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April 29, 2015

PREPAID, CERTIFIED U.S. MAIL

Canyon Lake Property Owners Association
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Sun City, California 92831

PREPAID, CERTIFIED U.S. MAIL, & FACSIMILE

Scott Levine
Silldorf & Levine, LLP
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FED-EX OVERNIGHT MAIL
CERTIFIED MAIL, FACSIMILE, & E-MAIL

Canyon Lake Property Owners Association, Inc.
Board of Directors
c/o Chris Mitchell, General Manager
31512 Railroad Canyon Road
Canyon Lake, CA 92587
Fax: (951) 244-8507
E-Mail: chrismitchell@canyonlakepoa.com

Re: Notice of Default – Railroad Canyon Reservoir Lease Agreement

Dear Canyon Lake Property Owners Association ("POA"), Members of the Board of Directors of the Canyon Lake Property Owners Association, Inc., Mr. Levine, and Mr. Mitchell as the attorney for the POA:

This letter will acknowledge receipt of Scott D. Levine's letter of April 13, 2015, as the attorney for the POA. This letter will also acknowledge that under separate cover the Canyon Lake Property Owners Association delivered to the Elsinore Valley Municipal Water District ("District") its check in the amount of $344,302.92 as payment of its lease payment due and payable under the terms and conditions of the Railroad Canyon Reservoir Lease agreement, as amended ("Lease Agreement"). As you know, the POA was in default of the Lease Agreement due to its failure to make its lease payment to the District in the amount of $344,302.92, on or before March 15, 2015. The purpose of this Notice is to inform the POA that it is still in in default of the terms and conditions of the Lease Agreement.

Enclosed please find the POA's check number 9000321 in the amount of $344,302.92, which I am returning to the POA on behalf of the District. This check is being returned due to the conditional nature in which it was provided. Specifically, the letter from Mr. Levine stated

that rent was being paid under protest and that he presumed that the District has been paid in full. Due to the potential for accord and satisfaction, the District cannot accept the check until the entire amount of the default is paid.

In order to cure the default, the POA must reimburse EVMWD for its expenses incurred in enforcing the provisions of the Lease. According to Section 2(b)(3) of the Lease Agreement, in the event of default by the POA, any expense incurred by the District by the POA's default may be deducted from deposit and shall be redeposited by the POA. Those expenses in the amount of $132,157.62 have been deducted from the POA's deposit.

This letter is sent on behalf of the District notifying the POA that it is in default of the terms and conditions of the Lease Agreement. The POA is required redeposit the amount noted above, which has been deducted by the District from the POA's deposit. Additional amounts shall continue to be deducted by the District from the POA's deposit pursuant to Section 9 (Default by Lessee) of the Lease Agreement. Section 9 provides in subparagraph (a) that in the event of any default that the District may apply the deposit or any portion thereof to such default and also provides in subparagraph (c) that the District may bring action to prevent further breach of the Lease Agreement by the District, or any person claiming under the Lease Agreement, and the entire cost thereof will be paid from the deposit. As of the date of this letter, the amount required to be re-deposited by the POA has not been re-deposited. This is a material breach of the terms and conditions of the Lease Agreement and the POA is now in default. The District therefore demands that the POA remit the past due rent in the amount of $344,302.92 as well as the amount of $132,157.62 required to be re-deposited by the POA directly to the District.

Because of what appears to be continuing confusion on the part of the POA and its attorney with respect the POA's obligation under the terms and conditions of the Lease Agreement, I thought it might be helpful for me to also respond to one or two additional points raised in your attorney's letter of April 13, 2015. Your attorney seems to suggest the POA was not in default, although it had failed to make its required lease payment. The POA was and continues to be in default and there simply is no provision in the Lease Agreement that offsets or reduces required lease payments, which are fixed, because the POA asserts it has overpaid. As a matter of law, the POA has no right to unilaterally stop making or refusing to make required Lease payments.

In addition, your attorney suggests the required lease payment now being returned to the POA was being paid under protest and apparently references lawsuits brought by the POA against the District in satisfaction of the "second part" of Section 9(b) of the Lease Agreement. Section 9(b) of the Lease Agreement gives the District, not the POA, the right to take such action as may be necessary to prevent damage to the District or others using the Railroad Canyon Reservoir due to violation of the Lease Agreement. To cite the last eleven words of that Section 9(b) as giving the POA the right to sue the District and make its required lease payments under protest, simply defies common sense.

BEST BEST & KRIEGER LLP
ATTORNEYS AT LAW

Finally, let me address your attorney's contention that the POA's required lease payment was not due or owed because he, and apparently the POA Board, were led to believe that the District had agreed to mediation.

I have great respect for the time and effort required of property owners association boards like yours. I find it difficult to understand therefore why the POA attorney, based upon his second hand conversations with an individual who has no official connection whatsoever to the District, would apparently recommend to the POA Board during its Executive Session on April 7, 2015 that the POA Board publicly announce it was making its required lease payment because its attorney had apparently "heard through the grapevine" that the District was prepared to mediate. At no time, to my knowledge, did your attorney or any POA Board members individually, or collectively, make any effort whatsoever to confirm with my office, or District officials, whether or not that was indeed the District's position before the POA Board announced its decision. At no time, did any official of the District, to my knowledge, indicate that the District was prepared to mediate with two lawsuits recently filed against it by the POA. In addition, I returned your attorney's phone call on April 10, 2015, and made it clear that the District was not prepared to mediate.

Finally, permit me to briefly respond to your attorney's continued representations that he, and the POA, are prepared to set aside the Lease Agreement as unconstitutional and "cost EVMWD tens, if not hundreds of millions of dollars, in lost revenues." The members of the POA are citizens and taxpayers and ratepayers of the District and I cannot imagine what advantages they might accrue from such results. Most importantly, given the possibly grave consequences of the POA's decisions to default, let alone declare the Lease Agreement unconstitutional, I must remind you that one of the real consequences of the POA achieving what it hopes to achieve legally, may be the circumstance that the POA, as well as members of the POA, may no longer be permitted or able, as a matter of law and public policy, to make recreational use of Canyon Lake. As I have indicated publicly, no one wins when your tenant decides to burn down the house, and that is precisely the consequence of most concern to me and the District.

Sincerely,

John E. Brown
of BEST BEST & KRIEGER LLP
Counsel for the Elsinore Valley
Municipal Water District

Encl. POA's Check No. 9000321 ($344,302.92)

bcc: John Vega, General Manager, Elsinore Valley Municipal Water District (via e-mail only)