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May 31, 2007

Mayor and City Council
City of Redlands
35 Cajon Street
Redlands, CA 92373

Re: Legal Services Relating to Formation of Redlands Utility Authority and
Lease of Utility Enterprises

Ladies and Gentlemen:

This letter sets forth our proposal for legal services to the City of Redlands (the "City") in connection with the proposed lease of the City's water and wastewater system pursuant to Section 10061 of the California Public Utilities Code to a joint powers authority to be formed within the City. It is our understanding that the City's staff is recommending the lease of the water and wastewater systems (the "Utility Enterprises") to a joint exercise of powers authority to be formed by the City and the Redevelopment Agency of the City of Redlands. We have provided legal services in the past to the City of Needles and the City of Colton in connection with the formation of similar utility authorities in those cities and the lease of their public utilities. We would be happy to provide legal services to the City of Redlands in connection with the formation of a Redlands Utility Authority and the preparation of the related legal documents in connection with the lease by the City of the Utility Enterprises to the Authority.

Our legal services would include the preparation of a joint powers agreement between the City and the Redevelopment Agency, bylaws and related formation documents, drafting of a lease agreement leasing the Utility Enterprises from the City to the Authority and a management agreement providing for continued City management of the Utility Enterprises and all other necessary approving resolutions and notices of public hearings and providing related legal advice.

Our legal fees for the foregoing services would be \$25,000. Our fees would be payable upon completion of the formation of the Authority and finalizing of the lease documents for the Utility Enterprises. In the event this matter is not completed by the City, we would expect to be compensated a reasonable amount for our legal services provided to the date of abandonment and to be mutually agreed to by the City and us.

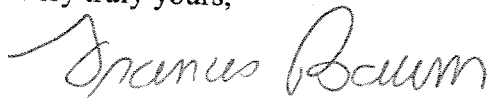
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In addition to the above legal fees, we would expect to be reimbursed for out-of-pocket expenses incurred by us on behalf of the City, such as long distance telephone calls, messenger and courier services, travel at the request of appropriate officials, duplicating and the like. We would expect such expenses to not exceed \$1,500.

If this arrangement is satisfactory to the City, please have an authorized officer of the City sign and return a copy of this letter to me.

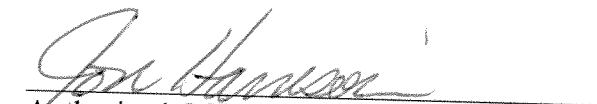
Very truly yours,



Francis J. Baum
of BEST BEST & KRIEGER LLP

FJB:jcq

TERMS OF EMPLOYMENT APPROVED
THIS 5th DAY OF JUNE, 2007



Authorized Officer, City of Redlands
Jon Harrison, Mayor

ATTEST:



Lorrie Poyzer, City Clerk