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AFTER RECORDING, RETURN TO:

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Klamath Falls OR 97601

DEVELOPMENT AGREEMENT FOR TRACT 1430
TIMBERMILL SHORES

THIS AGREEMENT is made by and between the City of Klamath Falls, an Oregon corporation, hereafter called "City;" Pine Cone, LLC, an Oregon Limited Liability Company, hereinafter called "Pine Cone," TimberMill Shores, Inc., an Oregon corporation, hereafter called "TimberMill;" TimberMill Shores Property Owners' Association, an Oregon nonprofit corporation, hereafter called "Association;" and the Klamath Falls Lakefront Urban Renewal District, hereafter called "District," for the purpose of the development of Tract 1430 TimberMill Shores and the operation and maintenance of the facilities described below.

A. For approximately eight years Pine Cone, the land owner, TimberMill, the developer, and City have worked together to develop an urban renewal plan for the former Modoc Lumber Co. property located in the center of the City along the shores of Lake Ewauna. The property adjoins the City's Veterans Park. Development activity has included rezoning of the property to accept a mix of urban land uses, establishment of a recreational easement on the property along the shore of Lake Ewauna, the creation of a one acre "trailhead" adjoining Veterans Park, formation of the District, activity on the property to prepare it for development and the conditional approval by the City of the tentative subdivision plat for Tract 1430 – TimberMill Shores.

B. District was established for the purpose of aiding the rehabilitation and redevelopment of subject property, a blighted area in the core of the City, to protect the public health, safety and welfare. District adopted an Urban Renewal Plan for the area which includes Tract 1430. The Urban Renewal Plan provides for the use of District funds for the construction, repair and replacement of public facilities including, among other items, storm sewer facilities, sidewalks, streets, parking, and pedestrian amenities.

C. The parties agree that good and valuable consideration exists as the basis of this Agreement, including but not limited to, the City's approval of the final plat of Tract 1430 TimberMill Shores, the improvement of City surface water drainage facilities that serve lands located in the City and outside the boundaries of Tract 1430, the provision of public access to the shores of Lake Ewauna within the District, the development of a trailhead and recreational access trail along the northerly and easterly shores of Lake Ewauna and the revitalization of a core area of the City. The terms and conditions of the Declarations of TimberMill Shores recorded June 22, 2001 in Volume M01 at Page 29962, the terms and conditions of the Order of the City Council of Klamath Falls approving the tentative subdivision Tract 1430 TimberMill Shores, and City Ordinance No. 01-12, which adopted the Urban Renewal Plan for the District, are all incorporated herein by this

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reference.

D. This Agreement shall be binding upon the parties hereto and their successors in interest and shall be recorded in the office of the County Clerk of Klamath County, Oregon to put prospective purchasers and other interested parties on notice of the terms of this Agreement.

E. The parties mutually and individually covenant and agree that Tract 1430 TimberMill Shores shall be constructed, improved, and maintained as follows:

1. Surface Drainage. TimberMill is completing an engineered storm water collection treatment and discharge system design capable of accepting, treating, and discharging the storm water drainage from Tract 1430 and the storm water drainage conveyed by the City's surface water drainage system through pipes currently located in Oak Street and Second Street, which enter Tract 1430 at its boundaries and ultimately discharge into Lake Ewauna. The existing storm water pipes will be augmented as necessary to accept the storm water emanating from the area served by said pipes. The storm water will be treated using two "best management practice" swales located on Tract 1430 and discharged from each swale into Lake Ewauna. The final dimensions and location of the swales shall be approved by the City as determined by the engineered studies. The District, exercising due diligence, shall use its Urban Renewal funds for the augmentation or replacement of the existing storm water pipes and for the construction of the swales and discharge from the swales. If District has insufficient funds available to complete the drainage work, TimberMill or its successors may provide the drainage works and shall be reimbursed by the District for the actual cost of the drainage work at such time as funds are available to the District. TimberMill will pay the costs of constructing the storm water drainage facilities that serve Tract 1430. TimberMill or the Association shall install landscaping and concrete or paver-stone pedestrian/bicycle access ways as approved by the City on or about each swale from a public street to the recreational easement held by Klamath County along the boundaries of Lake Ewauna. TimberMill shall be entitled to receive landscaping or park credits for said improvements and may assign those credits to purchasers of lots in Tract 1430, provided that such improvements meet applicable City Code requirements. At the time the storm water system design is approved by the City, Pine Cone shall convey easements to the City for the City storm water pipes, the drainage swales, and the discharge facilities. The easement for the drain pipes will be 16 feet in width centered on the buried drain pipes for the purpose of operating, maintaining, and replacing the same. When the installation of the buried drain pipes is complete the parties shall, if necessary, execute an amended easement correcting the legal description to center the easement on the centerline of the buried pipes. The easement for the area of each swale and discharge area shall be for public access on and across the swale and for major maintenance of the swale and discharge areas. The piping system easement and the easement for the treatment swales and discharge facilities shall be finalized and recorded prior to the closing of the sale of any lots in Tract 1430 upon which the easements will be placed (presently Lots 3, 4, 5, and 6). The construction of the storm water piping system, treatment swales and discharge structures shall be completed prior to occupancy of any development in Tract 1430 which utilizes those systems and not later than December 31, 2006. Installation of final landscaping and pedestrian paths shall be

completed not later than six months after completion of the above-described surface drainage improvements. The Association shall be responsible for the maintenance of the surface landscaping, paving, pedestrian walkways, and improvements made for esthetic purposes. The City shall be responsible for major maintenance, including abating contamination of the swales and repair or replacement of the discharge facilities.

2. TimberMill Drive - Plum Avenue. Prior to filing its Final Plat, TimberMill shall bond for the construction of TimberMill Drive from its northwest terminus to Plum Avenue and that portion of Plum Avenue (herein jointly referred to as the "Streets") within the boundaries of Tract 1430 to City standards. TimberMill shall exercise due diligence to complete the installation of the other utilities located in the Streets in coordination with the District. Following installation of the utility lines, TimberMill shall complete final grading of the Streets, install the curbs and install the asphalt concrete. As construction of improvements on each abutting lot is substantially complete, the District shall install the streetscape, including sidewalks, trees and other landscaping, street lights, and other improvements for public use. Said streetscape improvements shall be made prior to opening the street or portion thereof to public use. If the District has insufficient funds available to undertake or complete the streetscape, TimberMill or its successors shall provide the streetscape and shall be reimbursed by the District for the actual cost of providing the streetscape at such time as funds are available to the District. Notwithstanding any other provision to the contrary, the street improvements described in this section shall be completed prior to the issuance of an occupancy permit for improvements on any lot which fronts on TimberMill Drive and, in any event, by December 31, 2006. The streetscape shall be completed within six months after completion of the street improvements and not later than June 30, 2007.

3. Sydney Way and the Southern Portion of TimberMill Drive. Prior to filing its final plat, TimberMill will bond for and thereafter maintain the bond for the construction of Sydney Way and the southerly extension of TimberMill Drive. Ultimate construction of Sydney Way and TimberMill Drive will be done by the District. If at the time construction is appropriate the District has no funds available, then TimberMill shall construct Sydney Way and the southerly extension of TimberMill Drive to City standards, and the District will reimburse TimberMill for that cost as District funds become available. Construction of Sydney Way shall be completed prior to the issuance of an occupancy permit for improvements on lot 11 or 12 and construction of the southerly extension of TimberMill Drive will be completed before the issuance of an occupancy permit for improvements on lot 8 or lot 7.

4. Additional Pedestrian/bicycle Access to Recreation Easement. TimberMill shall grant an easement to the City for pedestrian/bicycle access from TimberMill Drive to the Lake Ewauna Recreation Easement along the southeasterly line of Lot 7 of Tract 1430. District shall construct the walkway. If District has no funds available for the construction of the access, then TimberMill shall construct the access and shall be reimbursed by the District when funds are available. Following construction of the pedestrian access, the Association will thereafter maintain the access. Said pedestrian/bicycle access shall be improved and the easement shall be recorded prior to the issuance of an occupancy permit for improvements on lot 7.

5. Sydney Way Pedestrian/bicycle Access. Prior to opening Sydney Way to public access or prior to the issuance of an occupancy permit for either lot 12 or lot 13, District shall construct a ten-foot wide pedestrian/bicycle access from Sydney Way to TimberMill Shores Drive. If District has no funds available for the construction of the access, then TimberMill shall provide for District approval a plan for the construction of said access, and upon receipt of District approval shall construct the access. If TimberMill constructs said access then it shall be reimbursed by the District when funds are available. Following construction of the pedestrian/bicycle access, the Association shall be responsible for the maintenance of the access.

6. Lake Ewauna Trail Improvements. The site plans for lots 2, 3, 5, 6, and 7 shall provide for the improvement of the Lake Ewauna Recreational Easement. The waterfront should welcome the user to Lake Ewauna, provide stopping points along the trail, places to rest and appropriate amenities. The character of the lake edge should be a transition between a recreated natural lake environment and the adjacent development. The lot owner shall coordinate the improvement of the easement area with Klamath County, the easement owner, and City, the easement manager. The trail when fully completed shall include a walkway/bicycle route not less than ten feet wide constructed of materials complementing the adjoining development and as provided in the easement agreements, ample landscaping including grass and native plants and trees, an automatic irrigation system (if warranted by the type of landscaping or other improvement being utilized), benches at regular intervals, and lighting. If the easement area has not theretofore been improved, the lot owner, in conjunction with the landscaping of its lot, shall make minimal improvements to the easement area, including construction of a gravel trail ten feet in width and removal of weeds and other undesirable vegetation. The lot owner is encouraged to make additional improvements and shall be entitled to landscaping or park credits from the City for all improvements, provided that such improvements meet applicable City Code requirements. Following initial improvement of the easement area, maintenance of the easement area shall be provided by the TimberMill Shores Property Owners' Association, and the lot owners shall have no further responsibility for maintenance or improvement of the recreational easement area.

7. Reimbursement by District. Reimbursement by the District as provided for above shall be subject to the annual increment revenues received by the District coupled with the District's ability to borrow against those revenues and shall not exceed in total the District's adopted spending limitation. TimberMill shall provide District with an itemized accounting of all expenditures and costs incurred by TimberMill for work identified above for which reimbursement is requested. District and TimberMill shall routinely consult with respect to work to be performed, new development generating new increment revenues to the District, District's ability to borrow for purposes of reimbursement, and the scheduling of other public improvements within the District as envisioned in the Lakeside Renewal Plan. The parties to this Agreement acknowledge that the Klamath Falls City Council is the governing board for the District and, as such, is ultimately responsible under state law for all decisions regarding expenditure of District funds.

8. Bonding. TimberMill, or its agent, will post performance bond(s) or irrevocable letter(s) of credit (bonds), in favor of City and in a form approved by the City, to assure completion of all public facilities described in this Agreement except for the improvements provided for in paragraph 1, above. The bonds shall be provided to the City prior to recording the Plat of Tract 1430. The amount of the bonds shall be one hundred twenty percent (120%) of the total cost of the public facilities being bonded, as reasonably determined in the sole discretion of City based on TimberMill's engineer's estimate of cost. As each "major improvement" is completed and accepted by the City, the bond, or portion of the bond, insuring completion of that improvement shall be released by the City. Each of the following five items is deemed a "major improvement:" (a) installation of all utilities serving Tract 1430; (b) completion of TimberMill Drive to Plum Street and Plum Street, including the streetscape on both streets; (c) completion of Sidney Way and the streetscape; (d) completion of the southern portion of TimberMill Drive and the streetscape; and (e) completion of the pedestrian/bicycle accesses described in paragraphs 4 and 5, above.

9. Further Assurances. Each party will execute, acknowledge where appropriate, and deliver such documents that may be required from time to time to discharge the obligations under this Agreement. Such actions shall occur within a reasonable time following written reasonable demand from another party. The parties agree that this agreement is not intended to modify or supplant the conditions of the Order of the City Council of Klamath Falls approving the tentative subdivision Tract 1430 TimberMill Shores.

10. Successors and Assigns. This Agreement, and the rights and obligations granted and imposed herein, shall be binding on and will inure to the benefit of all parties hereto and their respective heirs, legal representatives, successors and assigns.

IN WITNESS WHEREOF, the parties have executed this Development Agreement this 12th day of August, 2005.

CITY OF KLAMATH FALLS

By: 

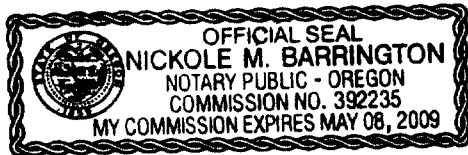
Jeff Ball, City Manager

Attest: 

Elisa Olson, City Recorder

STATE OF OREGON, County of Klamath) ss.

On August 15, 2005, personally appeared Jeff Ball, City Manager of the City of Klamath Falls and Elisa Olson, City Recorder of the City of Klamath Falls, and each acknowledged that this instrument was signed on behalf of the City.



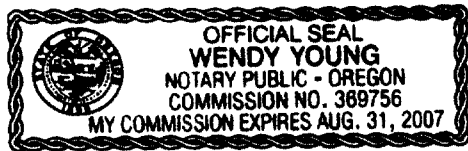
Nickole M. Barrington
Notary Public for Oregon
My Commission Expires: 5-8-2009

TIMBERMILL SHORES, INC.

By: [Signature]
Robert J. Shaw, President

STATE OF OREGON, County of Klamath) ss.

This instrument was acknowledged before me on 8.12.05, 2005 by Robert J. Shaw in his capacity as President of TimberMill Shores, Inc.



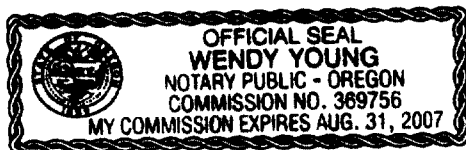
Wendy Young
Notary Public for Oregon
My Commission Expires: 8.31.2007

TIMBERMILL SHORES PROPERTY OWNERS' ASSOCIATION

By: [Signature]
Robert J. Shaw, President

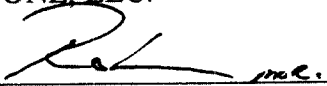
STATE OF OREGON, County of Klamath) ss.

This instrument was acknowledged before me on 8-12, 2005 by Robert J. Shaw in his capacity as President of TimberMill Shores Property Owners' Association.



Wendy Young
Notary Public for Oregon
My Commission Expires: 8.31.2007

PINE CONE, LLC.

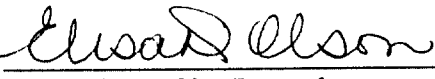
By: 
Robert J. Shaw, Operating Manager

~~STATE OF OREGON, County of Klamath) ss.~~

~~This instrument was acknowledged before me on _____, 2005 by Robert J. Shaw in his capacity as Operating Manager of Pine Cone, LLC.~~

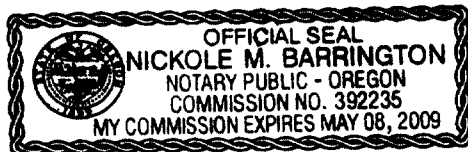
KLAMATH FALLS LAKEFRONT
URBAN RENEWAL DISTRICT


By: 
Todd Kellstrom, Mayor

Attest: 
Elisa Olson, City Recorder

STATE OF OREGON, County of Klamath) ss.

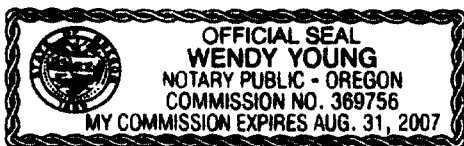
On August 15, 2005, personally appeared Todd Kellstrom, Mayor of the City of Klamath Falls and Elisa Olson, City Recorder of the City of Klamath Falls, and each acknowledged that this instrument was signed on behalf of the District.

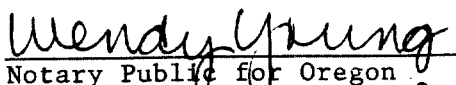



Notary Public for Oregon
My Commission Expires: 5-8-2009

STATE OF OREGON, County of Klamath) ss.

This instrument was acknowledged before me on August 12, 2005 by Robert J. Shaw in his capacity as Operating Manager of Pine Cone, LLC.




Notary Public for Oregon
My Commission Expires: 8.31.2007

DEVELOPMENT AGREEMENT FOR TRACT 1430 TIMBERMILL SHORES