

## Settlement Term Sheet

This Settlement Term Sheet ("Term Sheet") is made and entered into this 20th day of October, 2010 by and between the City of McCall ("City") and the Payette Lakes Recreational Water and Sewer District ("District").

1. This Term Sheet sets forth the conceptual terms for the resolution of the lawsuit between the City and the District related to the wastewater system that accepts, treats, stores and disposes of the wastewater from the parties' patrons (the "System").

2. The District will pay an annual user fee ("Annual Fee") to the City as a contract customer of the System until the earlier of December 31, 2016 ("Detachment Deadline"), the date established in the TAG plan if accepted by the District pursuant to Paragraph 5 below, or the District's detachment from the System pursuant to Paragraph 5 below.

3. The initial Annual Fee shall be \$100,000. The Annual Fee shall be paid in equal monthly installments commencing on November 1, 2010. In the event the City increases its rates to its non-District users, the Annual Fee shall be increased in an amount equal to such increases, subject to the following:

- a. Any adjustment shall be based upon Equivalent Dwelling Units ("EDU");
- b. In no event shall the District be responsible for any rate increase attributable to maintenance, repair or replacement of elements of the City's collection system, nor any increase attributable or caused by inflow and infiltration (I&I) into the City's collection system;

c. No rate increase shall be passed on to the District that is attributable to the J-Ditch/Wausau/St. Clair litigation, any other prior costs incurred in connection with the cost of the J-Ditch project, or any other costs incurred prior to the date of this Agreement;

d. No rate increase shall be passed on to the District for expansion of any element of the System so long as at the time of such expansion the flow generated by the District is less than 608,000 gallons per day. For purposes of this Term Sheet, the term "expansion" shall mean the addition of additional treatment capacity that only serves City customers.

4. The City confirms and guarantees that it will continue to accept, treat, store and dispose of up to 608,000 gallons per day of wastewater from the District collection system unless and until the District completes detachment of its collection system from the System pursuant to paragraph 5 of this Term Sheet.

5. The City and District shall each appoint one technical advisor who shall jointly appoint a third member comprising a Technical Advisory Group ("TAG"). The TAG shall work diligently to investigate and evaluate possible solutions to the long term manner in which the wastewater treatment and disposal requirements of the rate payers of the City and the patrons of the District will be met. As part of its recommendation to the City, the TAG shall make a recommendation as to the manner in which charges and costs shall be established as applied to the District as a user pursuant to the User Charge System regulations, and in accord with the ratemaking responsibility of the City. This evaluation shall be completed on or before June 15, 2011. Upon completion, a written recommendation shall be simultaneously provided to the City

and the District. The TAG shall use its best efforts to seek input and guidance from the Idaho Division of Environmental Quality (“DEQ”) in its evaluation process. Each party shall pay for their own technical advisor and the parties shall share the costs of the third member equally.

a. The City shall, within 45 days, evaluate and vote on the recommendation from TAG. If the proposed option is not adopted by the City, the TAG will be directed to continue its investigation and evaluation of options with a goal of specifically addressing concerns raised by the City. The TAG shall address the concerns in a revised recommendation not later than 45 days thereafter. This process shall continue until the City approves one of TAG’s recommendations.

b. Upon a TAG recommendation being adopted by the City (“TAG Plan”), the District shall have 45 days from the date of said adoption to evaluate and respond to the TAG Plan. A failure of the District to respond with approval or rejection of the TAG Plan within the required time shall be deemed an approval.

c. If the TAG Plan is acceptable to the District, the TAG Plan will be formalized and all necessary requirements for public entity and regulatory acceptance will be pursued, as required by the City and, to the extent necessary by the District. The District shall begin payment under the rate model adopted in the TAG Plan upon the earlier of the date established in the TAG Plan, or December 31, 2016.

d. If the TAG Plan is not acceptable to the District, the District shall convey its concerns to the City and the TAG. The City will then either direct the TAG to continue work to address the District’s concerns, or may disregard the concerns of the District. If the City decides to direct the TAG to continue work to address the District’s concerns, the process set forth in 5.a.

through 5.c. shall be resumed until a revised TAG Plan is finalized and approved by the City. The process set forth in this Paragraph 5.d. shall continue until the District either approves the revised TAG Plan or the City determines, in its sole discretion, to disregard any remaining concerns of the District, and declare the then-current revised TAG Plan as the final version. The District shall have 30 days from such a determination from the City to accept or reject the then-current revised TAG Plan.

e. If the District rejects the TAG Plan, the District shall commence detachment of its collection system from the System. In the event the District has failed to detach from the System by the Detachment Deadline, the District shall immediately commence paying the fully charged rate pursuant to the model adopted through the TAG Plan, and will continue to pay said amount until the District's detachment is complete. Upon detachment from the System, the District shall no longer have any rights or responsibilities related to the System.

6. It is anticipated that, sometime after the TAG Plan is implemented, additional modifications to the System will be required that require new facility plans to be pursued and implemented ("Future TAG Plans"). In such events, the process set forth in Paragraph 5 shall control the process. In other words, a new TAG will be formed, a new TAG Plan will be adopted by the City, and the District will have the option to opt in or opt out.

7. The parties anticipate the preparation of a formal Settlement Agreement to incorporate the terms of this Term Sheet within 30 days of the date hereof.

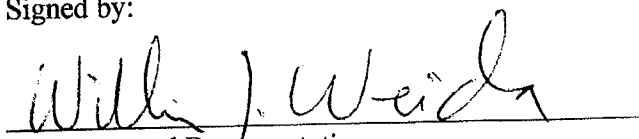
8. The parties agree to a mutual release of all claims known or unknown that were raised or could have been raised in the existing litigation.

9. This Term Sheet shall be presented in open court, with the City Council and District Board appearing either in person or by duly enacted resolution expressing concurrence with all provisions contained herein, whereupon this Term Sheet shall become fully binding and enforceable.

10. The anticipated Settlement Agreement, or this Term Sheet if the Settlement Agreement is not achieved, is binding and enforceable and the parties agree that they shall also seek judicial confirmation pursuant to Idaho law. In the event that judicial confirmation is not received, the parties intend that the Term Sheet shall govern the parties' relationship. This provision shall also apply to Future TAG Plans. The purpose of this Paragraph 10 is to ensure that the commitments of both parties are judicially confirmed.

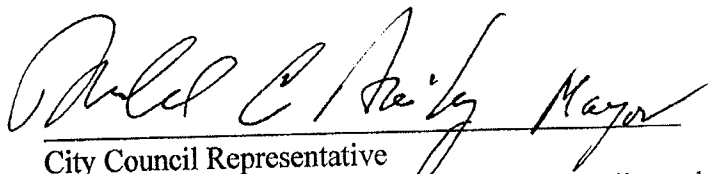
11. The parties agree that the Cooperative Agreement, and all Amendments thereto shall be deemed terminated, null and void.

Signed by:



District Board Representative

Subject to ratification by the entire Board at a duly and properly noticed Board Meeting.



City Council Representative

Subject to ratification by the entire City Council at a duly and properly noticed City Council Meeting.