

**Shares Lease Agreement
(City as Lessee)**

This Shares Lease Agreement ("Lease") is entered into this 25th day of August, 2011 ("Effective Date") by and between David B. Knight Farming ("Lessor") and the City of Redlands, a general law city incorporated under the laws of the State of California ("City"). Lessor and City are sometimes individually referred to herein as a "Party" and, together, as the "Parties."

RECITALS

WHEREAS, Lessor is the owner of shares of the common stock of the Bear Valley Mutual Water Company ("Bear Valley"); and

WHEREAS, City desires to lease from Lessor 1000 shares of the common stock of Bear Valley (the "Leased Shares") on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual promises contained herein, Lessor and City agree as follows:

AGREEMENT

1. Lease. Lessor hereby agrees to lease the Leased Shares to City and City agrees to lease the Leased Shares from Lessor for the purpose of providing water to City. Such water is not intended, nor shall it be used for human consumption or domestic purposes until such time that City treats such water in accordance with California Department of Health Services, Office of Drinking Water Standards, and all other applicable state and local laws, rules or regulations.

2. Term. This Lease shall commence on the Effective Date and shall terminate on March 31, 2012, unless earlier terminated. City and Lessor understand and agree that neither this Lease, nor any of the rights and obligations of the Parties to this Lease, shall extend beyond the Lease Term.

3. Rent.

A. If Lessor has not already paid the annual assessment levied by Bear Valley for the Leased Shares for this calendar year prior to entry into this Lease, City shall be obligated to pay such annual assessment directly to Bear Valley. As rent for the Leased Shares, City shall pay Lessor an amount equal to the total number of Leased Shares multiplied by One Dollar (\$1.00).

B. If Lessor has paid the annual assessment levied by Bear Valley for the Leased Shares for this calendar year, City shall pay, as rent for the Leased Shares, an amount equal to the total number of Leased Shares multiplied by Two Dollars (\$2.00).

C. The City shall also be responsible for the payment of any water delivery charge for such Leased Shares to Bear Valley.

D. The rent shall be paid by the City within ten (10) days of the Effective Date of this lease.

4. Assignability. City shall not have the right to assign, sublet or otherwise transfer or encumber the Leased Shares under this Lease.

5. Voting Rights. Lessor shall retain all the voting rights associated with ownership of the Leased Shares.

6. Hold Harmless. City shall hold Lessor harmless from and against any loss, costs, expenses, damages, penalties or claims related to or arising directly or indirectly out of any environmental or hazardous substance contamination of any water attendant to the Leased Shares, from whatever cause. City acknowledges that Lessor assumes no responsibility and makes no representation as to the quality or purity of any water attendant to the Leased Shares.

7. Entire Agreement. This Lease constitutes the entire agreement between Lessor and City regarding the leasing of the Leased Shares to City. Any prior written or oral agreements or representations respecting the leasing of the Leased Shares not expressly set forth herein are null and void.

8. Attorneys' Fees. In the event any action is commenced to enforce or interpret the terms or conditions of this Lease the prevailing Party shall, in addition to any costs and other relief, be entitled to the recovery of its reasonable attorneys' fees, including fees for use of in-house counsel by a Party.

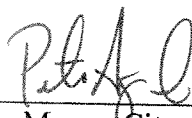
9. Waiver. The waiver by Lessor of the performance of any obligation hereunder shall not invalidate this Lease nor shall it be considered a waiver by Lessor of any other obligation hereunder.

10. Termination. In the event Lessor defaults in any obligations under this Lease, in addition to any other remedies City may have, City shall have the right to immediately terminate this Lease.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of this 25th day of August, 2011.

LESSEE

CITY OF REDLANDS

By: 
Mayor, City of Redlands

LESSOR

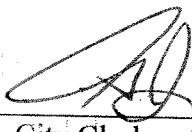
DAVID B. KNIGHT FARMING

By: David B. Knight

Name: _____

Its: _____

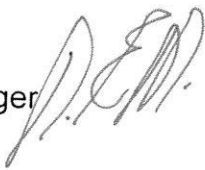
Attest:

By: 
City Clerk

MUNICIPAL UTILITIES & ENGINEERING DEPARTMENT

MEMORANDUM

TO: Pete Aguilar, Mayor

THRU: N. Enrique Martinez, City Manager 
Dan McHugh, City Attorney
Sam Irwin, City Clerk

FROM: Fred Mousavipour, Interim Municipal Utilities & Engineering Director
Chris Diggs, Assistant Utilities Director 

DATE: August 25, 2011

SUBJECT: Annual Agreement to Lease Bear Valley Mutual Water Company Shares
from David B. Knight Farming

Recommendation:

This memo transmits a request for your signature on the attached agreement to lease Bear Valley Mutual Water Company water shares from David B. Knight Farming. In the past, the City has leased Bear Valley Mutual Water Company shares to the City for the purpose of treating and distributing thru the City's water system. Mr. Knight has leased shares to the City in the past and wishes to do so again this year. After signing, please forward to the City Clerk for signature/attest and further processing and coordination with MUED staff.

Background:

On May 17, 2011 City Council unanimously approved Resolution No. 7037 authorizing the Mayor or member of City Council to approve and execute annual lease agreements.

Thank you.

CD/pb

Attachment: Shares Lease Agreement