities and losses whatsoever occurring or resulting to any and all persons, firms, or corporations furnishing or supplying work, services materials, or supplies in connection with the performance of this Agreement, and from any and all claims, liabilities, and losses occurring or resulting to any person, firm, or corporation for damage, injury, or death arising out of or connected with CalAm's, or its officers', employees', agents', and subcontractors' performance of this Agreement, but only to the extent and in the proportion that such claims, liabilities, or losses arise out of the fault, failure or negligence of CalAm.

(b). County shall indemnify, defend and hold harmless CalAm, its officers, agents, and employees, from and against any and all claims, liabilities and losses whatsoever occurring or resulting to any and all persons, firms, or corporations furnishing or supplying work, services materials, or supplies in connection with the performance of this Agreement, and from any and all claims, liabilities, and losses occurring or resulting to any person, firm, or corporation for damage, injury, or death arising out of or connected with the County, or its officers', employees', agents', and subcontractors' performance of this Agreement, but only to the extent and in the proportion that such claims, liabilities, or losses arise out of the fault, failure or negligence of the County.

11. Notices. Formal notices, demands and communications between the Parties shall be sufficiently given if, and shall not be deemed given unless, dispatched by certified mail, postage prepaid, return receipt requests, or sent by express delivery or overnight courier service, to the office of the Parties shown as follows, or such other address as the Parties may designate in writing from time to time:

County:

Carl P, Holm, AICP
Director, Resource Management Agency
County of Monterey
1441 Schilling Place, 2nd Floor South
Salinas, CA 93901

CalAm Development: Thomas Brunet
Vice President, Business Development
California-American Water Company
4701 Beloit Drive
Sacramento, CA 95838

Such written notices, demands, and communications shall be effective on the date shown on the delivery receipt as the date delivered or the date on which delivery was refused.

12. No Commissions. The County shall not be liable for any real estate commissions or brokerage fees that may arise from this Agreement or any Purchase and Sale Agreement that may result from this Agreement. The County represents that they have engaged no broker, agent, or finder in connection with this transaction.

13. Default and Remedies.

(a) Default. Failure by either Party to negotiate in good faith as provided in this Agreement, and County's failure to comply with Section 3 of this Agreement, shall constitute an event of default hereunder. The non-defaulting Party shall give written notice of a default to the defaulting Party, specifying the nature of the default and the required action to cure the default. If a default remains uncured fifteen (15) days after receipt by the defaulting Party of such notice, the non-defaulting Party may exercise the remedies set forth in subsection (b).

(b) Remedies. In the event of an uncured default by the County, CalAm's sole remedy shall be to terminate this Agreement. Following such termination, neither Party shall have any further right, remedy or obligation under this Agreement, except that the Parties' indemnification obligation pursuant to section 11 shall survive such termination.

In the event of an uncured default by CalAm, the County's sole remedy shall be to terminate this Agreement. Following such termination, neither Party shall have any right, remedy or obligation under this Agreement, except that the Parties' indemnification obligation pursuant to Section 11 shall survive such termination.

Except as expressly provided above, neither Party shall have any liability to the other for damages or otherwise for any default, nor shall either Party have any other claims with respect to performance under this Agreement. Each Party specifically waives and releases any such rights or claims it may otherwise have at law or in equity.

14. Assignment. This Agreement may not be assigned by CalAm without the prior written approval of the County, such approval not to be unreasonably withheld.

15. Amendment. This Agreement may be amended or modified only by an instrument in writing executed by the County and CalAm.

16. Waiver. Any waiver of any terms and conditions of this Agreement must be in writing and signed by the County and CalAm. A waiver of any of the terms and conditions of the

Agreement shall not be construed as a waiver of any other term or condition of this Agreement.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

18. Entire Agreement. This Agreement constitutes the entire agreement of the Parties with respect to the subject matter hereof.

19. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original by all of which together shall constitute one and the same agreement.

AS OF THE LAST DATE OPPOSITE THE RESPECTIVE SIGNATURES BELOW, the Parties evidence their agreement to the terms of this Agreement by signing below.

COUNTY OF MONTEREY
On behalf of CSA 75 - Chualar

_____ Date: 7.23.19
John Phillips, Chair

PAJARO COUNTY SANITATION DISTRICT

_____ Date: 7.23.19
John Phillips, Chair

BORONDA COUNTY SANITATION DISTRICT

_____ Date: 7.23.19
John Phillips, Chair

Approved as to Form
On behalf of CSA 75 – Chualar,
Boronda County Sanitation District, and
Pajaro County Sanitation District
Office of the County Counsel-Risk Management
Charles J. McKee, County Counsel-Risk Manager

_____ Date: 7-11-19
Mary Grace Perry, Deputy County Counsel

CALIFORNIA-AMERCIAN WATER COMPANY

_____ Date: 7/5/2019
Thomas Brunet, Vice President of Business Development