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VIA ELECTRONIC MAIL - CORNWELLC@CITYOFMERCED.ORG

Craig Cornwell
City Attorney
City of Merced
678 W. 18th Street
Merced, California 95340

Re: Legal Services Agreement

Dear Craig:

Congratulations on your new position! We are pleased to have the opportunity to provide legal services to the City of Merced ("City").

Richards, Watson & Gershon ("RWG") proposes to represent the City with regard to general municipal law advisory and transactional matters as assigned by you. At this time, the representation does not include any litigation or public finance matters. I will supervise the work assigned to RWG, reporting to you, and using attorneys in the firm at my discretion to provide high quality and cost-efficient services to the City. I write to set forth the terms upon which RWG will provide legal services to the City, and the basis upon which we will bill for our services and expenses.

RWG maintains a conflict of interest database. Based on the information you have provided, we have examined this database to determine whether we might have a professional conflict of interest with respect to the City. I find no previous or current relationships that would interfere with our ability to represent the City in this matter. If there are other parties who would be affected by our representation or whom you otherwise feel we should consider, please provide those names to us so we can determine whether there are conflicts as to those parties.

The names we utilized in determining whether any potential or actual conflicts of interest exist are as follows:

City of Merced

We will add the City's name to our database for consultation and avoiding conflicts in regard to future matters. We will proceed on the understanding that this listing is accurate and complete unless we hear from you to the contrary. If the City has any subsidiary agencies we should index, please let me know. For your information, we currently represent the Merced County Solid Waste Authority, a Joint Powers Authority of which the City is a member, on a property acquisition matter. We could not advise the City on that matter and it is excluded from this representation.

I will manage the City's representation and billing. At any time, I may also use other attorneys, legal assistants and other law firm personnel as may be helpful in representing the City's interests. If I am ever unavailable to manage the representation, I will delegate that responsibility and let you know in advance the attorney who will take my place. If you ever have any concerns regarding our work, please let me know immediately. As you know, it often is more efficient for the City if an RWG specialist works directly on a matter and has direct contact with you or City staff.

We will bill the City for fees and costs on a monthly basis. When a bill is to be sent, I will review it before it is issued to ensure that the amount charged is appropriate and accurately reflects the services rendered.

Attorney time will be billed at a blended hourly rate of \$275 per hour for all attorneys and \$200 per hour for paralegals. Our rates generally are evaluated at the beginning of each year and may change during the course of this representation. The rates charged to the City will not be changed except upon at least thirty days' notice, and will not increase by more than 5% in any given year.

In addition, we will bill the City for costs in connection with our representation of the City. Such costs include copying documents (\$0.05 page), court fees, messenger and delivery services, mileage, and other similar costs, and will be billed at our cost. Such charges frequently are billed to the firm from third-party vendors. Therefore, there sometimes will be a delay between the time such costs are incurred and the time when they appear on your bill. Please note that we make every effort to be as efficient and cost-effective as possible. For example, we transmit documents by email whenever possible to avoid postage or messenger charges. Any time for travel will be billed to and from our San Luis Obispo office.

We agree that you will pay our bills within 30 days of receipt of our billing statement. We further agree that interest will accrue on any unpaid overdue balances at the lesser of seven percent simple interest per annum or the maximum rate permitted by law.

The nature of legal representation makes it impossible for us to accurately estimate the total amount of fees and costs that may be incurred over time. We will keep you informed of significant developments in any matter, including those that might have a substantial effect on the cost of this representation. Please feel free to inquire at any time about expected future costs.

We rarely have fee disputes with clients. Nevertheless, you should be aware that the City is entitled to require that any fee dispute be resolved through the mandatory fee arbitration provisions of the California Business & Professions Code. Many local bar associations have such programs. In the event that you choose not to utilize the County Bar arbitration procedures, you agree that all fee disputes between us shall be submitted to binding arbitration in Los Angeles to be conducted by the American Arbitration Association, in accordance with its commercial arbitration rules.

The City has the right to terminate our representation at any time. We have the same right, subject to our obligations under the California Rules of Professional Conduct that apply to attorneys licensed by the State Bar. If the City elects to terminate the Firm, we will be paid all fees and costs incurred prior to the termination within 30 days after delivery of a final bill for services.

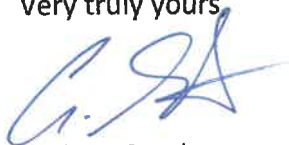
We are also required to inform you that we currently maintain professional liability insurance.

Our legal relationship and the terms of this agreement will be governed by the substantive laws of the State of California.

In order for the Firm to work on this matter, please sign and return a copy of this engagement letter to me.

I look forward to working with you and the City.

Very truly yours,



Craig A. Steele
President

Agreed and Accepted:
City of Merced


Date: _____

By: _____

Title: _____

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APPROVED AS TO FORM:


City Attorney
City of Merced