



WILLIAM F. FORD  
(816) 460-5817  
EMAIL: WFORD@LATHROPGAGE.COM  
WWW.LATHROPGAGE.COM

2345 GRAND BOULEVARD  
SUITE 2800  
KANSAS CITY, MISSOURI 64108-2684  
(816) 292-2000. FAX (816) 292-2001

July 2, 2008

Susan Andrews  
KDHE Staff Attorney  
CSOB Ste. 560  
Topeka, KS 66612-1368

Alex Chen  
Environmental Protection Agency  
901 North 5th Street  
Kansas City, KS 66101

Re: Former Farmland Nitrogen Facility, Lawrence, Kansas  
Follow up to Meeting of June 27, 2008

Dear Susan and Alex:

The City of Lawrence would like to thank the Kansas Department of Health and Environment and the Environmental Protection Agency for the productive meeting which the parties had on June 27, 2008. The purpose of this letter is to articulate the follow up items from the meeting which all parties agreed on in order to move forward the City's potential acquisition of the former Farmland Nitrogen Facility.

As primarily described by Rick Bean at the meeting, and as contained in Attachment A to this letter, KDHE has prepared a break down of the activities which it anticipates occurring at the Site for the remedial action. This break down includes the anticipated costs of such activities. In summary, KDHE believes that the minimum remedial actual requirements for the property will cost \$8,093,469.00 over the course of 30 years. KDHE will accept a minimum financial assurance for this future required site work in the amount of \$10,050,860.00, which financial assurance requirement includes funding for some specified additional remedial actions and a 20% cost contingency, as outlined in Attachment A. KDHE stated it expects to make a remedial action decision and present it for public comment in the next 60 to 90 days.

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While the above numbers state the minimum remediation and financial assurance requirements KDHE will accept, KDHE also articulated at the meeting, and set out in Attachment A, an additional \$6.6 million dollars in other long term remedial actions that KDHE believes may be appropriate for the property. Financial assurance to cover costs for all the minimum requirements in addition to the recommended (but not required) additional short and long term remedial actions over the course of 30 years totals \$15,348,860.00.

It is understood by all parties that these financial assurance figures do not include demolition costs for any remaining structures on the property.

Although EPA was not yet prepared to commit at our meeting that the KDHE provided financial assurance numbers are absolutely acceptable to EPA, the numbers were stated by EPA to be "in the same ballpark" with what EPA will require in the way of financial assurance to satisfy RCRA Corrective Action and permit requirements.

In short and in concept, subject to approval by all parties and particularly subject to approval by the City of Lawrence, EPA and KDHE are amenable to a purchase of the property by the City of Lawrence if the City is able to financially assure that the remedial action work outlined generally in Exhibit A costing no more than the amount of the financial assurance of \$10,050,860.00 will be performed by or on behalf of the City. In concept the EPA and KDHE agreed that in exchange for the City undertaking this limited obligation, KDHE and the City would enter into a Consent Decree for the City to perform or have performed the limited work and for the City to receive a covenant not to sue from KDHE for any other work or existing site contamination, assuming such work is performed. Similarly, assuming all necessary approvals and appropriate documentation, EPA would be willing to enter into a Prospective Purchaser Agreement with the City as purchaser of the property under which agreement the City would assume these same limited obligations and in exchange receive from EPA a covenant not to sue the City for any other work or existing contamination on the property.

The City's remedial obligations under such agreements would be limited to the outlined work in the amount of the financial assurance, \$10,050,860.00 over the 30 year projected work timeframe.

In order to move forward with a potential offer by the City to purchase the former Farmland Property under a transaction structured as described above, the parties meeting on June 27, 2008 agreed to perform the following follow up tasks:

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- KDHE agreed to provide the City a draft Consent Decree of the type which would be acceptable to KDHE to memorialize such a transaction.
- KDHE agreed to provide comments to the City on the draft Asset Purchase Agreement that is the basis of the City's current offer to the bankruptcy trust.
- KDHE agreed to perform any necessary Phase 2 investigation for the site.
- EPA agreed to review KDHE's statement of financial assurance needs, Exhibit A, and make a decision on the acceptability the recommended amounts.
- EPA agreed to provide a draft or example Prospective Purchaser Agreement which would be acceptable and memorialize a transaction of the type described above. (Since the meeting, some of this information has already been provided to the City by EPA).
- EPA agreed to provide background information on the ER3 Prospective Purchaser Program and its potential use by the City and EPA for the former Farmland Property.
- The City agreed to make a monetary evaluation of the financial aspects of the transaction as described herein, given the amount of funds potentially available for administrative and remedial purposes.
- EPA and KDHE agreed to work with the City on various potential Brownfield's loan and grant opportunities which may be available for this property.

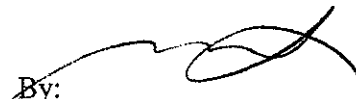
To the extent that I have incorrectly summarized our meeting and next steps, please let me know.

As mentioned at the meeting the City is very anxious to move this process forward as promptly as possible. The City understands that if a bankruptcy court auction to sell this property moves forward that qualifications similar to those outlined herein would be required by KDHE and EPA for approval of any potential purchaser. We look forward to continuing to work with you in this matter.

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Very truly yours,

LATHROP & GAGE L.C.

By:   
William F. Ford

WFF:bkr  
Enclosures

cc: Dave Corliss  
Toni Wheeler  
John Coghlan  
Jerry Cooley