

LEASE AGREEMENT
FOR GRAZING OF NON-DAIRY LIVESTOCK
ON LAGUNA COUNTY SANITATION DISTRICT PROPERTY

THIS LEASE AGREEMENT is made between the

LAGUNA COUNTY SANITATION DISTRICT,

a county sanitation district in the County of Santa Barbara,
state of California, hereinafter referred to as "DISTRICT";

and

RUFFONI RANCHES,

hereinafter referred to as "LESSEE";

with reference to the following:

WHEREAS, the DISTRICT is the owner of certain real properties known as County Assessor's Parcel Numbers 113-200-013 and 113-210-015 comprising approximately 416 acres, as shown in Exhibit "A", attached hereto and made a part hereof; and

WHEREAS, the LESSEE is desirous of entering into a lease with the DISTRICT for the grazing of non-dairy livestock on approximately 276 acres of irrigated pasture on said property; and

WHEREAS, the DISTRICT produces disinfected tertiary recycled water and may produce undisinfected secondary recycled water, as defined Section 60304 of Title 22 of the California Code of Regulations, pursuant to Waste Discharge Requirements and Master Reclamation Permit (Order no. 01-042) issued by the Regional Water Quality Control Board.

WHEREAS, the DISTRICT discharges recycled water through irrigation to recycled water customers and on its own property. Water stored on its own property is at this time used for irrigation of pasture.

The DISTRICT wishes to lease said property as pasture for animals not producing milk for human consumption, for which the irrigation of the recycled water described above is compatible.

NOW, THEREFORE, in consideration of the following conditions, DISTRICT and LESSEE agree as follows:

1. **LOCATION:** DISTRICT leases to LESSEE property listed above by assessor's parcel number, upon which the designated area representing irrigable land is shown on the map

labeled Exhibit "B", attached hereto and made a part hereof. The property is hereinafter referred to as the "Premises".

2. TERM: This Lease Agreement shall commence upon execution and end June 30, 2015 unless sooner terminated as hereinafter provided.

3. GRAZING OPERATION: LESSEE shall run its beef cattle grazing operation at no cost in exchange for using DISTRICT's recycled water for pasture irrigation of the irrigable land on the Premises including its labor to do so. LESSEE shall receive \$90,000 per year to be paid out in \$7,500 monthly installments based on averaged level of service throughout the year.

4. LESSEE's RESPONSIBILITIES: LESSEE shall provide field labor, pursuant to agricultural labor industry standards, to move, run and operate DISTRICT equipment as needed irrigate the irrigable pasture on the Premises, including monitoring storage reservoir and pond levels, discharge volume, runoff conditions; reparations, mowing, pruning, disking, and maintenance activities associated with LESSEE's cattle operation.

a) LESSEE shall provide agricultural field labor including one (1) full-time lead irrigator (full time considered between 40 and 60 hours per week) and additional irrigation laborers as needed, each working up to 60 hours per week. The weekly work schedule to be determined by DISTRICT the week prior. Said hours to be performed between the DISTRICT's operational times of 6:30 am to 5:00 pm daily. DISTRICT and LESSEE understand that the irrigation rate is dependant upon pasture evapotranspiration demand, runoff potential, and weather conditions such that the application of water shall not exceed agronomic and vegetative needs. To the extent possible, water shall be applied at least at minimum rates to keep pasture grass in good condition. Said minimum rates subject to availability and LESSEE understands that DISTRICT's other recycled water customers have priority. DISTRICT will estimate monthly discharge rates and volumes based on the above. LESSEE understands that the labor requirement will vary seasonally.

LESSEE understands that its laborers are not entitled to DISTRICT benefits and that its laborers shall only be compensated and provided benefits as provided by LESSEE. LESSEE understands that LESSEE must comply with and provide insurance and indemnification as described in Exhibit "C", attached hereto and made a part hereof.

DISTRICT shall, to the extent possible, be informed of vacation, sick time, and holiday time off prior to the approved time off granted by LESSEE.

b) LESSEE shall provide appropriate training regarding the use of recycled water to its employees. DISTRICT shall provide LESSEE with an instructional video and a recycled water user manual. LESSEE shall comply with recycled water use area requirements as described in the user manual.

c) LESSEE shall provide: at least one (1) four wheel drive pickup and fuel for transportation of equipment and workers; at least one (1) cellular phone for use by lead irrigator; communication as may be needed between its employees if working separately in isolated areas; safety training, including blood borne pathogen awareness or other training as may be necessary (at least monthly with recorded minutes); safety equipment (footwear, gloves, rain gear, eye and face protection, respirators, etc.); field sanitation (water for drinking and hand washing, shade and toilet facilities) per California Code of Regulations, Title 8, Section 3457.; hepatitis inoculations (declinations shall comply with California Code of Regulations, Title 8, Section 5193);

5. HOLDING OVER AT EXPIRATION OF LEASE: Should the LESSEE occupy the Premises after the expiration date of this Lease Agreement, which the consent of DISTRICT, express or implied, such tenancy shall be a tenancy from month-to-month and DISTRICT shall pay LESSEE for irrigation activities described above as if this Lease Agreement were to continue in full force and effect.

6. ADMINISTRATION AND ENFORCEMENT: The provisions of this Lease Agreement shall be administered and enforced for DISTRICT by the manager of the Laguna County Sanitation District.

7. INSTALLATION AND MAINTENANCE OF FENCING: LESSEE at LESSEE's expense, shall install, maintain and keep in good order and repair, during the term of this Lease Agreement, all fencing, gates, paddocks, water troughs, etc., as may be necessary for LESSEE's operation or as directed by DISTRICT, on the Premises and property boundaries. Fencing and gates installed by LESSEE shall become permanent fixtures of the land.

8. PURPOSES AND USE: The premises covered herein shall be used by LESSEE for the purpose of grazing livestock not producing milk for human consumption and purposes necessarily incidental thereto and for no other purposes whatsoever. All such incidental

purposes shall be compatible with the use of recycled water treated to the appropriate level for pasture irrigation for animals not producing milk for human consumption. No cropping of harvesting of fodder or any other crop is permitted on the Premises under this lease agreement.

LESSEE recognizes and agrees that overgrazing of the Premises or any portion thereof may contribute to erosion of the land and substantial damage thereto. Therefore, LESSEE agrees to follow good grazing practices, which will prevent erosion or damage to the Premises, as determined by DISTRICT upon recommendation of the County Agricultural Extension Services, County Farm Advisor, and any other recognized experts in the field of livestock grazing practices with which DISTRICT desires to consult and LESSEE further agrees to comply with all requests made by DISTRICT in order to carry out such good grazing practices so determined.

9. GRAZING REPORT: To ensure good grazing practices, the LESSEE shall provide DISTRICT with an initial grazing plan and annual report by May 31 of each year. The grazing plan and report shall identify actual maximum and minimum number, duration, and type of non-dairy livestock for the prior year as well as the proposed maximum and minimum number, duration, and type of non-dairy livestock proposed for the next year. Duration may be reported by the month or quarter. DISTRICT shall approve LESSEE's proposed plan or require changes to it within thirty (30) days of its submittal and, following approval, LESSEE may bring livestock upon the Premises. Failure of the DISTRICT to take action on LESSEE's proposed plan within forty-five (45) days of submittal shall constitute approval.

10. DISTRICT RESPONSIBILITIES: DISTRICT shall provide at its expense, recycled water, storage facilities, pumps, distribution piping, irrigation piping, a tractor a pipe trailer, for use on the Premises. As stated above, no guarantee is made as to the daily or seasonal availability of recycled water. However, no further water supply for any purpose shall be developed on the Premises.

11. UTILITIES: LESSEE agrees that no utilities may be constructed or placed on the Premises, either permanent or temporary in nature, after the effective date of this Lease Agreement.

12. EXERCISE OF SOVEREIGNTY: DISTRICT reserves the right to modify the use of all or any portion of the land which is covered by this Lease Agreement, for which use may restrict grazing rights granted herein and preempt rights of LESSEE.

13. NO INTERFERENCE WITH FACILITIES: LESSEE will not interfere with any existing or future facilities of the DISTRICT required for operation and maintenance of the Premises, including roads, trails, utilities, ditches, canals, laterals, conduits, or pipelines, or with any use of the Premises by DISTRICT.

14. RIGHTS OF WAY: LESSEE will not interfere with the right of ingress or egress of officers, agents, employees, licensees, or permittees of the DISTRICT, at all proper times and places for the purpose of exercising, enforcing, and protecting the right of the DISTRICT and for the purpose of operating and maintaining the Premises. LESSEE will supply the DISTRICT with keys and other instruments needed for entering the Premises.

15. NO WASTE: No waste shall be committed on the Premises nor shall any nuisance or other act be committed that disturbs and enjoyment of DISTRICT or any other LESSEE of DISTRICT on reserved or any other LESSEE of DISTRICT on reserved or adjacent property. LESSEE shall promptly remove at LESSEE's expense livestock carcasses.

16. RESIDENCE PROHIBITED: No residence shall be established on either a permanent or temporary basis on the Premises without the prior consent of DISTRICT, evidenced by an instrument in writing.

17. HUNTING PROHIBITED: Hunting is prohibited on the Premises covered hereby. Special circumstances such as a depredation permit issued by the appropriate authorities may be considered based on need.

18. NO TIMBER CUTTING: Timber cutting is prohibited except by advance written consent by manager of DISTRICT in each instance.

19. IMPROVEMENTS: No building improvements shall be constructed on the Premises.

20. COMPLIANCE WITH THE LAW: LESSEE shall comply with all local, County, State, and Federal laws, rules, and regulations affecting the premises, now or hereafter in effect.

21. POSSESSORY INTEREST TAXES: The use or occupancy of the Premises by LESSEE constitutes a property interest which may be subject to possessory interest taxes and LESSEE shall be liable for the payment of same.

22. NONDISCRIMINATION: LESSEE in the operations to be conducted pursuant to the provisions of this Lease Agreement, will not discriminate or permit discrimination against any person or class of person or class of persons by reason of race, color, creed, religion, ancestry, sex, age, national origin, or disability in any manner prohibited by the laws of the United States,

the State of California or any County ordinance. Noncompliance with any provision of this paragraph shall constitute a material breach of this Lease Agreement and in addition to any remedies provided by law, DISTRICT shall have the right to terminate this Lease Agreement and the interest hereby created without liability therefor.

23. ASSIGNMENT/HYPOTHECATION/SUBLEASE: LESSEE shall not sublease, assign, or otherwise grant any interest or any right or privilege appurtenant to this Lease Agreement.

24. FIRE HAZARD: LESSEE shall comply with all of the terms and conditions of Section 15 of the Santa Barbara County Code relating to fire prevention.

25. ENVIRONMENTAL IMPAIRMENT: LESSEE shall comply with all applicable laws, regulations, rules, and orders including amendments thereto, regardless of when they become or became effective, including without limitation those relating to construction, grading, signing, health, safety, noise, environmental protection, waste disposal, water and air quality, and shall furnish satisfactory evidence of compliance upon request of DISTRICT.

Should any discharge, leakage, spillage, emission, or pollution of any type occur upon or from the Premises due to LESSEE's use and occupancy, LESSEE shall clean and repair all property affected to the satisfaction of DISTRICT and any governmental body having jurisdiction therefor. LESSEE shall indemnify, hold harmless, and defend DISTRICT and the County of Santa Barbara from and against all liabilities, claims, cost, and expenses (including without limitation any fines, penalties, judgments, litigation costs, attorney's fees, and consulting engineering and construction costs) incurred by DISTRICT as a result of LESSEE's breach of this section, or as a result of any such discharge, leakage, spillage, emission or pollution, regardless of whether such liability, cost or expense arises during or after the Lease term, and regardless of negligence, active or passive, of DISTRICT.

26. GATES: LESSEE shall maintain all existing and future gates. All boundary gates shall be kept locked at all times when not being used for access.

27. SIGNS: LESSEE shall install and maintain signing provided by DISTRICT, indicating recycled water is in use, at entrances and on fences at least at 500 foot spacing complying with Section 60310(g) of Title 22 in English and Spanish.

28. MAINTENANCE: LESSEE shall care for the Premises and appurtenances of the Premises covered hereby, including but not limited to all fences, corrals, wells, pipelines,

ditches, and roadways, and shall maintain them in the same order and condition in which entered upon, ordinary wear and tear excepted. LESSEE shall provide weed and rodent control to prevent temporary or permanent damage to DISTRICT's property.

DISTRICT, at its expense, shall maintain all recycled water delivery and distribution systems and appurtenances on and to Premises. The foregoing notwithstanding, LESSEE shall reimburse DISTRICT for any repair work necessitated by acts or omissions of LESSEE's employees, agents or guests. Reimbursement by LESSEE shall be within thirty (30) days of demand by DISTRICT.

29. NOTICES: Any notice to be given to either party, by the other, shall be in writing and shall be served either personally or by mail to the following:

DISTRICT: Laguna County Sanitation District
620 West Foster Road
Santa Maria, CA 93455
(805) 739-8750

LESSEE: Ruffoni Ranches
955 East Fesler Street
Santa Maria, CA 93454
(805) 925-3303

or to DISTRICT or LESSEE at such other place as may be designated in writing.

30. DEFAULT: The occurrence of any one of the following events shall constitute a material default under this Lease Agreement by LESSEE:

- a) Failure of LESSEE to satisfy, observe or perform, any of the covenants, conditions, or reservations set forth in the Lease Agreement.
- b) Failure to provide Insurance as required in Exhibit "C".

31. REMEDY IN EVENTS OF DEFAULT: Upon occurrence of any events of default, DISTRICT shall have at its option, in addition to and not in limitation of any other remedy permitted by law, the right to terminate this Lease Agreement by written notice to LESSEE, in which event LESSEE shall immediately surrender the Premises to DISTRICT.

32. WAIVER: Waiver by DISTRICT of a breach of any term of this Lease Agreement shall not be construed to be a waiver of any future breach of the same or any other requirement contained in this Lease Agreement.

Acceptance of any fees or reimbursements by DISTRICT shall not be treated as a waiver of any breach by LESSEE of any term of this Lease Agreement, regardless of DISTRICT's knowledge of a previous breach at the time of acceptance thereof. Nor shall it relieve LESSEE of the obligation to pay any other fees or reimbursements then due or which may be due in the future.

33. TERMINATION: This Lease Agreement shall terminate and all rights of LESSEE shall cease and LESSEE shall quietly and peacefully deliver to DISTRICT, possession and interest in the Premises:

- a) At the expiration of the term as provided in Section 2, TERM.
- b) Failure of LESSEE to satisfy the requirements as provided in Section 30, DEFAULT.
- c) At the requirement by the DISTRICT as provided in Section 12, EXERCISE OF SOVEREIGNTY.
- d) Without fault at an earlier date provided that DISTRICT shall give LESSEE at least One Hundred Eighty (180) days notice in writing.

34. REMOVAL OF PROPERTY ON TERMINATION: Upon termination of this Lease Agreement by default, expression, or any other reason, LESSEE shall vacate and return possession of the Premises to the DISTRICT. Prior to returning possession of the Premises, LESSEE shall remove any and all structures, equipment or improvements constructed or installed by LESSEE on said Premises not expressly reserved for ownership of DISTRICT. The removal of improvements shall be performed prior to LESSEE's vacating Premises and shall be accomplished by LESSEE at its sole cost and expense. LESSEE shall restore such areas where improvements are removed as nearly as possible to their original condition and in a manner satisfactory to DISTRICT.

35. ACCEPTANCE OF PREMISES: LESSEE has examined the Premises and determined that the Premises are suitable for the needs and operation of LESSEE. LESSEE acknowledges that DISTRICT makes no representation or warranty about the condition of the Premises or the suitability of the Premises for the intended use by LESSEE.

36. ENTIRE AGREEMENT: This Lease Agreement contains the entire agreement of the parties hereto and no obligation other than those set forth herein will be recognized.

IN WITNESS WHEREOF, LESSEE AND DISTRICT have executed this Lease Agreement by the respective authorized officers as set forth below to be effective as of the date executed by DISTRICT.

ATTEST:
MICHAEL J. BROWN
CLERK OF THE BOARD

“DISTRICT”
LAGUNA COUNTY SANITATION DISTRICT

By: _____
Deputy

By: _____
Chair, Board of Directors

Date: _____

APPROVED AS TO FORM:
DENNIS A. MARSHALL
COUNTY COUNSEL

“LESSEE”
RUFFONI RANCHES

By: _____
Deputy

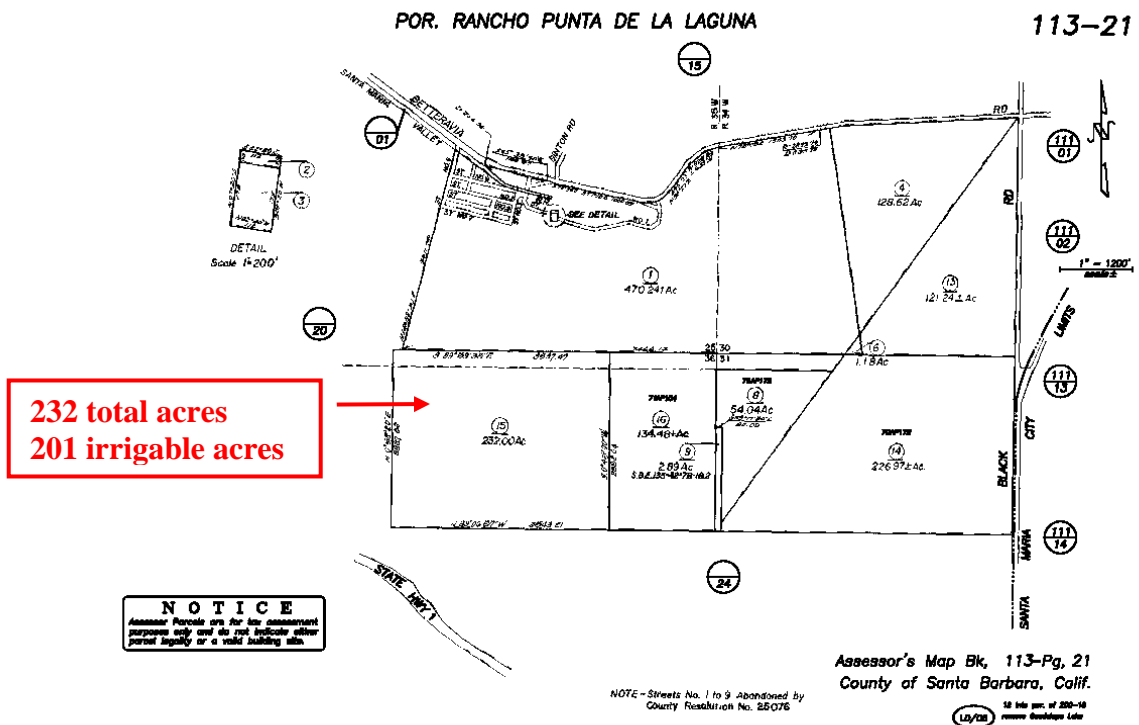
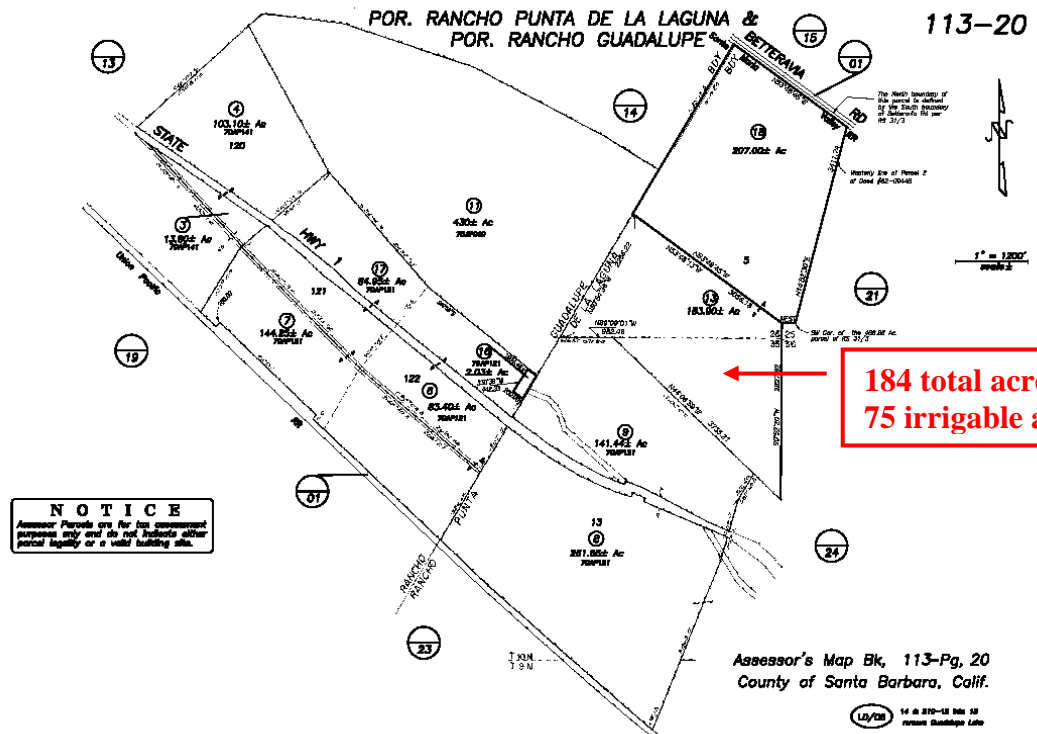
By: _____

APPROVED AS TO ACCOUNTING FORM:
ROBERT W. GEIS, C.P.A.
AUDITOR-CONTROLLER

By: _____
Deputy

APPROVED AS TO FORM:
RAY AROMATORIO
RISK PROGRAM ADMINISTRATOR

By: _____



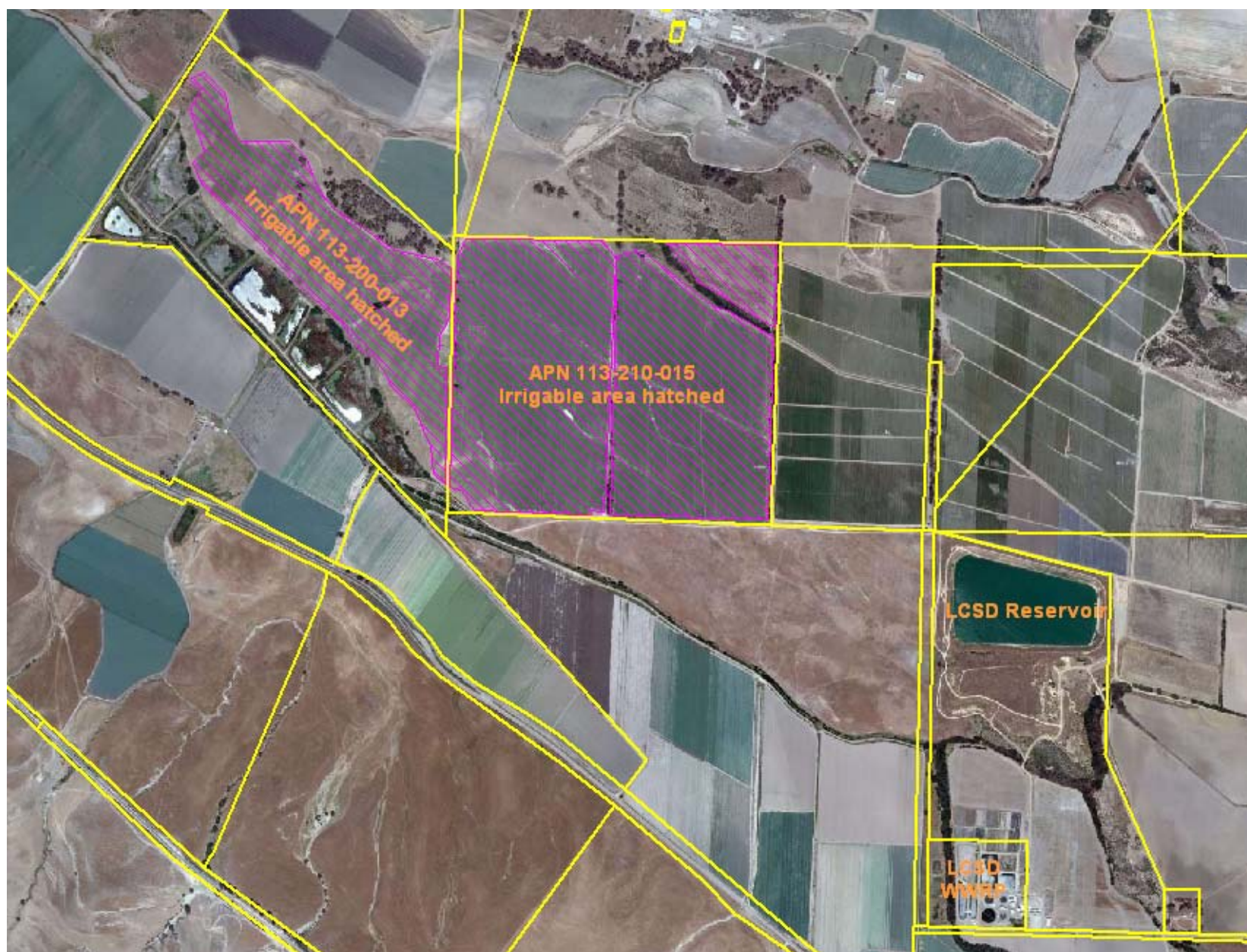


EXHIBIT B

INDEMNIFICATION AND INSURANCE

LESSEE shall defend, indemnify and save harmless the DISTRICT, its officers, agents and employees from any and all claims, demands, damages, costs, expenses (including attorney's fees), judgments or liabilities arising out of this Agreement or occasioned by the performance or attempted performance of the provisions hereof; including, but not limited to, any act or omission to act on the part of the LESSEE or his agents or employees or other independent contractors directly responsible to him; except those claims, demands, damages, costs, expenses (including attorney's fees), judgments or liabilities resulting from the sole negligence or willful misconduct of the DISTRICT.

LESSEE shall notify the DISTRICT immediately in the event of any accident or injury arising out of or in connection with this Agreement.

Without limiting the LESSEE's indemnification of the DISTRICT, LESSEE shall procure the following required insurance coverages at its sole cost and expense. All insurance coverage is to be placed with insurers which (1) have a Best's rating of no less than A: VII, and (2) are admitted insurance companies in the State of California. All other insurers require the prior approval of the DISTRICT. Such insurance coverage shall be maintained during the term of this Agreement. Failure to comply with the insurance requirements shall place LESSEE in default. Upon request by the DISTRICT, LESSEE shall provide a certified copy of any insurance policy to the DISTRICT within ten (10) working days.

1. Workers' Compensation Insurance: Statutory Workers' Compensation and Employers Liability Insurance shall cover all LESSEE's staff while performing any work incidental to the performance of this Agreement. The policy shall provide that no cancellation, or expiration or reduction of coverage shall be effective or occur until at least thirty (30) days after receipt of such notice by the DISTRICT. In the event LESSEE is self-insured, it shall furnish a copy of Certificate of Consent to Self-Insure issued by the Department of Industrial Relations for the State of California. This provision does not apply if LESSEE has no employees as defined in Labor Code Section 3350 et seq. during the entire period of this Agreement and LESSEE submits a written statement to the DISTRICT stating that fact.
2. General and Automobile Liability Insurance: The general liability insurance shall include bodily injury, property damage and personal injury liability coverage, shall afford coverage for all premises, operations, products and completed operations of LESSEE and shall include contractual liability coverage sufficiently broad so as to include the insurable liability assumed by the LESSEE in the indemnity and hold harmless provisions [above] of the Indemnification Section of this Agreement between DISTRICT and LESSEE. The automobile liability insurance shall cover all owned, non-owned and hired motor vehicles that are operated on behalf of LESSEE pursuant to LESSEE activities hereunder. LESSEE shall require all subcontractors to be included under its policies or furnish separate certificates and endorsements to meet the standards of these provisions by each subcontractor. DISTRICT, its officers, agents, and employees shall be Additional Insured status on any policy. A cross liability clause, or equivalent wording, stating that coverage will apply separately to each named or additional insured as if

separate policies had been issued to each shall be included in the policies. A copy of the endorsement evidencing that the policy has been changed to reflect the Additional Insured status must be attached to the certificate of insurance. The limit of liability of said policy or policies for general and automobile liability insurance shall not be less than \$1,000,000 per occurrence and \$2,000,000 in the aggregate. Any deductible or Self-Insured Retention {SIR} over \$10,000 requires approval by the DISTRICT.

Said policy or policies shall include a severability of interest or cross liability clause or equivalent wording. Said policy or policies shall contain a provision of the following form:

"Such insurance as is afforded by this policy shall be primary and non-contributory to the full limits stated in the declarations, and if the DISTRICT has other valid and collectible insurance for a loss covered by this policy, that other insurance shall be excess only".

If the policy providing liability coverage is on a 'claims-made' form, the LESSEE is required to maintain such coverage for a minimum of three years following completion of the performance or attempted performance of the provisions of this agreement. Said policy or policies shall provide that the DISTRICT shall be given thirty (30) days written notice prior to cancellation or expiration of the policy or reduction in coverage.

LESSEE shall submit to the office of the designated DISTRICT representative certificate(s) of insurance documenting the required insurance as specified above prior to this Agreement becoming effective. DISTRICT shall maintain current certificate(s) of insurance at all times in the office of the designated DISTRICT representative as a condition precedent to any payment under this Agreement. Approval of insurance by DISTRICT or acceptance of the certificate of insurance by DISTRICT shall not relieve or decrease the extent to which the LESSEE may be held responsible for payment of damages resulting from LESSEE's services of operation pursuant to the contract, nor shall it be deemed a waiver of DISTRICT's rights to insurance coverage hereunder.

In the event the LESSEE is not able to comply with the DISTRICT's insurance requirements, DISTRICT may, at their sole discretion and at the LESSEE's expense, provide compliant coverage.

The above insurance requirements are subject to periodic review by the DISTRICT. The DISTRICT's Risk Manager is authorized to change the above insurance requirements, with the concurrence of Counsel, to include additional types of insurance coverage or higher coverage limits, provided that such change is reasonable based on changed risk of loss or in light of past claims against the DISTRICT or inflation. This option may be exercised during any amendment of this Agreement that results in an increase in the nature of DISTRICT's risk and such change of provisions will be in effect for the term of the amended Agreement. Such change pertaining to types of insurance coverage or higher coverage limits must be made by written amendment to this Agreement. LESSEE agrees to execute any such amendment within thirty (30) days of acceptance of the amendment or modification.