EXHIBIT 3-B

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

June 16, 2014

Ms. Diana Ingersoll
Deputy City Manager
City of Seaside
440 Harcourt Avenue
Seaside, CA 93955

Dear Ms. Ingersoll:

Thank you for your letter dated April 29, 2014 regarding the Santa Margarita Aquifer Storage and Recovery (ASR) site. I think real progress is being made and I am hopeful we can bring this issue to a conclusion very soon. With this letter, I seek to clarify what we are trying to accomplish, what current conditions are, and chart a path that we might agree on.

What we are seeking is a form of agreement with the City of Seaside that we can agree upon today, but which doesn't go into effect until the land transfers to the City from FORA at some future date. That means we cannot actually enter into a ground lease with the City until the City has ownership. Hence, at present we would like to draft an agreed-upon form of future ground lease. This will give FORA the comfort they need today that the City will allow the proposed use in the future.

We have proposed entering into an "Option Agreement" with the City this year for which we are willing to pay some form of consideration. Such an agreement basically says that once the City receives title from FORA in the future, the City and the District agree to a 40-year lease in the form attached to the Option Agreement. Thus, we would attach the form of ground lease, with all terms and conditions. We have proposed a one-time option payment to the City of 10% of the value. Since the City desires a long-term lease, utilizing Stuart Wolf's appraised "single payment lump sum lease" values for both phase 1 and phase 2 sites, this option payment would be $22,000. Of course, we are willing to discuss the option payment.

Any future lease payments will be commensurately reduced to reflect the upfront option payment made in 2014. We suggest the annual lease rate be the phase 1 and phase 2 combined annual lease rate presented in the Wolf appraisal or $17,700 annually, adjusted for the upfront payment. Hence, if a 10% upfront option payment is made, the annual lease rate would be 90% of $17,700 or $15,930.

Because the date of transfer from FORA to the City cannot be predicted, we recognize that the annual future lease rate may need to be escalated to reflect the then future value. However, the District does not agree with your proposed annual adjustment using the consumer price index (CPI) nor any reevaluation every 10 years. Such features are uncommon and inconsistent with long-term easements. Please keep in mind that the District already has an easement through the year 2050 from the US Army for the phase 1 site for no annual fee. Thus, in actuality the existing easement for that portion of the site would remain intact when FORA transfers the property to the City and the City would receive nothing for it. According to the appraisal the phase 1 site comprises 61% of the annual lease value. Conceivably, we could enter into a future lease with the City for only the phase 2 site until 2050, and the combined parcels thereafter. Instead, the District is proposing to replace that existing easement with a ground lease for the combined sites as soon as the City takes ownership. The District believes that this provides greater value to the City sooner by providing a lease revenue stream on 61% of the site many years earlier than the City otherwise would have and therefore offsets the need for annual cost escalation or reevaluation every ten years. We are amenable to discuss some form of escalation, such as 3% every ten years.

Hence, to summarize, we propose the following:

Option Payment:	$22,000
Initial Annual Lease Payment:	$15,930 adjusted to the year FORA transfers title to the City by the lesser of 2% or CPI per year
Term:	40 years from the date FORA transfers title to the City
Escalation:	3% every 10th anniversary of the date FORA transfers title to the City

Please let us know your thoughts on this. Perhaps a meeting to discuss proposed terms is desirable? We would be happy to draft the proposed documents, an Option Agreement and Form of Ground Lease.

Best regards,

David J. Stoldt
General Manager

cc: Tim O'Halloran
John Dunn
Dave Laredo
Joe Oliver