

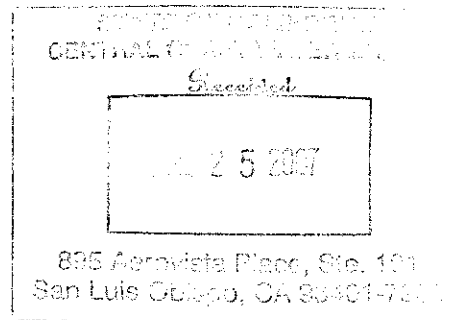
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July 23, 2007

Mr. Ron Lundquist
Monterey County Public Works
168 W. Alisal St. Second Floor
Salinas, CA 93901-2438

Re: Las Palmas Ranch Irrigation



Dear Ron,

Please allow me to document a couple of points regarding the current status of the irrigation systems at Las Palmas and the associated WDR.

First, the developer has not completed his development responsibilities with respect to the irrigation system in at least two respects. The first is the installation of turf on additional acreage toward the top of Las Palmas Parkway. The second is the installation of monitoring wells in Phase II.

As to the turf installation, I have told you that I believe the LPRMA2 will proceed against the developer in this regard as we have a signed contract with him for that work.

As to the monitoring wells, the last information I have is the letter from your department to the RWQCB, dated April 4, 2007, suggesting sites for the wells in Phase II. I believe that we have agreed that it is the county's responsibility to compel the developer to complete this work. You have informed me that you continue to hold the developer's bond with respect to completion of the irrigation systems.

The various dischargers are prepared, to the best of my knowledge, to form the irrigation association, pursuant to the agreements drafted and circulated last year. As you will recall, Cal Am had some comments and changes to the agreements, and I reached agreement with Tom Peterson on those in September 2006.

However, the irrigation association cannot take over responsibility for the WDR until the system is complete, which means that you will need to diligently pursue the developer for completion of the groundwater wells. You and I have discussed the fact that the WDR requires periodic reporting of monitoring results from these wells to the RWQCB. If the wells are not there, reports cannot be done, and the association, if it took over responsibility for the WDR, would be structurally in a position at the outset of violating the order. I believe we have agreed this would not be a good idea and that the county would proceed.

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The other issue that has concerned the irrigation association with respect to the WDR is the question of salt and nutrient content control. While everyone seems to agree that the homeowners associations should not be responsible for water content, as we have no control over that, the regional board appears unwilling to change the terms of the order in that regard.

To deal with this difficulty, you and I have informally come to an oral understanding. If my understanding is correct, we have agreed that the irrigation association and the appropriate county agency will have a side agreement which will provide that the county will cooperate in good faith to assist the irrigation association in controlling salt and nutrient content (through the passage of ordinances or otherwise) should the need arise to conform to the requirements of the RWQCB or the WDR. We both understand that this agreement cannot compel the county to take any particular action or to pass any particular ordinance but we also both agree that the regulatory authority in this matter lies with the county and that the county will have a good faith and due diligence obligation to assist the associations as and where appropriate. Of course, if the system operates properly, we may never encounter a situation where salt or nutrient content potentially or actually violates the WDR.

I think the bottom line is this: the dischargers are prepared to create the irrigation association as soon as the developer has completed the installation of the monitoring wells and we have an appropriate side agreement with the county on water content issues. The homeowners association will take responsibility for installation of turf areas and it will be the county's responsibility to compel the developer to complete the monitoring wells. We can jointly petition the RWQCB to transfer the nominal responsibility for the WDR. I expect that there will be some modifications to the language of the WDR to adjust to the change in entity, but that no substantive amendments would be required.

While I hope I have accurately stated the current circumstances and understandings, I realize that I may not have hit the nail exactly on the head. Please feel free to contact me with any suggestions or differences of opinion or understanding that you may have.

Very truly yours,

ROBERT C. TAYLOR, JR.

RCT/LCT

cc: Edward Muniz
Matt Keeling
Stuart Burbank
Don Meister